Chapter-4

RBI POLICY ON BANK CREDIT

The RBI frames monetary policy annually to control the supply of money and bank credit in the economy. Credit control is an important aspect of India’s monetary policy. The Central bank has the duty to see that legitimate credit requirements are met; and at the same time credit is not used for unproductive and speculative purposes. RBI administers control over the credit that the commercial banks grant to borrowers so that there is a proper economic development along with stability. RBI keeps a constant vigil on the credit and fiscal front. It designs credit policy for controlling and regulating flow of credit in the economy so as to accelerate rate of growth and price stability in the economy. It frames credit policy by considering credit requirements arising from the expected increase in production and prices. The main aim of credit control policy of RBI is to ensure that there is an adequate level of liquidity, sufficient to attain high economic growth rate along with maximum utilization of resources but without generating high inflationary pressure. Through credit policy RBI uses various methods of credit control to affect the process of credit expansion. It uses several qualitative and quantitative weapons in its credit policy. With the passage of time, scope of credit policy in the country has been widened in view of changing needs of the economy. RBI issues credit policy to smoothen the process of economic growth and accelerate it through adequate credit expansion and at the same time checking the inflationary impact of extensive credit generation. The present chapter is an attempt to study the methods of credit control used by RBI and credit policy of RBI from 1997-98 to 2011-12.

4.1 CREDIT POLICIES OF RBI

RBI frames credit policy on yearly basis to control and regulate flow of credit in the economy. It frames credit policy by considering credit necessities arising from the expected rise in production and
prices. The credit policies framed by RBI during the period 1997-98 to 2010-11 are presented below:

4.1.1 CREDIT POLICY (1997-98)

During the year 1997-98, there was a slowdown in real economic activity. The real GDP growth was as low as 5.1 per cent. The policy focused on the management of liquidity in the economy, improvement in the credit delivery mechanism and having closer integration of markets in order to improve efficiency in the allocation of resources. The main policy measures taken during the year were:

Movement in Key Policy Rates and Reserve Requirement:-

**Lending Rate:** During the financial year 1997-98, the prime lending rate of 14 per cent was fixed by the Reserve Bank. On October 22, 1997, banks were allowed to fix prime lending rates (PLR) on term loans of 3 years and above with approval of their Boards. To enable larger flow of resources to the housing sector, banks were allowed to charge interest at different rates provided these rates were below PLR.

**Bank Rate:** In order to make the Bank Rate an effective signal rate as well as a reference rate, all interest rates on advances from the Reserve Bank as also the penal rates on short falls in reserve requirements which were specifically linked to the Bank Rate were revised. Interest rates on other categories of accommodation from the Reserve Bank as well as term deposit rates up to one year were linked to the Bank Rates. From April 16, 1997, the Bank Rate was reduced by one percentage point, i.e., from 12 per cent per annum to 11 per cent per annum so that changes in the Bank Rate reflect the stance of monetary policy. To align the Bank Rate to the changing conditions, effective from June 26, 1997, the Bank Rate was further reduced from 11 per cent per annum to 10 per cent per annum. Simultaneously, the interest rate on deposits having maturity of 30 days and up to one year was reduced from 9 per cent to 8 per cent, i.e., Bank Rate minus two percentage points. All interest rates on advances from the Reserve
Bank, such as Export Credit Refinance and General Refinance to banks were specifically linked to the Bank Rate which was reduced to 10 per cent from 11 per cent per annum.

From October 22, 1997, the Bank rate was further reduced by one percentage point to 9 per cent from 10 per cent per annum but from January 17, 1998, the Bank Rate was increased by 200 basis points to 11 per cent from 9 per cent. This was done to control broad money expansion. In order to stabilize broad money, the Bank Rate was reduced by 50 basis points to 10.5 per cent from 11 per cent from March 1998.

**Repo Rate:** In order to activate the repo market so that it serves as an equilibrating force between the money market and the securities market, repo/reverse repo transactions among institutions were extended in respect of all Central Government dated securities. The Reserve Bank announced a scheme of fixed rate repos commencing on November 29, 1997. The repo rate was fixed at 4.5 per cent. The Reserve Bank raised the repo rate from 4.5 per cent to 5 per cent on December 3, 1997, then by 1.5 percentage points to 6.5 per cent on December 4, 1997, again increased the repo rate by 0.5 percentage point to 7 per cent on December 11, 1997 and it was further increased by 2 percentage points to 9 per cent, effective from January 17, 1998. But, finally, the repo rate was reduced by the Reserve Bank by one percentage point to 8 per cent, effective from March 18, 1998.

**Reverse Repo Rate:** In order to activate the repo market so that it serves as an equilibrating force between the money market and the securities market, non-bank holders of SGL Account with the Reserve Bank were allowed entry into reverse repo (but not into repos) transactions with banks/PDs, Treasury Bills of all maturities and all Central Government dated securities. Effective from January 17, 1998, the facility to provide liquidity support to primary Dealers in Government securities at Bank rate through reverse repo with the
Reserve Bank would be available at Bank Rate on Discretionary basis, subject to the Reserve Bank stipulation relating to their operations in the call money market.

**Cash Reserve Ratio:** With a view to facilitate the development of a more realistic rupee yield curve and term money market, banks were exempted from average CRR on inter-bank liabilities from April 26, 1997. In accordance with the stance of monetary policy of phased reduction in statutory pre-emption of banks resources, a two percentage points reduction in average CRR was announced on October 21, 1997, 9.75 per cent from October 25, 1997, and 9.50 per cent from November 22, 1997 were implemented. However, reduction envisaged in CRR during the period was contingent on the monetary and price situation at that time. As part of the rationalization measures, effective from October 25, 1997, interest paid by the Reserve Bank on eligible cash balances maintained under CRR of banks was raised to 4 per cent from the effective rate of interest of 3.5 per cent under the two-tier formula relevant at that time. The CRR to be maintained, by the scheduled commercial banks against their net demand and time liabilities (NDTL), was increased from 9.50 to 10 per cent effective from fortnight beginning December 6, 1997. The CRR to be maintained, by the scheduled commercial banks against their net demand and time liabilities (NDTL), was further increased from 10 per cent to 10.50 per cent effective fortnight beginning January 17, 1998. This was to maintain financial stability. Effective from March 28, 1998, CRR was reduced from 10.50 per cent to 10.25 per cent.

**Statutory Liquidity Ratio:** With a view to facilitate the development of a more realistic rupee yield curve and term money market, banks were exempted from maintenance of SLR on inter-bank liabilities from April 26, 1997. Effective from October 22, 1997, the multiple prescriptions of SLR were withdrawn; and SLR was further reduced to 25 per cent which is the statutory minimum requirement applicable on the entire net liabilities.
**Open Market Operation:** On January 1997, Technical Advisory Committee (TAC) was constituted to advise Reserve Bank on developing government securities, money and forex markets which played a pivotal role in implementing the Reserve Bank’s reform agenda based on a consultative approach. In the month of March, WMA system for centre was introduced to discontinuation of automatic monetization due to which transparency and pricing has improved and leads to imparted greater autonomy in monetary policy making. To broaden the market, Foreign Institutional Investors were permitted to invest in government securities. FIMMDA was established in April for self-regulation and development of market practices and ethics. In December 1997, capital indexed bonds were issued to help investors hedge inflation risk.

**Call Money Rate:** The call money rate was fixed at 8.69 per cent during this year. In April 1997, entities which are able to provide evidence to the Reserve Bank of India of bulk lendable resource was extended the facility of routing call/notice money transaction through all the PDS and the minimum size of operation per transaction was Rs. 20 crore to Rs. 10 crore. With a view to further develop the money market and make it more efficient, a standing advisory committee on money market under the chairmanship of Dr. Y.V Reddy was set up on April 28, 1997 to advise the Reserve Bank.

**Export Credit:** Effective from April 16, 1997, the interest rate, post-shipment export (Rupee) credit for a period up to 90 days was changed from 13 per cent per annum to ‘not exceeding 13 per cent per annum’. As a measure to boost exports, effective from June 26, 1997, the interest rate on post-shipment export (Rupee) credit was reduced by one percentage point, i.e., for the period up to 90 days to ‘not exceeding 12 per cent per annum’ and for the period beyond 90 days and up to 6 months, the rate was reduced from 15 per cent to 14 per cent.
With a view to provide incentive for accelerated realization of export proceeds effective from September 13, 1997, interest rate on post-shipment export (Rupee) credit on demand bills (for transit period) and usance bills for a period up to 90 days was reduced to ‘not exceeding 11 per cent’ per annum and beyond 90 days, and up to six months to 13 per cent per annum which would apply from the date of advance. From October 22, 1997, interest rates on pre-shipment export (Rupee) credit up to 180 days was reduced to 12 per cent per annum from 13 per cent per annum, and for credit beyond 180 days and up to 270 days interest rate was reduced from 15 per cent to 14 per cent per annum.

