

February 5, 2007

Chief Executive Officer of
All Primary (urban) Cooperative Banks

Dear Sir/Madam,

Interest Rates on Non-Resident (External) Rupee (NRE) Deposits - UCBs

Please refer to paragraph 86 of the Third Quarter Review of the Annual Policy Statement for the year 2006-07 dated January 31, 2007 (copy of the paragraph enclosed).

2. Interest Rate on Non-Resident (External) Rupee (NRE) Deposits

In this context, a reference is invited to our circular UBD (PCB) BPD Cir No: 48 /13.01.000/2005-06 dated April 20, 2006 on the captioned subject. On a review, it has been decided that until further notice and with effect from close of business in India as on January 31, 2007, the interest rates on Non-Resident (External) Rupee (NRE) Term Deposits will be as under:

The interest rates on fresh Non-Resident (External) Rupee (NRE) Term Deposits for one to three years maturity should not exceed the LIBOR / SWAP rates, as on the last working day of the previous month, for US dollar of corresponding maturities plus 50 basis points (as against LIBOR / SWAP rates plus 100 basis points effective from close of business on April 18, 2006). The interest rates as determined above for three year deposits will also be applicable in case the maturity period exceeds three years. The changes in interest rates will also apply to NRE deposits renewed after their present maturity period.

3. In this connection, in keeping with the policy statement made vide paragraph 86 of the Third Review of the Annual Policy Statement for the year 2006-07 dated January 31, 2007, it is advised that UCBs are prohibited from granting fresh loans in excess of Rs 20.00 lakh against the NR(E)RA deposits, either to depositors or to third parties. UCBs are also advised not to undertake artificial slicing of the loan amount to circumvent the said ceiling.

4. A directive amending the earlier directive dated April 20, 2006 on the interest rate is annexed. All other terms and conditions applicable to NRI deposits remain unchanged.

5. Please acknowledge receipt to the concerned Regional Office of Reserve Bank of India.

Yours faithfully,

(N.S.Vishwanathan)
Chief General Manager in-Charge

February 5, 2007

Interest Rate on Non-Resident (External) Rupee (NRE) Deposits

In exercise of the powers conferred by Section 35A of the Banking Regulation Act, 1949 (AACS) and in partial modification of directive UBD.No.Dir 2/13.01.00/05-06 dated 20.04.2006 on Interest Rates on Non Resident (external) Rupee (NRE) deposits, the Reserve Bank of India being satisfied that it is necessary and expedient in the public interest so to do, hereby effects the under noted changes in the interest rates on NRE deposits.

“The interest rates on Non-Resident (External) Rupee (NRE) deposits for one to three years maturity contracted with effect from close of business in India on January 31, 2007 shall not exceed the LIBOR/ SWAP rates of the last working day of the previous month for US dollar of corresponding maturities **plus 50 basis points**. The interest rate as determined above shall also be applicable in case the maturity period exceeds three years. The above changes in interest rates will also apply to NRE term deposits renewed after their present maturity period”.

(V.S Das)
Executive Director

Enclosure to circular UBD (PCB) CO BPD Cir 28/13.01.000/2006-07 dated February 5, 2007

Extract of para 86 of the Third Quarter Review of the Annual Policy Statement for the year 2006-07 dated January 31, 2007

86. A sizeable increase in Non-Resident (External) Rupee Account [NR(E)RA] and Foreign Currency Non-Resident (Banks) [FCNR(B)] deposits has been observed in 2006-07 so far. At the same time, there are reports of large growth in advances being granted against such deposits. It may be recalled that, based on the prevailing monetary conditions, the interest rate ceilings on NR(E)RA and FCNR(B) deposits have been reviewed on an ongoing basis and have been adjusted on several occasions. In the current context, it has been decided to reduce the interest rate ceilings on NR(E)RA and FCNR(B) deposits by 50 basis points and 25 basis points, respectively. Furthermore, keeping in view the objective of making these facilities available to individual NRIs and considering the prevailing monetary conditions, there is merit in avoiding upward pressure on asset prices in sensitive sectors through utilisation of this facility. Pending a review of the extent of large advances to high net worth individuals, banks are being prohibited from granting fresh loans in excess of Rs. 20 lakh against the NR(E)RA and FCNR(B) deposits, either to depositors or to third parties. Banks are also being advised not to undertake artificial slicing of the loan amount to circumvent the ceiling.