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RBI Rationalises Non-Resident Deposit Schemes

On a review of the existing non-resident deposit schemes, it has been decided to implement the following measures with immediate effect:

(i) Ceiling on Interest Rate on NRE Term Deposits

It has now been decided that, until further notice, the interest rates on Non-Resident (External) Rupee (NRE) deposits for one to three years, contracted effective close of business in India on April 17, 2004, should not exceed the LIBOR/SWAP rates for US dollar of corresponding maturity.

The interest rate as determined above for three year deposits would also be applicable in case the maturity period exceeds three years. The changes in interest rates will also be applicable to NRE deposits renewed after their present maturity period.

In order to provide consistency in the interest rates offered to non-resident Indians, the interest rates on NRE deposits were linked to LIBOR/SWAP rates for US dollar from July 17, 2003. The interest rates on these deposits were reduced from 250 basis points above LIBOR/SWAP rates of corresponding maturity on July 17, 2003 to 100 basis points above LIBOR/SWAP rates of corresponding maturity on September 15, 2003 and later to 25 basis points above LIBOR/SWAP rates of corresponding maturity on October 18, 2003.

(ii) Interest Rate on NRE Savings Deposits

With a view to aligning the interest rates on various categories of NRE deposits, it has been decided to link the interest rate on NRE savings deposits also to LIBOR/SWAP rates with effect from close of business in India on April 17, 2004. The interest rates on NRE savings deposits should not exceed the LIBOR/SWAP rates for six-month maturity on US dollar deposits. The interest rate on NRE savings deposits may be fixed quarterly on the basis of the LIBOR/SWAP rate of the US dollar on the last working day of the preceding quarter. For the quarter April-June 2004, the US dollar LIBOR/SWAP rate as on the last working day of March 2004 would be applicable.

At present, interest rate on NRE savings deposits is linked to domestic savings deposit rate whereas the interest rates on NRE term deposits are linked to LIBOR/SWAP rates for US dollar since July 17, 2003.

(iii) Advance against NRE Savings Deposits

It is clarified that since the account holder can withdraw savings deposits at any time, banks should not mark any type of lien, direct or indirect, against these deposits.