**Other Policy Developments**

RBI took several measures for the growth of the economy in 1997-98. For further development of a more realistic rupee yield curve and term money market, inter-bank liabilities were exempted (except for a statutory minimum) from maintenance of CRR and SLR, from April 26, 1997.

**Changes in the Refinance Facility:** In the context of introduction of a new General Refinance Facility, effective from April 26, 1997, base level export credit refinance limits at 20 per cent of export credit as on February 16, 1996 was withdrawn and banks were entitled for export credit refinance at the Bank Rate to the extent of 100 per cent of the increase in outstanding export credit eligible for refinance over the level of such credit as on February 16, 1996. From April 26, 1997 in the context of a move from sector-specific refinance facilities to a general refinance facility and also with a view to enable Bank Rate emerge as a reference rate. Banks were provided General Refinance to tide over temporary liquidity shortages equivalent to one per cent of each bank’s fortnightly average outstanding aggregate deposits in 1996-97 in two blocks of four weeks each at Bank Rate for the first block of four weeks and at Bank Rate plus one percentage point for the second block of four weeks.
**C-D Ratio:** During the financial period 1997-98, the C-D ratio of 54.1 per cent was recorded.

### 4.1.2 CREDIT POLICY (1998-99)

The credit policy of 1998-99 was framed against the background of the South-East Asian market crisis and the need to increase industrial investment and output in the economy. So, the credit policy of the year had to resist a number of domestic and international economic uncertainties. The policy focused on maintaining low rates of inflation, continual financial sector reforms, reduction in interest rates and improvement in credit delivery mechanisms, mainly for agriculture and medium and small sectors. The key policy initiatives taken during the year were:

**Movement in Key Policy Rates and Reserves Requirement:**

**Lending Rate:** The lending rate was between 12 per cent and 13 per cent during the financial year 1998-99. Banks were provided flexibility with regard to certain aspects pertaining to lending rates. In order to facilitate the flow of credit to small borrowers (up to Rs. 2 lakh), it was proposed that the interest rates on loans up to Rs. 2 lakh were not to exceed the PLR of the concerned bank, instead of a specific uniform rate for all banks.

**Bank Rate:** The Reserve Bank reduced the Bank Rate by one half of one percentage point to 10 per cent with effect from April 2, 1998. The Bank Rate was further reduced by one percentage point to 9 per cent. With effect from March 2, 1999, the Bank Rate was reduced by one percentage point to 8 per cent. As a consequence of this change, interest rates on special liquidity support and General Refinance Facility to banks and liquidity support to PDs against their holdings of securities in SGL accounts were reduced by one percentage point.

**Repo Rate:** The Reserve Bank reduced the fixed repo rate by one percentage point to 7 per cent on April 3, 1998, then one percentage point to 6 per cent on April 30, 1998, further rate was reduced to 5
per cent, effective from June 15, 1998. On August 21, 1998 the fixed repo rate was increased by three percentage points, i.e., from 5 per cent to 8 per cent. Afterwards, it was again reduced by two percentage points to 6 per cent, effective from March 2, 1999.

**Reverse Repo Rate:** There was no policy announcement during 1998-99 with regard to reverse repo rate.

**Cash Reserve Ratio:** The CRR to be maintained, by the scheduled commercial banks against their net demand and time liabilities (NDTL), was reduced from 10.25 to 10 per cent effective from fortnight beginning April 11, 1998. The Reserve Bank decided to release the remaining two-third of the balances impounded during the period May 4, 1991 and April 17, 1992 under 10 per cent incremental CRR on NDTL, in twelve equal instalments over the period May 1998 to March 1999. It may be mentioned that one-third of the amount impounded was released in three instalments in October 1992.

As a temporary measure, in order to absorb excess liquidity, the CRR to be maintained, by the scheduled commercial banks against their net demand and time liabilities (NDTL) (excluding liabilities subject to zero CRR prescription), was increased from 10 per cent to 11 per cent effective fortnight beginning August 29, 1998. Effective from fortnight beginning March 13, 1999, CRR to be maintained by scheduled commercial banks (excluding RRBs) was reduced by 0.5 percentage point to 10.5 per cent of the net demand and time liabilities (NDTL) (excluding liabilities subject to zero CRR prescription).

**Statutory Liquidity Ratio:** There was no change in SLR during 1998-99. It was same as in the previous year, i.e., 25 per cent.

**Call Money Rate:** The call money rate was 7.83 per cent during this year.

**Export Credit:** Interest rate on pre-shipment export credit up to 180 days was reduced from 12 per cent to 11 per cent, from April 30,
1998. Interest rate against incentives receivable from Government covered by ECGC guarantee in respect of pre-shipment credit up to 90 days was reduced from the existing 12 per cent to 11 per cent, effective from April 30, 1998. To enable exporters to avail export credit in foreign currency more effectively at internationally competitive rates, banks were to charge a spread of not more than 1.5 percentage points over LIBOR. Interest rates on export credit were revised upward, effective from April 1, 1999.

**Other Policy Developments**

In the year 1998-99, RBI took steps to ease monetary policy. Further, the Working Group on “Money Supply: Analytics and Methodology of Compilation” was set up under the chairmanship of Dr. Y.V. Reddy which submitted its report to the Governor, Reserve Bank. The Working Group examined the analytical aspects of monetary survey in the light of changing dimensions of the financial sector consequent to the implementation of the financial sector reforms in India. The Working Group proposed (1) compilation of comprehensive analytical surveys of the Reserve Bank, Commercial and Co-operative banks, and the organized financial sector at regular intervals; (2) compilation of four monetary aggregates M0 on a weekly basis and M1, M2, M3 on a fortnightly basis; (3) compilation of three liquidity aggregate L1 and L2 on a monthly basis and L3 on a quarterly basis; and (4) compilation of a comprehensive financial sector survey (FSS) on a quarterly basis.

**Changes in the Refinance Facility:** Export credit refinance was restored to 100 per cent (as against the prevailing 50 per cent) of the increase in the outstanding export credit eligible for refinance over the level of such credit as on February 16, 1996 effective fortnight beginning May 9, 1998. It was decided to effect a temporary revision in the interest rates charged up to March 31, 1999 by the scheduled commercial banks on pre-shipment and post-shipment rupee export credit.
**C-D Ratio:** During the financial year 1998-99, the C-D Ratio was reduced from 54.1 per cent to 51.7 per cent.

4.1.3 CREDIT POLICY (1999-00)

During the year 1999-00, the RBI continued to play an important role in the development of financial markets, improvement of credit delivery systems and ensuring availability of sufficient credit at reasonable interest rates. The policy focused on softening of the interest rate structure and favoured measures to strengthen the banking system as recommended by the second Narasimham Committee. Further, in order to provide greater flexibility, the RBI attempted to move gradually towards provision of a daily liquidity adjustment facility in the Indian money markets. The main policy measures taken during the year were:

**Movement in Key Policy Rates and Reserve Requirement**

**Lending Rate:** The lending rate was between 12 per cent and 12.50 per cent during the financial year 1999-00. Banks were allowed to operate different PLRs for different maturities instead of the existing two PLRs (one for the short-term and the other for the long-term loans). It was decided that in cases where deposit rates are equal to or more than PLR (Prime Lending Rate) or less than one percentage point below PLR, the banks would have freedom to charge suitable rates of interest on advances against domestic /NRE term deposits without reference to the ceiling of PLR.

**Bank Rate:** There was no relevant change in the bank rate during this year as it was same as in the previous year, i.e., 8 per cent.

**Changes in the Refinance Facility:** The general refinance facility was withdrawn and replaced by a collateralized lending facility (CLF) up to 0.25 per cent of the fortnightly average outstanding aggregate deposits in 1997-98 which was available for two weeks at the Bank Rate. From April 1, 1999 scheduled commercial banks were made eligible for export credit refinance facility (ERF) at the Bank Rate, i.e., 8 per cent per annum.
**Repo Rate:** The Reserve Bank announced introduction of an interim Liquidity Adjustment Facility (ILAF) through repos and lending against collateral of Government of India securities.

