

## **Mid-Term Review of Monetary and Credit Policy 1999-2000**

Reserve Bank of India  
Central Office  
Department Of Banking Operations & Development  
Centre - 1, World Trade Centre  
Cuffe Parade, Colaba, Mumbai - 400 005

**DBOD No. Dir.BC.114/13.03.00/99**

October 29, 1999  
Kartika 07, 1921(Saka)

All Commercial Banks  
(Excluding RRBs)

Dear Sirs,

### **Mid-Term Review of Monetary and Credit Policy 1999-2000**

Please refer to our Governor's letter No.MPD.BC.190/07.01.279/99-2000 dated 29 October 1999 enclosing a copy of the statement on "Mid-Term Review of Monetary and Credit Policy for the year 1999-2000". The guidelines in regard to the policy measures relating to interest rates on advances and amendments in FCNR(B) deposit scheme, are given below:

#### **I. Review of norms relating to Prime Lending Rates**

(a) Currently, loans up to Rs.2 lakh carry the prescription of not exceeding the Prime Lending Rate and on the loans above Rs.2 lakh Prime Lending Rate is the minimum lending rate. Keeping in view the suggestions received from the banks and other market participants the existing Prime Lending Rate norms have been further reviewed and it has been decided that banks shall be given freedom to charge interest rates without reference to their own Prime Lending Rate, in respect of the following categories:

- (i) Loans covered by refinance scheme of term lending institutions
- (ii) Interest rates on bank lending to intermediary agencies including housing finance intermediary agencies
- (iii) Bill discounting by banks
- (iv) Advances/overdrafts against domestic/NRE/FCNR(B) deposits

(b) Advances against domestic/NRE/FCNR(B) term deposits

As per the instructions contained in Item 1(iii) of RBI circular DBOD No. BP. BC. 35/21.01.002/99 dated April 24, 1999 interest rates chargeable on loans and advances granted to depositors against their domestic/NRE term deposits should be equal to bank's

Prime Lending Rate or less, except in cases where deposit rates are equal to or more than Prime Lending Rate or less than one percentage point below the Prime Lending Rate in which case the banks have freedom to charge suitable rates of interest without reference to the ceiling of Prime Lending Rate. Loans against NRE deposits to the depositors when repaid in Rupees are subject to Prime Lending Rate stipulations. Loans and overdrafts against FCNR(B) deposits are also subject to Prime Lending Rate norms in terms of circular DBOD No. Dir.BC.133/13.01.09/97 dated October 21, 1997.

It has been decided to give freedom to banks to charge interest rates on loans against domestic/NRE (irrespective of repayment of loan in Foreign Currency or Rupee)/FCNR(B) deposits to the depositors without reference to their own Prime Lending Rate.

## II. Minimum period of maturity for FCNR(B) deposits

In terms of Clause (vii) of circular DBOD No. BC. 116/13.01.09/93 dated April 29, 1993, the minimum period of maturity for FCNR(B) deposits is six months. In line with the policy of minimizing country's short term external borrowing liabilities, it has been decided that the minimum maturity for FCNR(B) deposits be raised to one year from six months. Banks, however, will continue to have the freedom to offer floating rate deposits (with a maturity of one year or more and interest reset period of six months).

Amending Directives DBOD No. Dir.BC.106/13.07.01/99, 107/13.01.04/99 and 108/13.01.09/99 dated October 29, 1999, are enclosed.

Yours faithfully

(A.L. Narasimhan)  
Chief General Manager

Encl: As above.