

**RBI/2006-2007/242**

**DBOD. No. Dir. BC.55/13.03.00/2006-07**

**January 31, 2007**

**All Scheduled Commercial Banks  
(Excluding RRBs)**

Dear Sir,

**Interest Rates on Non-Resident (External) Rupee (NRE) Deposits and FCNR(B) deposits**

Please refer to paragraph 86 of the Third Quarter Review of the Annual Policy Statement for the year 2006-07 enclosed to Governor's letter No.MPD.BC.288/07.01.279/2006-07 dated January 31, 2007 (copy of the paragraph enclosed).

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

In this context, please refer to item (iii)(b) of Annexure II to our Master Circular DBOD.No.Dir.BC.6/13.03.00/2006-07 dated July 1, 2006 on Interest Rates on Rupee Deposits held in Domestic, Ordinary Non-Resident (NRO) and Non-Resident (External) (NRE) Accounts, as amended from time to time. 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. Interest Rates on FCNR(B) Deposits**

In this context, please refer to item (a) of the Annexure to our Master Circular DBOD.No.Dir.BC.7/13.03.00/2006-07 dated July 1, 2006 on Interest Rates on Deposits held in FCNR(B) Accounts, as amended from time to time. On a review, it has been decided that until further notice and with effect from the close of business in India as on January 31, 2007, the interest rates on FCNR(B) Deposits will be as under:

In respect of FCNR(B) deposits of all maturities contracted effective from the close of business in India as on January 31, 2007, interest shall be paid

within the ceiling rate of LIBOR / SWAP rates for the respective currency / corresponding maturities minus 25 basis points(as against LIBOR/ SWAP rates effective from close of business on March 28, 2006). On floating rate deposits, interest shall be paid within the ceiling of SWAP rates for the respective currency / maturity minus 25 basis points. For floating rate deposits, the interest reset period shall be six months.

4. The other instructions, as contained in our Master Circulars referred to above, as amended from time to time, shall remain unchanged. An amending directive DBOD.No.Dir.BC.54/13.03.00/2005-06 dated January 31, 2007 is enclosed.

Yours faithfully,

**(P. Vijaya Bhaskar)**  
Chief General Manager

Encl: as above

**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.