**Reverse Repo Rate:** Non-bank entities which were specifically permitted to undertake reverse repos were allowed to borrow money through repo transactions on par with banks and PDs. Thirty-five non-bank entities along with those non-bank entities which were earlier allowed to undertake reverse repos were permitted both to lend and borrow through repo transactions.

**Cash Reserve Ratio:** Effective from fortnight beginning May 8, 1999, CRR was reduced by 0.5 percentage points to 10 per cent, which augmented lendable resources of banks by about Rs. 3,250 crore. With a view to encourage mobilization of domestic idle gold under the gold deposit scheme proposed to be introduced by authorized banks, banks participating under this scheme were exempted from maintaining CRR on liabilities under gold deposits mobilized in India. However, the effective CRR to be maintained by authorized banks on total net demand and time liabilities including liabilities under gold deposit scheme should not be less than 3 per cent. Banks were required to convert the liabilities and assets denominated in terms of gold into rupees for the purpose of compliance with reserve requirements/capital. CRR to be maintained by scheduled commercial banks (excluding RRBs) was reduced in two stages of half a percentage point each, effective from the fortnights beginning November 6 and 20, 1999 to 9.5 per cent and 9 per cent respectively. Effective from fortnight beginning November 6, 1999 the liabilities under FCNR (B) scheme were exempted from the maintenance of incremental CRR of 10 per cent (over the level as on April 11, 1997). In order to improve the cash management by banks, a lag of two weeks in the maintenance of stipulated CRR by banks was introduced, effective from November 6, 1999. Thus, the prescribed CRR during a fortnight would be maintained by a bank based on its
NDTL as on the last Friday of the second preceding fortnight. To enable banks to tide over the contingency of additional demand for bank notes during the millennium change, “cash in hand” with banks was allowed to be included in the calculation of CRR during December 1, 1999, to January 31, 2000. Incremental CRR of 10 per cent on the increase in liabilities under FCNR (B) scheme over the level prevailing as on April 11, 1997 was withdrawn, effective from the fortnight beginning November 6, 1999.

**Statutory Liquidity Ratio:** On March 14, 1998 RBI decided that gold borrowed by authorized banks from abroad would form part of the time and demand liabilities and would be subject to CRR and SLR. In July 1999, it was decided on a review that the gold borrowed from abroad and lent to jewellery exporters in India for the purpose of exports would be exempted from the CRR and SLR requirements. It is with the condition that the effective SLR maintained by the banks on total NDTL, including the liabilities under gold borrowed from abroad and lent to jewelry exporters in India for the purpose of exports should be 25 per cent. It was decided that the effective SLR maintained by the nominated banks on total NDTL including the liabilities under Gold Deposit Scheme should not be less than 25 per cent.

**Call Money Rate:** The call money rate was 8.87 per cent during the year 1999-00.

**C-D Ratio:** During this year, Credit-Deposit Ratio of 53.6 per cent was recorded.

**4.1.4 CREDIT POLICY (2000-01)**

During 2000-01, a real GDP growth was assumed at 6.5-7.0 per cent. The policy during the year aimed on meeting the changes of increasing competition and uncertainties in the economy. The policy focused on maintaining liquidity through open market operation, reduction in CRR as and when required, improvement in credit delivery, strengthening of the financial system, development of
financial markets, prudential norms and use of technology in financial sector. The key policy initiatives taken during the year were:

**Movement in Key Policy Rates and Reserve Requirement**

**Lending Rate:** Lending rate was between 11.00 per cent and 12.00 per cent during 2000-01.

**Bank Rate:** The Reserve Bank reduced the Bank Rate by 1 percentage point to 7 per cent, effective from April 2, 2000. But after a review of the recent developments in the international and domestic financial markets, including the foreign exchange market, the Reserve Bank raised the Bank Rate by 1 percentage point to 8 per cent with effect from July 22, 2000. On February 17, 2001, the Reserve Bank reduced the Bank Rate by 50 basis points to 7.5 per cent and then it was reduced to 7.0 per cent from 7.5 per cent with effect from March 2, 2001.

**Repo Rate:** There was no policy statement during 2000-01 with regard to repo rate and reverse repo rate.

**Cash Reserve Ratio:** CRR was reduced by 1.0 percentage point to 8 per cent in two stages of 0.5 percentage point each, from the fortnights beginning April 8 and April 22, 2000 respectively. In order to provide more deployment avenues within the country and at the same time to exploit the synergy between the lending expertise of a few banks with the vast branch network of the others, it was decided that gold mobilized under the Gold Deposit Scheme could be lent to other authorized banks for similar use as per the specified guidelines. Such borrowings of gold would be treated as inter-bank liabilities and be exempted from CRR. With a view to provide further flexibility to banks and enabling them to choose an optimum strategy of holding reserves depending upon their intra-period cash flows, the requirement of minimum 85 per cent of the CRR balances on the first 13 days to be maintained on a daily basis was reduced to 65 per cent from May 6, 2000. It was announced that the CRR would be hiked by 0.5 percentage point to 8.5 per cent in two stages of 0.25 percentage
point each, effective from July 29 and August 12, 2000 respectively. Then, the Reserve Bank lowered the CRR by 50 basis points to 8 per cent in two stages of 0.25 percentage points each effective from February 24 and March 10, 2001 respectively.

**Statutory Liquidity Ratio:** There was no change in SLR during the FY 2000-01.

**Open Market Operation:** In April, 2000 RBI decided to sell the securities allotted in primary issues on the same day to improve secondary market. It also helped in managing the overnight risk.

**Call Money Rate:** The call money rate was 9.15 per cent during the year.

**Export Credit:** The minimum rate for interest rate charge of 25 per cent on overdue export bills, in force since May 26, 2000 was withdrawn with effect from January 6, 2001 thereby giving banks the freedom to decide the appropriate rate of interest on overdue export bills.

**Other Policy Developments**

Further, in order to impart greater flexibility in the pricing of rupee interest rate derivatives and facilitate integration between money and foreign exchange markets, interest rates implied in the foreign exchange forward market were allowed to be used as a benchmark for FRA/IRS in addition to the existing domestic money and debt market rates. An interest rate surcharge 50 per cent of the lending rate on import finance was imposed with effect from May 26, 2000. Essential categories were exempted from interest surcharge.

**Credit Information Bureau:** Reserve Bank advised the banks to make the necessary in-house arrangement for gathering and collection of credit and other information in one place for transmitting it to the Credit Information Bureau.

**C-D Ratio:** The credit-deposit ratio was decreased slightly from 53.6 per cent in 1999-00 to 53.1 per cent in 2000-01.
4.1.5 CREDIT POLICY (2001-02)

The Credit Policy focused on achieving convergence between Indian standards and international practices, prevention of money laundering, corporate debt restructuring, investment fluctuation reserve, refinement of channels of credit delivery and technological upgradation. The key policy measures undertaken during the year were:

Movement in Key Policy Rates and Reserve Requirement-

**Lending Rate:** The lending rate was between 11.00 per cent and 12.01 per cent during the financial year 2001-02. Banks provided freedom to price loans of Rs. 2 lakh and above to exporters or other credit worthy borrowers including public enterprises at below PLR rates, based on an objective and transparent loan policy, with the approval of their boards.

**Bank Rate:** Bank Rate was reduced by 0.50 percentage point from 7 per cent to 6.50 per cent with effect from October 23, 2001.

**Repo Rate:** The repo rate was cut at three stages by 25 basis points in first two stages, then by 50 basis points in third stage from 9 per cent to 8.75 per cent, then 8.50 per cent and 8 per cent on April 30, 2001, on June 7, 2001 and March 28, 2002 respectively.

**Reverse Repo Rate:** The reverse repo rate was reduced in two stages from 6.75 to 6.00 per cent 2001-02.

**Cash Reserve Ratio:** Inter-bank term liabilities with original maturity of 15 days to one year were exempted from the prescription of minimum Cash Reserve Ratio (CRR) requirement of 3 per cent on August 11, 2001. CRR was reduced by 0.50 percentage point from 8 per cent to 7.5 per cent on May 19, 2001, and enhanced loanable resources of banks by about Rs. 4,500 crore. CRR was rationalized through (a) reduction by 200 basis points from 7.50 per cent to 5.50 per cent and (b) withdrawal of exemptions on all liabilities except inter-bank for the computation of net demand and time liabilities.
(NDTL) for the purpose of maintenance of CRR, with effect from the fortnight beginning November 3, 2001.

