

RBI/2004-05/ 255
DBOD No. Dir. BC. 51/13.03.00/2004-05

November 1, 2004

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

Dear Sir,

**Mid- term Review of Annual Policy Statement for the year 2004-05 –
Foreign Currency Non-Resident (Banks) Accounts**

Please refer to the paragraph 72 of the statement on “Mid-term Review of the Annual Policy Statement for the year 2004-05” enclosed to Governor’s letter MPD.No.256/ 07.01.279/2004-05 dated October 26, 2004 (copy of the paragraph enclosed).

2. At present, banks are free to accept FCNR(B) deposits for a maturity period of one to three years and to offer fixed or floating rate of interest on a weekly basis whereas the interest rates on NRE deposits are fixed on monthly basis. With a view to bringing consistency in the procedure of fixing the interest rates on NRE and FCNR(B) deposits, it has been decided that **with effect from November 1, 2004**, the banks may fix the interest rates on FCNR(B) deposits also on the basis of LIBOR/ SWAP rates as prevailing on the last working day of the **preceding month**. The ceiling on interest rates, however, will continue to be the LIBOR/ SWAP rate minus 25 basis points, as hitherto except in the case of Yen deposits, where banks have the freedom to set the FCNR(B) deposit rates which may be equal to or less than the LIBOR.
3. An amending Directive DBOD.No.Dir.BC.50/13.03.00/2004-05 dated November 1, 2004 is enclosed.
4. The other instructions as contained in our Master Circular DBOD.No.Dir.BC.8/ 13.03.00/ 2004-05 dated July 14, 2004 would remain unchanged.

Yours faithfully,

(P. Vijaya Bhaskar)
Chief General Manager

Extract of Mid- term Review of Annual Policy Statement for the year 2004-05

Interest Rate Policy

(b) Fixation of Interest Rates on FCNR(B) Deposits

72. At present, interest rates are fixed on weekly basis for FCNR(B) deposits, while interest rates are fixed on monthly basis in respect of NRE deposits. Based on the suggestions received from banks and with a view to bringing in consistency in the procedure of fixing interest rates, it is proposed that:

- Banks may fix the ceiling on interest rates on FCNR(B) deposits on monthly basis for the following month based on rates prevailing as on the last working day of the preceding month. The ceiling interest rates on FCNR(B) deposits, however, would continue to be at LIBOR/SWAP minus 25 basis points as hitherto.

November 1, 2004

Foreign Currency Non-Resident (Banks) Accounts

In exercise of the powers conferred by Section 35A of the Banking Regulation Act, 1949, the Reserve Bank of India being satisfied that it is necessary and expedient in the public interest so to do, hereby directs that Item (b) of Annexure I to the Bank's Master Circular DBOD.No.Dir.BC.8/13.03.00/2004-05 dated July 14, 2004 shall be substituted by the following:

The LIBOR/SWAP rates as prevailing on the last working day of the preceding **month** shall form the base for fixing ceiling rates for the interest rates that would be offered effective the following month.

2. The revised instructions shall come in to effect **from November 1, 2004**. The other provisions of the Master Circular shall remain unchanged.

(Usha Thorat)
Executive Director