

February 9, 2007

All Regional Rural Banks

Dear Sir,

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

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

2. In this context, please refer to our circular RPCD.No.RRB.BC.76/03.05.33(C)/2005-06 dated April 19, 2006 on Interest Rates on NRE Deposits. On a review, it has been decided that until further notice and with effect from close of business in India 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 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 the 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. All other instructions issued earlier shall remain unchanged. An amending directive RPCD.No.RRB.DIR.7240/03.05.33(C)/2006-07 dated February 9, 2007 is enclosed.

4. Please acknowledge receipt to our concerned Regional Office.

Yours faithfully,

(G.Srinivasan)
Chief General Manager

February 9, 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, and in partial modification of our Directive RPCD.No.RRB.Dir.742/03.05.33(C)/2005-06 dated April 19, 2006 on Interest Rates on Deposits, the Reserve Bank of India being satisfied that it is necessary and expedient in the public interest so to do, hereby directs that the interest rates on NRE term deposit shall be as under:

"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 should 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 rates as determined above shall also be applicable in case the maturity period exceeds three years. The above changes in interest rates shall also apply to NRE term deposits renewed after their present maturity period".

(V.S.Das)
Executive Director

Paragraph 86 of the Third Quarter Review of the Annual Policy Statement for the year 2006-07

Interest Rate on NRE Rupee Deposits and FCNR(B) Deposits: Decrease in Ceiling

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.