**Statutory Liquidity Ratio:** There was no change in SLR during this year.

**Open Market Operation:** In February 2002, Clearing Corporation of India Limited (CCIL) was established to act as a clearing agency for transactions in government securities. It results in stability in market and greatly mitigating the settlement risk.

**Call Money Rate:** The call money rate was 7.16 per cent during this year.

**Export Credit:** Ceiling on interest rate on export credit in all categories linked to banks’ PLR. Ceiling rate on pre-shipment credit up to 180 days and post-shipment credit up to 90 days fixed as 1.5 percentage points below PLR. Ceiling rate on foreign currency loans for exports reduced to LIBOR plus 1 percentage point. Ceiling on interest rate for export credit was reduced by 1.0 percentage point across the board for the period up to March 31, 2002. Accordingly, the maximum interest rate that the banks would charge on exporters was revised to 2.5 percentage points below its PLR for pre-shipment credit up to 180 days and for post-shipment credit up to 90 days. The validity of the reduction in the ceiling on interest rate on pre-shipment and post-shipment export credit announced on September 24, 2001 extended up to September 30, 2002.

**Other Policy Developments**

Maintenance of daily minimum cash balance by banks with the Reserve Bank reduced from 65 per cent to 50 per cent for the first 7 days of the reporting fortnight with the minimum requirement of 65 per cent continuing for the following 7 days, with effect from the fortnight beginning August 11, 2001. Interest rate on eligible cash balances of banks with the Reserve Bank aligned with the Bank Rate in two stages. In the first stage, effective from April 21, 2001, the
interest rate was increased from 4 per cent to 6 per cent; at a subsequent stage, to be announced later, the interest rate would be at the Bank Rate. Interest on eligible cash balances maintained with the Reserve Bank modified from the existing 6 per cent and linked to the Bank Rate (i.e., 6.5 per cent), effective from November 3, 2001.

**C-D Ratio:** A meagre increase was there in the credit-deposit ratio i.e., from 53.1 per cent in 2000-01 to 53.4 per cent in 2001-02.

### 4.1.6 CREDIT POLICY (2002-03)

The year 2002-03 witnessed the launch of the Tenth Five Year Plan (2002-07) which set the growth target of 8 per cent per annum over the Plan period. The credit policy of 2002-03 focused on maintaining adequate liquidity to meet credit growth while keeping a watch on movements in the price level, soft interest rates and imparting greater flexibility to the interest rate structure in the medium-term. The main policy measures taken during the year were:

**Movement in Key Policy Rates and Reserve Requirement**

**Lending Rate:** The lending rate was between 10.75 per cent and 11.50 per cent during the period 2002-03.

**Bank Rate:** Bank Rate was reduced by 25 basis points to 6.25 per cent with effect from October 30, 2002.

**Repo Rate:** The repo rate was reduced by 50 basis points to 7.00 per cent from 7.50 per cent in two stages from November 12, 2002 and March 19, 2003 respectively.

**Reverse Repo Rate:** The reverse repo rate was decreased from 5.75 per cent to 5 per cent in two stages during 2002-03.

**Cash Reserve Ratio:** CRR was reduced from 5.5 to 5 per cent effective from June 15, 2002. CRR was further reduced by 25 basis points to 4.75 per cent, effective from 16, 2002. With a view to provide flexibility to banks in choosing an optimum strategy of holding reserves depending upon their intra-period cash flows, the requirement of daily

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maintenance of minimum 80 per cent of the CRR balances was reduced to 70 per cent with effect from the fortnight beginning December 28, 2002.

**Statutory Liquidity Ratio:** There was no change in SLR during the period 2002-03.

**Call Money Rate:** During the financial year 2002-03, the call money rate was 5.89 per cent.

**Other Policy Developments**

The limit on banks to borrow and invest from/in overseas market increased from 15 per cent to 25 per cent of their unimpaired Tier-1 capital within the bank’s Open Position Limit and maturity mismatch limits (Gap limits).

**C-D Ratio:** Credit-Deposit ratio increased from 53.4 per cent in 2001-02 to 56.9 per cent in 2002-03.

**4.1.7 CREDIT POLICY (2003-04)**

In 2003-04, India’s real GDP grew at a remarkable rate of 8.2 per cent. All the sectors agriculture, industry, service and exports were driving-force in the growth acceleration. The policy aimed at maintaining adequate liquidity, growth conducive interest rate environment and macroeconomic and price stability. The policy also focused on improving management of risk and non-performing assets (NPAs) through the issuance of guidelines on credit, market, country and operational risks to banks and implementation of several regulatory changes. Further, steps were also taken to improve credit delivery and to strengthen the technological infrastructure for enhancing the financial system efficiency. The key policy initiatives undertaken during the year were:

**Movement in Key Policy Rates and Reserve Requirement**

**Lending Rate:** During 2003-04, the lending rate was between 10.25 per cent and 11.00 per cent.
**Bank Rate:** Bank Rate was reduced by 0.25 percentage points to 6.0 per cent with effect from the close of business on April 29, 2003.

**Changes in Refinance Facility:** Export credit refinance facility continued for eligible export credit remaining outstanding under post-shipment credit beyond 90 days and up to 180 days.

**Repo Rate:** The one-day and 14-day repo rate under the Reserve Bank’s Liquidity Adjustment Facility (LAF) was reduced to 4.5 per cent from 5 per cent effective from August 25, 2003. It was decided that the facility to non-bank entities for routing transactions through Primary Dealers (PDs) would be extended from end-June 2000 to end December 2000 and simultaneously steps will be initiated to extend repo facility to such entities through subsidiary General Ledger (SGL) II Accounts. In order to facilitate operational flexibility to existing lenders to adjust their asset liability structure by widening the repo market and improve the participation of the non-bank entities, a time bound programme of withdrawing permission to non-bank entities for lending in call/notice money market coinciding with the development of the repo market was announced. Following the recommendations of Narasimham Committee-II, the Reserve Bank widened the repo market by permitting the non-bank participants maintaining current and SGL accounts with the Reserve Bank to undertake both repos and reverse repos, reducing the minimum maturity of repo transactions to 1 day, making state Government securities eligible for repos and opening of its purchase window to impart liquidity to Government securities, whenever situation warrants. As suggested by the committee, it was necessary to move towards a pure inter-bank call money market as early as possible. However, as the repo market was not yet broad-based and deep, the permission granted to select co-operates for routing call money transactions through PDs was further extended from December 2001 to June 2001.

**Reverse Repo Rate:** The reverse repo rate was reduced to 6 per cent with effect from March 31, 2004.
**Cash Reserve Ratio:** CRR was reduced by 0.25 percentage points from 4.75 per cent to 4.50 per cent with effect from fortnight beginning June 14, 2003.

**Statutory Liquidity Ratio:** Regarding computation of NDTL for the purpose of maintenance of CRR/SLR, banks were advised to reckon the liability in respect of arrangement with correspondent banks as follows: i) The balance amount in respect of the drafts issued by the accepting bank on its correspondent bank under the remittance facility scheme and remaining unpaid amount should be reflected in the accepting banks’ books as an outside liability and the same should be taken into account for computation of NDTL for CRR/SLR purpose; and ii) the amount received by correspondent banks to be shown as ‘Liabilities to the Banking System’ by them and not as ‘Liabilities to others’; and this liability could be netted off by correspondent banks against their inter-bank assets. Likewise, sums placed by banks issuing drafts/ interest/ dividend warrants are to be treated as Assets with Banking System in their books and can be netted off from their inter-bank liabilities.

**Open Market Operation:** In June 2003, interest rate futures were introduced to facilitate hedging of interest rate risk. Government Debt Buyback Scheme was implemented to reduce interest burden of government and help banks offload illiquid securities. Other measures for active consolidation were being considered. DVP-III was introduced during the year to obtain netting efficiency and to enable rollover of repos. These were running successfully.

**Call Money Rate:** The call money rate was 4.62 per cent during the year.

**Export Credit:** The interest rate ceiling on pre-shipment rupee export credit up to 180 days and post-shipment credit up to 90 days stipulated at PLR minus 250 basis points to remain valid up to April 30, 2004. Exporters were permitted, beginning January 1, 2004 to write off outstanding export dues on their own and extend the normal
period of realization beyond 180 days on their own, provided the aggregate value of such write off and delay in realization does not exceed 10 per cent of their export proceeds in a calendar year.

