Annexure I

Chronology of Reform Measures in Respect of Monetary Policy

1991-92
Discontinuation of sector-specific and programme specific prescriptions excepting for a few areas like; agriculture, small industries, the Differential Rate of Interest (DRI) scheme and export credit.

Deposit rates and interest stipulations were simplified by reducing the number of slabs.

Phased reduction in Statutory Liquidity Ratio (SLR).

1992-93
Simplification of ceilings on deposit rates. The existing maturity-wise prescriptions were replaced by a single ceiling rate of 13 per cent on all deposits above 46 days.

Cash Reserve Ratio (CRR) reduced from 15.0 per cent to 14.5 per cent.

1993-94
New Foreign Currency (Non-Resident) Deposits (Banks) [FCNR(B)] Scheme was introduced. Under this scheme exchange risk has to be borne by the banks and interest rates prescribed by RBI. The earlier scheme Foreign Currency Non-Resident Accounts [FCNR(A)] was phased out and closed by August 1994.

Banks were permitted to issue Certificate of Deposits (CDs).

Definition of priority sector was enlarged.

1994-95
Minimum lending rate for loans over Rs.2 lakh was no longer prescribed and the banks were allowed to fix Prime Lending Rate (PLR) for advances over Rs.2 lakh.

Cooperative banks' lending rates were freed.

CRR increased from 14.5 per cent to 15.0 per cent.

Incremental SLR was reduced to 25 per cent. Base level SLR reduced to 33.75 per cent.

Co-operative banks' deposit rates were freed.

1995-96
CRR was reduced from 15.0 per cent to 14.0 per cent.

Banks were given freedom to fix their own interest rates on domestic and Non-Resident Indian (NRI) deposits with maturity of over two years.

1996-97
Banks were given freedom to fix deposit rates for term deposits above one year maturity.

CRR was reduced from 14.0 per cent to 10.0 per cent.

Inter bank liabilities were exempted from CRR.

1997-98

Bank Rate was reinstated as the signaling rate linked to all other rates charged on Reserve Bank accommodation effective April 16, 1997 empowering the refinance facility to act as a potential liquidity adjustment mechanism. The reactivation of the Bank Rate also began serving as a reference rate for the entire financial system and together with repo rate, defined the corridor for money market rates.

Interest rates on bank deposits of less than one year were linked to Bank Rate (Bank Rate less 200 basis points).

Ceilings on loans below Rs.25,000 were fixed at PLR of the respective banks.

Banks were given full freedom to determine interest rates on term deposits of 30 days and above.

The entire structure of lending rates was deregulated and banks were given the freedom to offer fixed/floating PLR on loans of all maturities including small loans upto Rs.2.0 lakhs. Prescriptions by Reserve Bank were confined to interest rates for export credit and DRI advances. Banks were given freedom to fix their own service charges and all money market rates were freed.

Interest rates on foreign currency deposits were to be determined by banks subject to ceiling rate prescribed by RBI; these rates were subsequently linked to LIBOR.

Supplemental Agreement reached between the Government and the Reserve Bank resulted in complete phasing out of *ad hoc* Treasury Bills effective April 1, 1997.

SLR was brought down to 25 per cent effective October 25, 1997.

1998-99

Banks were given freedom to offer differential rate of interest based on size of deposits.

Minimum period of maturity of term deposits reduced to 15 days from 30 days.
Banks were advised to determine their own penal rates of interest on premature withdrawal of domestic term deposits and NRE deposits.

Banks were allowed to charge interest rate on loans against fixed deposits not exceeding its PLR.

Banks were provided freedom to operate tenor-linked PLR i.e., PLR for different maturities.

1999-2000

The Interim Liquidity Adjustment Facility (ILAF) was introduced in April 1999. The ILAF was a precursor to the present day Liquidity Adjustment Facility (LAF). The ILAF provided a mechanism for liquidity management through a combination of repos, export credit refinance and collateralized lending facilities (CLF) supported by open market operations at set rates of interest.

Banks were allowed to offer loans on fixed or floating rate basis provided PLR stipulations were adhered to.

Floor rate on Export Bills was withdrawn.

Savings deposit rates were reduced from 4.5 per cent to 4.0 per cent.

CRR was reduced from 10.0 per cent to 9.0 per cent.

2000-01
After gauging the success at the ILAF, a full-fledged LAF was initiated on June 5, 2000. Repo/reserve repo auctions were conducted on a daily basis except Saturdays, with a tenor of one day except on Fridays and days preceding the holidays. Interest rate in respect of both repos and reverse repos were decided through cut-off rates emerging from auctions conducted by the Reserve Bank on uniform price basis. In August 2000, repo auctions of tenors ranging between 3 to 7 days were introduced.

Banks were allowed to lend at sub-PLR rates. CRR was reduced from 9.0 per cent to 8.0 per cent. Bank Rate was reduced from 8.0 per cent to 7.0 per cent.

2001-02
In the gradual switchover to the subsequent stage of LAF, the total quantum of support available to banks under CLF and export credit refinance and the quantum of support available for Primary Dealers (PDs), was split into two components, *i.e.* 'normal facility' for the two-third of the total quantum of support and the 'backstop facility' for one third of the total quantum of support, effective May 5, 2001.

Effective May 8, 2001, LAF operating procedures further changed as follows: a) minimum bid size for LAF reduced to Rs. 5 crore from the existing Rs.10 crore; b) option to switch over to fixed rate repos on overnight basis as and when felt necessary; c) discretion to introduce longer-term repos upto 14 days; d) LAF auction timing advanced by 30 minutes and results by 12 noon; e) data on Scheduled Commercial Banks aggregate cumulative cash balances during the fortnight to be disseminated with a lag of two days; and f) multiple price auctions (in place of existing uniform price auction) to be introduced on an experimental basis during May 2001).

CRR was reduced from 8.0 per cent to 5.5 per cent. Bank Rate was reduced from 7.0 per cent to 6.5 per cent. Repo rate was reduced from 7.0 per cent to 6.0 per cent.

2002-03
The interest rate on savings account offered by banks was reduced to 3.5 per cent per annum from 4.0 per cent annum with effect from March 1, 2003.

The benchmark PLR continued to be the ceiling rate for credit limit up to Rs.2 lakh. The system of determination of benchmark PLR by banks and the actual prevailing spreads around the benchmark PLR would be reviewed in September 2003.

CRR was reduced from 5.5 per cent to 4.75 per cent. Bank Rate was reduced from 6.5 per cent to 6.25 per cent. Repo rate was reduced from 6.0 per cent to 5.0 per cent.