

### **Non-resident deposits**

6.67 Inflows under various deposit schemes for non-resident Indian (NRI) played a significant role in bolstering overall banking capital inflows and the capital account surplus during 2003-04. Aggregate inflows of NRI deposits increased by almost 40 per cent in 2003-04 to reach US\$14.3 billion at the end of the year, compared to such receipts of US\$10.2 billion in 2002-03. The larger inflow under NRI deposits was partly on account of discontinuation of the NR(NR)RD scheme in April 2002 with the provision that the maturity proceeds of NR(NR)RD will be credited to NR(E)RA, and also on account of flow back of redemption of RIB proceeds. Outflows of NRI deposits, however, also experienced an increase of around 47 per cent to reach US\$10.6 billion in 2003-04, as against similar outflows of US\$7.2 billion in 2002-03. Net NRI

deposit inflows grew by more than 22 per cent from US\$3.0 billion in 2002-03 to US\$3.6 billion in 2003-04.

6.68 In contrast to the corresponding period of the previous year, NRI deposits recorded net outflows during the first eight months of the current year (Table 6.13). During the current year, outflows from the NR(E)RA accounts have been instrumental in determining the overall level of net outflows under the NR deposits. By contrast, in the corresponding period of the previous year, NR(E)RA scheme recorded sizeable inflows while deposits under FCNR(B) scheme showed net outflows. It appears that the gradual realignment of interest rates offered on the external rupee accounts (i.e. NR(E)RA scheme) with the rates prevailing in international financial markets induced sharp outflows from these scheme (Box 6.5).

**Table 6.13 : Outstanding balances and inflows (+)/Outflows (-) under various non-resident deposit schemes: April-November 2004-05<sup>P</sup> (US\$ million)**

Panel A : Outstanding Balances <sup>@</sup> : April-November 2004-05								
	April	May	June	July	August	September	October	November
FCNR(B)	10,889	11,020	11,054	11,162	11,067	11,085	11,124	11,226
NR(E)RA	21,251	20,272	19,731	19,459	19,375	19,527	19,486	19,882
NR(NR)RD	1,630	1,500	1,379	1,275	1,155	1,075	1,008	919
Total	33,770	32,792	32,164	31,896	31,597	31,687	31,618	32,027

  

Panel B : Inflows/Outflows: April-November 2004-05									
	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Apr-Nov
FCNR(B)	-72(100)	131(-105)	34(86)	108(-200)	-95(44)	18(28)	38(595)	102(121)	264(469)
NR(E)RA <sup>@@</sup>	301(901)	-512(627)	-318(876)	-128(580)	-33(193)	-34(287)	-232(699)	207(60)	-749(4,223)
NR(NR)RD	-150(-158)	-95(-233)	-105(-133)	-94(-189)	-117(-168)	-90(-146)	-77(-133)	-99(-158)	-827(-1,318)
Total	79(643)	-476(289)	-389(829)	-114(191)	-245(69)	-106(169)	-271(1,161)	210(23)	-1,312(3,374)

**P** : Provisional. **@** : All figures are inclusive of accrued interest.  
**@@** : The inflows into NR(E)RA deposits during the years 2002-03 & 2003-04 may partly be due to crediting of maturity proceeds of the NR(NR)RD deposits which were discontinued with effect from April 1, 2002.

**Notes:**

1. FCNR(B): Foreign Currency Non-Resident(Banks).
2. NR(E) RA: Non-Resident (External) Rupee Accounts.
3. NR(NR)RD: Non-Resident (Non-Repatriable) Rupee Deposits.
4. Figures in the bracket represent inflows (+) /outflows (-) during the corresponding month/period of the previous year. Inflows/outflows have been calculated by taking the monthly variation in rupee denominated deposits and converting those by monthly average exchange rate. All figures are inclusive of interest and valuation changes arising on account of fluctuation in non-dollar currencies against US Dollar.

### Box 6.5 : Interest rates on NRI deposits

Two types of deposit accounts are available to NRIs to place their money in India with *full repatriation facility*: (i) Non-Resident (External) Rupee Account {NR(E)RA} and (ii) Foreign Currency Non-Resident (Bank) {FCNR(B)} account. Banks in India can offer NR(E)RA in domestic currency and FCNR(B) deposits in foreign currency ( US dollar, Pound Sterling, Euro and Japanese Yen). While *term* deposits with maturity of one to three years as well as *savings* deposits are allowed under NR(E)RA, only *term* deposits of one to three year maturity are offered under FCNR(B).

**NR(E)RA:** With operational freedom to determine interest rates on various deposit schemes provided to banks in the early 1990s, banks were allowed to determine their own term structure of interest rates on NR(E)RA subject to the interest rate being 'no more than 13 per cent' effective October 1992 and 'no more than 12 per cent' with effect from April 18, 1993. In the event, the interest rate differential vis-à-vis domestic deposits remained broadly unchanged at one percentage point. With comfortable capital inflows, the interest rate ceiling was reduced to 10 per cent effective May 1994, and further to 8 per cent with effect from October 1994, bringing it two percentage points below the domestic rate. Following the drying up of capital flows, the ceiling was increased to 12 per cent in October 1995. To remove the disparity that existed in the interest rates on NR(E)RA and on domestic term deposits, interest rates on NR(E)RA term deposits were freed from the ceiling for maturity of two years and above with effect from April 4, 1996, and for maturity of one year and above with effect from April 16, 1997. Banks were accorded full freedom of interest rate determination across all maturities effective from September 13, 1997.

From April 2003, NR(E)RA term deposits were allowed only with maturities of one year or more. Effective July 17, 2003, interest rates on fresh NR(E)RA term deposits were subjected to a ceiling of 250 basis points above the corresponding US dollar LIBOR/Swap rates. This ceiling was reduced to 100 basis points above the LIBOR/Swap rates on September 15, 2003, and further to 25 basis points above the LIBOR/Swap rates on October 18, 2003. Effective April 17, 2004, the ceiling was put at par with LIBOR/SWAP rates for US dollar of corresponding maturities. It was raised to 50 basis points above corresponding US dollar LIBOR/SWAP rates effective November 1, 2004.

The interest rate on *savings* deposits held in NR(E)RA, which was 6 percent in October 1992, was reduced to 5 percent effective October 1993. In November 1994, it was further brought down to 4.5 percent. Effective April 19, 2001, the interest rate on NR(E)RA savings deposits was revised downwards from 4.5 percent to 4 percent. It was further reduced to 3.5 percent with effect from March 1, 2003, and effective April 17, 2004, subjected to a quarterly ceiling of US dollar LIBOR/Swap rate for 6 months maturity on the last working day of the preceding quarter.

**FCNR(B):** FCNR(B) was introduced to replace the Foreign Currency Non-resident (Account) {FCNR(A)} in August 1994. The interest rates on FCNR(B) were aligned with the international rates for corresponding maturities and currencies. Effective April 16, 1997, interest rates on FCNR(B) were subjected to ceilings prescribed by the Reserve Bank. Effective October 1997, the ceiling was the LIBOR of the relevant currency and maturity. To discourage short-term speculative flows, the ceiling was modified effective April 1998, with banks allowed to offer these deposits at 50 basis points above LIBOR for maturity of one year and above, and 25 basis points below LIBOR for maturity below 1 year. The minimum maturity period was raised from six months to one year effective October 1999. The ceiling on interest rates on FCNR(B) deposits continues to be 25 basis points below LIBOR/SWAP rates for corresponding maturities since April 2002.