**Other Policy Developments**

An advisory committee was proposed to be set up to suggest appropriate changes in the institutional and procedural arrangements for smooth flow of credit to agriculture and capturing new technological developments for improving credit delivery. Keeping in view the credit needs of the SSI sector, a Working Group was proposed to assess the progress made in the implementation of the recommendations of the Kapur Committee and the Gupta Committee and to suggest ways to improve credit flow considering in particular, the backward and forward linkages of this sector with large corporate.

**Liquidity Adjustment Facility:** Under LAF, the Reserve Bank manages market liquidity on a daily basis while helping the short-term money market interest rates to move within a corridor thereby imparting stability and facilitating the emergence of a short-term rupee yield curve. Taking into account recommendations of the Internal Group on LAF and the suggestions from the market participants and experts, the revised LAF scheme came into effect from March 29, 2004.

The scheme outlined:

(i) 7-day fixed rate repo to be conducted daily in place of daily LAF auctions; and (ii) overnight fixed rate reverse repo to be conducted daily, on weekdays. Also, the 14-day repo, which was reintroduced through an announcement made on November 5, 2001, conducted at fortnightly intervals, was being continued for some time in order to enable market participants to meet their prior commitments.

**Credit Information on Defaulters and Role of Credit Information Bureau:** The development of an efficient credit information system is considered critical for the development of a sound financial system.
Dissemination of credit information covering data supplied on suit-filed defaulters in the financial system is being undertaken by CIBIL with effect from March 2003 and the data can be accessed on CIBIL’s website. The Reserve Bank had issued instructions to banks and FIs on October 1, 2002, and February 10, 2003, respectively, to obtain the consent of all their borrowers for pooling of data for development of a comprehensive credit information system. In order to give further thrust in the matter of operationalisation of CIBIL, the Reserve Bank advised banks/FIs to review the measures taken at their Board level and report compliance to the Reserve Bank about the same. It was reported by a major nationalised bank that they have submitted credit information relating to 80 per cent of their eligible borrowers after obtaining necessary consents. Banks have been urged to make persistent efforts in obtaining consent from all their borrowers, in order to establish an efficient credit information system, which would help in enhancing the quality of credit decisions and improving the asset quality of banks, apart from facilitating faster credit delivery.

**Benchmark PLR:** In the annual policy statement of April 2003, banks were advised to announce a benchmark PLR with the approval of their Boards, taking into consideration: (i) actual cost of funds; (ii) operating expenses; and (iii) a minimum margin to cover regulatory requirements of provisioning and capital charge, and profit margin. It was also indicated that the system of determination of benchmark PLR by banks and the actual prevailing spreads around the benchmark PLR would be reviewed in September 2003. Accordingly, the issues relating to the implementation of the system of benchmark PLR were discussed with select banks and the Indian Banks Association (IBA). The IBA has made the following suggestions: (i) permitting separate PLRs for working capital and term loans, (ii) continuation of the practice of multiple PLRs, (iii) flexibility in offering fixed or floating rate loans based on time-varying term premia and market benchmarks, (iv) flexibility in pricing of consumer loans, and (v) accounting for transaction costs for different types of loans.
C-D Ratio: During this year, the credit-deposit ratio fell by 1 per cent, i.e., 56.9 per cent in 2002-03 to 55.9 per cent in 2003-04.

4.1.8 CREDIT POLICY (2004-05)

In 2004-05, The RBI faced the challenge of striking a balance between inflationary expectations, enhancing growth and ensuring financial stability. The policy initiatives of the RBI focused on active management of liquidity through OMOs including LAF, Market Stabilisation Scheme (MSS) and CRR. The Market Stabilisation Scheme (MSS) was introduced in April 2004 to provide the monetary authority an additional instrument of liquidity management. Further, the RBI continued with efforts to improve credit delivery to small borrowers, particularly to the agriculture and small-scale industries and maintaining asset quality. The main policy measures taken during the year were:

Movement in Key Policy Rates and Reserve Requirement-

Lending Rate: Reserve Bank fixed the lending rate between 10.25 per cent and 11.00 per cent during the financial year 2004-05.

Bank Rate: The bank rate was kept unchanged at 6 per cent during the period 2004-05.

Repo Rate: Repo rate increased by 25 basis points to 4.75 per cent effective from October 27, 2004.

Reverse Repo Rate: Entire export credit refinance was made available at reverse repo rate. The fixed reverse repo rate under the LAF was left unchanged at 6 per cent. Reverse repo indicates absorption of liquidity. The revised LAF scheme was implemented with overnight fixed rate reverse repo effective from October 29, 2004, consistent with international usage. Accordingly, reverse repo rate was 4.75 per cent.

Cash Reserve Ratio: Cash reserve ratio (CRR) was increased by one-half of one percentage points of Net Demand and Time Liabilities (NDTL) in two stages- 4.75 per cent effective from September 18, 2004 and 5 per cent effective from October 2, 2004.
**Statutory Liquidity Ratio:** There was no change in SLR during 2004-05.

**Open Market Operation:** In April 2004, RTGS service was introduced to provide real time, online, large value inter-bank payment and settlements. In the month of August, the negotiated dealing system-order matching (NDS-OM), an anonymous order matching system which allows straight-through processing (STP) was established to provide the NDS members with a more efficient trading platform.

As a result, over 60 per cent of transactions in government securities are done through NDS-OM.

**Call Money Rate:** The call money rate of 4.65 per cent prevailed during the year 2004-05.

**Export Credit:** The validity period of the reduction in the interest rates charged by SCBs on pre-shipment rupee export credit up to 180 days and post-shipment rupee export credit up to 90 days announced on September 26, 2001 extended up to April 30, 2005.

**Other Policy Developments**

**Priority Sector Lending:** Banks to take appropriate steps to increase the flow of credit to priority sector, agriculture and weaker sections, so as to achieve the stipulated targets and also observe the Reserve Bank directives on interest rates on loans.

**C-D Ratio:** Study recorded the credit-deposit ratio of 64.7 per cent at end March 2005.

**4.1.9 CREDIT POLICY (2005-06)**

The key issues faced by the economy during 2005-06 were the risks arising from rising domestic demand, high and unstable international crude oil prices, and upturn in the global interest rate cycle. The real GDP growth was placed around 7.0 per cent for the year 2005-06 for the purpose of formulation of credit policy. So, the policy for the year 2005-06 emphasized on maintaining of appropriate liquidity in the system, ensuring price stability and stabilisation of
inflation expectations. Several initiatives were also taken during the year to facilitate the smooth transition to Basel II and improving the customer service. The policy initiatives taken during the year were:

**Movement in Key Policy Rates and Reserve Requirement**-

**Lending Rate:** Indian Banks’ Association (IBA) asked to review the benchmark prime lending rate (BPLR) system and issue transparent guidelines for appropriate pricing of credit, 10.25 per cent to 10.75 per cent.

**Bank Rate:** There were no relevant policy changes in bank rate during 2005-06. It remained at 6 per cent.

**Repo Rate:** The fixed repo rate under LAF retained at 6 per cent on April 28, 2005. An electronic trading platform for conduct of market repo operations in Government securities, in addition to the existing voice based system, was to be facilitated. Repo rate increased by 25 basis points each in two stages to 6.50 per cent on October 26, 2005 and January 24, 2006 respectively.

**Reverse Repo Rate:** The fixed reverse repo rate under Liquidity Adjustment Facility (LAF) of the Reserve Bank increased by 25 basis points each in three stages to 5.50 per cent as on April 29, 2005, October 26, 2005 and January 24, 2006 respectively.

**Cash Reserve Ratio:** There was no change in the CRR during 2005-06.

**Statutory Liquidity Ratio:** There was no change in SLR during 2005-06.

**Open Market Operation:** Inter-day short selling was permitted and later on this was extended to five trading days to improve liquidity in market, particularly in the rising interest rates phase.

**Call Money Rate:** With effect from the fortnight beginning June 11, 2005 non-bank participants, except primary dealers (PDs) allowed to lend on average in a reporting fortnight, up to 10 per cent of their average daily lending in call/notice money market during 2000-01.
RBI decided phased out non-bank participants, except PDs to be completely phased out from the call/notice money market with effect from August 6, 2005. The call money rate was increased from 4.65 per cent in 2004-05 to 5.60 per cent in 2005-06.

**Export Credit:** The ceiling interest rate on export credit in foreign currency was raised by 25 basis points to LIBOR plus 100 basis points from LIBOR plus 75 basis points with immediate effect. The validity of the interest rate ceiling stipulated at BPLR minus 2.5 percentage points on pre-shipment rupee export credit up to 180 days and post-shipment rupee export credit up to 90 days was extended up to October 31, 2006.

**Other Policy Developments**

**Priority Sector Lending:** A target of 40 per cent of net bank credit was stipulated for lending to the priority sector by domestic scheduled commercial banks, both in the public and private sectors. Within this, sub-targets of 18 per cent and 10 per cent of net bank credit, respectively were stipulated for lending to agriculture and weaker sections respectively. A target of 32 per cent of net bank credit was stipulated for lending to the priority sector by foreign banks. Of this, the aggregate credit to small-scale industries should not be less than 10 per cent and to the export sector not less than 12 per cent of the net bank credit.

**Financial Inclusion:** During 2005-06, the Mid-term Review of Annual Policy Statement recognising the concerns with regard to the banking practices that tends to exclude rather than attract vast sections of population, urged banks to review their existing practices with a view to aligning them with the objective of financial inclusion. In many banks, the requirement of a minimum balance and charges levied, although accompanied by a number of free facilities, deter a sizeable section of population from opening/maintaining bank accounts. With a view to achieve the objective of greater financial inclusion, all banks were advised in November 2005 to make available a basic banking
“no-frills” account either with “nil” or very low minimum balances as well as charges that would make such accounts accessible to vast sections of population. All public and private sector banks were advised by the Reserve Bank to introduce the basic banking of “no-frills” account. Further, except for those foreign banks that did not have significant retail presence, all other foreign banks advised the Reserve Bank of having introduced the facility of “no-frills” account.

C-D Ratio: The study recorded an increase of 6.8 per cent in credit-deposit ratio to reach at 71.5 per cent during the period 2005-06.

4.1.10 CREDIT POLICY (2006-07)

During 2006-07, the Reserve Bank continued to take measures to contain inflation. The real GDP growth was placed in the range of 7.5-8.0 per cent. The RBI increased policy rates and the cash reserve ratio, while interest rates on non-resident deposits were reduced. To maintain asset quality and financial stability, provisioning requirements were tightened for the sectors having relatively higher order of credit growth. Efforts were also made during the year to improve credit delivery, promote financial inclusion and in increasing information technology for speedy financial inclusion. The key policy measures taken during the year were:

Movement in Key Policy Rates and Reserve Requirement-

Lending Rate: There was no relevant policy announcement during 2004-05. The lending rate was kept same as in the previous year, i.e., 10.25 per cent to 10.75 per cent during the year

Bank Rate: There were no relevant policy changes during 2006-07. The bank rate was kept unchanged at 6 per cent.

Repo Rate: Fixed repo rate under LAF rose from 6.50 per cent to 7.75 per cent by 25 basis points each in five stages as on June 9, 2006, July 25, 2006, October 31, 2006, January 31, 2007 and March 30, 2007 respectively.
**Reverse Repo Rate:** The fixed reverse repo rate increased by 25 basis points each in two stages to 6.00 per cent with effect from June 9, 2006 and with effect from July 25, 2006 respectively.

**Cash Reserve Ratio:** CRR was raised by 50 basis points in two stages (25 basis points each) effective from the fortnights beginning from December 23, 2006 (to 5.25%) and January 6, 2007 (to 5.5%). These were to rein inflation. CRR was further raised by 50 basis points in two stages (25 basis points each), effective from the fortnights beginning from February 17, 2007 (to 5.75%) and March 3, 2007 (to 6%)

**Statutory Liquidity Ratio:** There was no change in SLR during the period 2006-07.

**Open Market Operation:** Commencement of “when issued” trading for efficient price discovery and distribution of auctioned stock was made Government Securities Act, 2006 was passed by the Parliament to facilitate wider participation in government securities market and create the enabling provisions for issue of Separately Traded Registered Interest and Principal Securities (STRIPS).

**Call Money Rate:** Reserve Bank increased the call money rate from 5.60 per cent in 2005-06 to 7.22 per cent in 2006-07.

**Export Credit:** Ceiling interest rate on export credit in foreign currency rose by 25 basis points to LIBOR plus 100 basis points.

**Other Policy Developments:**

**Credit Counselling Setting up of Centres on a Pilot Basis:** The Working Group (Chairman: Prof. S. S. Johl) constituted by the Reserve Bank to suggest measures for assisting distressed farmers had recommended that financial and livelihood counselling are important for increasing the viability of credit. Further, the Working Group constituted to examine the procedures and processes for agricultural loans (Chairman: Shri C. P. Swarnkar) had also recommended that banks should actively consider opening of counselling centres, either
individually or with pooled resources, for credit and technical
counselling with a view to giving special thrust to credit delivery in the
relatively underdeveloped regions. In the light of the recommendations
of these two Groups, as announced in the Annual Policy Statement for
the year 2007-08, State Level Bankers’ Committee (SLBC) convenor
banks were advised to set up, on a pilot basis, a financial literacy -
cum- counselling centre in any one district. Based on the experience
gained, the concerned lead banks may set up such centres in other
districts.

**Information Technology:** The year 2006-07 witnessed the
commencement of consolidation of IT based efforts by the financial
sector in general and by the commercial banks in particular. The
major developments during the year included the setting up of the
data centres, migration towards centralised systems and large scale-
implementation of core banking systems across bank branches.

**Financial Inclusion:** The Reserve Bank continued to take steps to
improve credit delivery mechanism for small borrowers in order to
bring about maximum financial inclusion of the poorer sections of the
society. The guidelines on lending to the priority sector were revised
based on the draft Technical Paper submitted by the Internal Working
Group on Priority Sector Lending. Employment-intensive sectors, such
as agriculture, and micro and small enterprises – which impact large
and weaker sections of the population – have been retained as priority
sector in the revised guidelines which became effective from April 30,
2007.

**C-D Ratio:** During this year, C-D ratio recorded a growth of 2.4 per
cent. The ratio increased from 71.5 per cent in 2005-06 to 73.9 per
cent in 2006-07.

**4.1.11 CREDIT POLICY (2007-08)**

During 2007-08, the country faced several challenges like
unprecedented capital flows, unsettled global financial markets and
hardening of inflation. For the purposes of policy, real GDP growth for
2007-08 was placed at around 8.5 per cent. So, the policy initiatives focused on contributing towards growth, but at the same time also ensured to maintain conditions of price and financial stability. The RBI continued with the policy of management of liquidity through CRR and open market operations, etc. The RBI also took number of initiatives to improve credit delivery and promote financial inclusion like enhancing flow of credit to those sectors of the economy which impact large segments of the population and generate large employment, simplification of the procedures for lending to the agriculture and micro, small and medium enterprises (MSMEs), using technology for increasing banking outreach, encouraging multiple channels of lending such as Self-help Groups (SHGs), micro-finance institutions (MFIs), etc. The policy initiatives undertaken during the year were:

**Movement in Key Policy Rates and Reserve Requirement**-

**Lending Rate:** The lending rate remained between 12.25 per cent and 12.50 per cent during the financial year 2007-08.

**Bank Rate:** There were no relevant policy changes during 2007-08. Bank rate was kept unchanged at 6 per cent during the year.

**Repo Rate:** Fixed repo rate under the LAF kept unchanged at 7.75 per cent during 2007-08.

**Reverse Repo Rate:** Fixed reverse repo rate under the LAF was kept unchanged at 6 per cent during 2007-08.

**Cash Reserve Ratio:** CRR was raised by 50 basis points in two stages (25 basis points each), effective from the fortnights beginning from April 14, 2007 (6.25 per cent) and April 28, 2007 (6.50 per cent). CRR raised by 50 basis points to 7 per cent effective from the fortnight beginning August 4, 2007. All SCBs (excluding RRBs) were advised to increase the CRR by 50 basis points of their NDTL in two stages to 6.25 per cent and 6.50 per cent respectively, effective from the fortnights beginning April 14, 2007 and April 28, 2007. However, the
effective CRR maintained by SCBs on total demand and time liabilities should not be less than 3 per cent, as stipulated under the RBI Act, 1934. With effect from the fortnight beginning April 14, 2007 the SCBs were paid interest at the rate of 0.50 per cent per annum on eligible cash balances maintained with the Reserve Bank under CRR requirement. All SCBs were directed to increase the CRR by 50 basis points to 7 per cent with effect from the fortnight beginning August 4, 2007. All SCBs (excluding RRBs) were directed to increase the CRR by 50 basis points to 7.5 per cent of their NDTL with effect from the fortnight beginning November 10, 2007. Similar circular was also issued for RRBs on October 31, 2007.

**Statutory Liquidity Ratio:** All RRBs and their sponsor banks were advised that the exemption from mark to market norms in respect of their investments in SLR securities was extended by one more year, i.e., for the financial year 2007-08. All SCBs (excluding RRBs and local area banks) were allowed to invest in unrated bonds of companies engaged in infrastructure activities within the ceiling of 10 per cent for unlisted non-SLR securities to encourage the flow of credit to infrastructure sector.

**Call Money Rate:** The call money rate declined from 7.22 per cent in 2006-07 to 6.07 per cent in 2007-08.

**Export Credit:** Validity of the interest rate ceiling stipulated at BPLR minus 2.5 per cent on pre-shipment Rupee export credit up to 180 days and post-shipment export Rupee credit up to 90 days extended to October 31, 2007.

**Other Policy Developments:**

**Priority Sector Lending:** The guidelines on lending to priority sector were revised with effect from April 30, 2007 based on the Report of the Internal Working Group on Priority Sector Lending (Chairman: Shri C.S. Murthy). The priority sector, broadly, comprises agriculture, MSEs, retail trade, micro credit, education and housing subject to certain limits. The guidelines take into account the revised definition
of MSEs as per the Micro, Small and Medium Enterprises Development Act, 2006. During the year, guidelines on lending to the priority sector have been emphasized on enhancing flow of credit to sectors having impact on large segment of the population and employment intensive, i.e., strengthening rural co-operatives.

**Credit Counselling Centres**: In the light of the recommendations of the working groups, SLBC convenor banks, as on July 31, 2008, set up/ proposed to be set up 109 credit counselling centres in 19 States, on a pilot basis. In accordance with the announcement made in the Mid-term Review for 2007-08, the Reserve Bank placed on its website a concept paper on ‘Financial Literacy and Credit Counselling Centres’ on April 3, 2008. Based on the feedback received, a model Scheme for Financial Literacy and Credit Counselling Centres was conceptualised.

**C-D Ratio**: During 2007-08, the C-D ratio was same as recorded in the previous year, i.e., 73.9 per cent.

**4.1.12 CREDIT POLICY (2008-09)**

Due to global financial crisis, the emphasis of the policy in the year 2008-09 was at maintaining financial stability, liquidity in banking, strengthening the banking system and ensuring continual flow of adequate credit to different sectors of the economy. Further, the financial inclusion process was strengthened; and technological advancement in the banking system was given priority. During the year India’s growth remained at 6.7 per cent being one of the highest in the world. The key policy rates of RBI, thus, moved to signal a contractionary monetary stance. The credit policy measures by the RBI, broadly, aimed at providing adequate liquidity to compensate for the squeeze emanating from foreign financial markets and improving foreign exchange liquidity. These measures were supplemented by sector - specific credit measures for exports, housing, micro and small enterprises, and infrastructure. The key policy measures taken during the year were:
Movement in Key Policy Rates and Reserve Requirement-

**Lending Rate:** Lending rate was lies between 12.25 per cent and to 12.75 per cent during 2008-09.

**Bank Rate:** The bank rate was same as in the previous year, i.e., 6 per cent.

**Repo Rate:** Repo rate kept unchanged at 7.75 per cent till June 11, 2008. It was increased by 25 basis points to 8 per cent on June 12, 2008. On 24 June, 2008, it was 8.5 per cent. Further, the repo rate under the LAF was increased by 50 basis points, i.e., 9 per cent as on June 30, 2008. Then continuous reduction was observed from the month of October. On 20 October, 2008, repo rate under the LAF was reduced by 100 basis points to 8 per cent, further it was reduced by 50 basis points to 7.5 per cent on November 3, 2008. It was again reduced by 100 basis points from 7.5 per cent to 6.5 per cent on December 8, 2008. After that the repo rate under the LAF was reduced by 100 basis points to 5.5 per cent and further reduced by 50 basis points to 5 per cent as on March 5, 2009. The standing liquidity facilities were made available at the revised repo rate, i.e., 8.5 per cent.

**Reverse Repo Rate:** The reverse repo rate under the LAF was reduced by 100 basis points from 6 per cent to 5 per cent, effective from December 8, 2008. From January 03, 2009, the reverse repo rate was reduced by 100 basis points from 5 per cent to 4 per cent. The reverse repo rate under the LAF was reduced by 50 basis points from 4 per cent to 3.5 per cent with effect from March 5, 2009.

**Cash Reserve Ratio:** CRR of scheduled banks was increased by 50 basis points of their NDTL in two stages of 25 basis points each to 7.75 and 8 per cent (effective from April 26 and May 10, 2008) respectively. CRR of scheduled banks was increased further to 8.25 per cent with effect from the fortnight beginning May 24, 2008. The CRR of the SCBs, RRBs, scheduled State co-operative banks and
scheduled primary UCBs was increased by 50 basis points to 8.75 per cent in two stages (25 basis points each) effective from the fortnights July 5, 2008 and July 19, 2008 respectively). CRR increased by 25 basis points to 9 per cent with effect from the fortnight beginning August 30, 2008. The CRR was proposed (October 6, 2008) to be reduced from the existing level of 9 per cent of NDTL by 50 basis points to 8.5 per cent of NDTL with effect from the fortnight beginning October 11, 2008. This was for expanding credit to deal with global financial crisis. But the CRR was again reduced by 150 basis points to 7.5 per cent of NDTL with effect from the fortnight beginning October 11, 2008. CRR was further reduced by 100 basis points to 6.5 per cent of NDTL with effect from October 11, 2008. The CRR was kept unchanged at 6.5 per cent on October 20, 2008. The CRR of scheduled banks was reduced by 100 basis points from 6.5 per cent to 5.5 per cent of NDTL which were effected in two stages: by 50 basis points retrospectively with effect from the fortnight beginning October 25 and by a further 50 basis points prospectively with effect from fortnight beginning November 8, 2008. The CRR of scheduled banks was again reduced by 50 basis points from 5.5 per cent to 5 per cent of NDTL with effect from the fortnight beginning January 17, 2009 releasing around Rs. 20,000 crore into the system. CRR was kept unchanged at 5 per cent on March 4, 2009.

**Statutory Liquidity Ratio:** The SLR was reduced to 24 per cent of NDTL with effect from the fortnight beginning November 8, 2008. The additional liquidity support exclusively for the purpose of meeting the liquidity requirements of mutual funds was extended; and banks were allowed to avail liquidity support under the LAF through relaxation in the maintenance of SLR to the extent of 1.5 per cent of their NDTL. This relaxation in SLR was to be used exclusively for the purpose of meeting the funding requirements of NBFCs and MFs. Liquidity support under the LAF through relaxation in the maintenance of SLR to the extent of 1.5 per cent of their NDTL for the purpose of meeting the funding requirements of NBFCs, MFs and HFCs, which was
available up to March 31, 2009, was extended to June 30, 2009.

**Call Money Rate:** Call money rate was increased to 7.06 during the financial year 2008-09.

**Export Credit:** The period of entitlement of the first slab of pre-shipment rupee export credit was available at a concessionary interest rate ceiling of the benchmark prime lending rate (BPLR) minus 2.5 percentage points extended from 180 days to 270 days with immediate effect. In view of the difficulties being faced by exporters on account of the weakening of external demand, the period of entitlement of the first slab of post-shipment rupee export credit, which was available at a concessionary interest rate ceiling of the BPLR minus 25 percentage points, was extended from 90 days to 180 days with effect from December 1, 2008. The prescribed interest rate as applicable to post-shipment rupee export credit (not exceeding BPLR minus 2.5 percentage points) was extended to overdue bills up to 180 days. The ceiling rate on export credit in foreign currency was raised from LIBOR + 100 basis points to LIBOR + 350 basis points on February 5, 2009 subject to the condition that the banks would not levy any other charges.

**Other Policy Developments:**

**Differential Rate of Interest (DRI) Scheme:** The Union Budget for 2008-09 proposed to raise the borrower’s eligibility criteria for availing loans under the Differential Rate of Interest (DRI) Scheme. Accordingly, the Reserve Bank advised banks in April 2008 that borrowers with annual family income of Rs.18,000 in rural areas and Rs.24,000 in urban areas would be eligible to avail the facility as against the earlier annual income criteria of Rs.6,400 in rural areas and Rs.7,200 in urban areas. In August 2008, the Reserve Bank clarified that the revised eligibility income criteria of Rs.24,000 for urban areas is also applicable for the semi-urban areas. The target for lending under the DRI scheme was maintained at one per cent of the previous year’s total advances.
Changes in Refinance Facility: A special refinance facility under section 17 (3 B) of the Reserve Bank of India Act, 1934 was introduced under which all SCBs (excluding RRBs) were provided refinance (which can be flexibly drawn and repaid) from the Reserve Bank equivalent to up to 1 per cent of each bank’s NDTL as on October 24, 2008 at the LAF repo rate up to a maximum period of 90 days. Special refinance facility up to 1 per cent of each bank’s NDTL as on October 24, 2008 at the LAF repo rate was extended up to June 30, 2009. The special refinance facility for SCBs under section 17 (3B) of the Reserve Bank of India Act, 1934 was extended up to September 30, 2009.

Liquidity Support: Special Market Operations were put in place, for the smooth functioning of financial markets and for overall financial stability. Banks were allowed to avail additional liquidity support exclusively for the purpose of meeting the liquidity requirements of mutual funds to the extent up to 0.5 per cent of their NDTL purely as a temporary measure. The Reserve Bank announced OMO purchase of government securities of the order of Rs. 80,000 crore in the first-half of 2009-10, of which Rs. 40,000 crore is envisaged for the first quarter of 2009-10.

C-D Ratio: During this year, the credit-deposit ratio declined from 73.9 per cent in 2007-08 to 72.4 per cent in 2008-09.

4.1.13 CREDIT POLICY (2009-10)

The focus of the credit policy in 2009-10 was on the financial stability, efficiency, inclusion and to address inflationary concern. The RBI took measures to ease credit flow especially for small and marginal farmers, and micro and small enterprises to increase self-employment. The policy initiatives focused on increasing banking efficiency through checks on banking frauds, overseas operations, effective grievance redressal systems, improvement in electronic banking, customer service, and efficiency of payments and settlement system, etc. The financial year 2009-10 began as a difficult one. There was a significant slow-down in the growth rate in the second-half of
2008-09, following the financial crisis that began in the industrialized nations in 2007 and spread to the real economy across the world. The policy initiatives implemented during the year were:

**Movement in Key Policy Rates and Reserve Requirement**-

**Lending Rate:** The benchmark PLR was fixed in the range of 11 to 12 per cent during the year.

**Bank Rate:** There were no relevant policy changes during 2009-10 in bank rate. It was as in the previous year, i.e., 6 per cent.

**Repo Rate:** Repo rate under the LAF was reduced by 25 basis points from 5 per cent to 4.75 per cent on April 21, 2009 to February 27, 2010 but was increased by 25 basis points to 5 per cent on March 19, 2010. The special refinance facility and term repo facility was extended up to March 31, 2010.

**Reverse Repo Rate:** Reverse repo rate under the LAF was reduced by 25 basis points from 3.5 per cent to 3.25 per cent on April 21, 2009 to February 27, 2010. However, it was increased to 3.5 per cent on March 19, 2010.

**Cash Reserve Ratio:** CRR was increased by 50 basis points to 5.50 per cent from 13 February, 2010 and was further increased to 5.75 per cent on February 27, 2010 to control inflation.

**Statutory Liquidity Ratio:** SLR was increased by 100 basis points to 25 per cent from 24 per cent on 7 November, 2009.

**Call Money Rate:** The call money rate was found as 3.22 per cent during 2009-10.

**Export Credit:** In the wake of global crisis and the problems being faced by exporters, the Reserve Bank reduced the interest rate ceiling to 250 bps below BPLR on pre-shipment rupee export credit up to 270 days and post-shipment rupee export credit up to 180 days. This facility was available up to June 30, 2010. Government of India extended interest rate subvention of 2 per cent on pre- and post-shipment rupee export credit, for certain employment-oriented export
sectors, such as handicrafts, carpets, handlooms, and small and medium enterprises. With the introduction of the Base Rate, the lending rates charged on rupee export credit were deregulated with effect from July 1, 2010. However, the Reserve Bank has stipulated that banks may reduce the interest rate chargeable as per the Base Rate in the sectors specified above by the subvention available, even if the interest rate charged to exporters goes below the Base Rate.

**Other Policy Developments:**

The recommendations of the Working Group on BPLR (Chairman: Shri Deepak Mohanty) were implemented with the introduction of the Base Rate with effect from July 1, 2010. As the Base Rate construed as the minimum rate below which it will not be profitable for banks to lend, banks were not permitted to resort to any lending below the Base Rate. At the same time, the ceiling of BPLR for loans up to `2 lakh was withdrawn. The deregulation of lending rates is expected to improve transparency in the pricing of credit and step up flow of credit to small borrowers at reasonable rates.

**Priority Sector Lending:** Commercial banks have been advised to link the tenor of loans to Housing Finance Companies (HFCs) in line with the average portfolio maturity of housing loans up to Rs.20 lakh extended by HFCs to individual borrowers, otherwise, such loans would not be eligible for classification under priority sector. Banks have been advised to ensure the end-use of funds strictly as per the guidelines on lending to priority sector.

**Flow of Credit to Micro and Small Enterprises:** A High Level Task Force was constituted by the Government of India (Chairman: Shri T. K. A. Nair) to consider various issues relating to the Micro, Small and Medium Enterprises (MSMEs). Pursuant to the recommendations of the Task Force, SCBs were advised on June 29, 2010 to achieve the share of Micro enterprises in MSE lending of 60 per cent prescribed in stages.
**Financial Literacy and Credit Counselling Centres (FLCCs):** A model scheme on Financial Literacy and Credit Counselling Centres (FLCCs) was formulated and communicated to all SCBs and RRBs with the advice to set up the centres as distinct entities, maintaining an arm’s length from the bank, so that the FLCCs’ services were available to even other banks’ customers in the district. Up to March 2010, banks had reported setting up 135 credit counselling centres in various States.

**C-D Ratio:** C-D ratio was reduced from 72.4 per cent in 2008-09 to 70.8 per cent at the end March 2010.

**4.1.14 CREDIT POLICY (2010-11)**

Credit policy of 2010-11 aimed at increasing economic growth and controlling inflation. The RBI made necessary changes in its credit policy in response to inflationary pressures due to global uncertainties and also on account of domestic structural imbalances. However, while containing inflation RBI took safeguards that long-term growth prospects are not affected. The credit policy favoured providing of productive credit by the banks and enhancing the process of financial inclusion through formation of board-approved financial inclusion plans by banks. The RBI also introduced policy discussions relating to providing new bank licenses, future roadmap of foreign banks, structure of holding company for banks and credit default swaps for corporate bonds to draft guidelines for the same. The key policy measures taken during the year are:-

**Movement in Key Policy Rates and Reserve Requirement**

**Lending Rate:** The Benchmark PLR was decided between 7.5 and 8 per cent.

**Bank Rate:** Bank rate was same as during the last few years, i.e., 6 per cent during the FY 2010-11.

**Repo Rate:** Repo rate increased by 1.5 percentage points from 5.25 to 6.75 per cent in six stages of 0.25 percentage points each, from July

**Reverse Repo Rate:** Reverse repo rate was increased from 3.75 per cent to 4.00 per cent with effect from July 2, 2010. Then, it was increased by 50 basis points each in two stages to 5.00 per cent from July 27, 2010 and September 16, 2010 respectively. Afterwards, it was increased by 25 basis points each in three stages and came to 5.75 per cent as on November 2, 2010; January 25, 2011; and March 17, 2011 respectively.

**Cash Reserve Ratio:** The CRR was kept unchanged at 5.75 per cent as on April 20, 2010. Then, it was increased by 25 basis points to 6 per cent as on April 24, 2010.

**Statutory Liquidity Ratio:** Statutory liquidity ratio was 25 per cent with effect from April 20, 2010 and was reduced by 100 basis points to 24 per cent with effect from January 25, 2011.

**Call Money Rate:** The call rate lies between 3.5 and 4.25 per cent in the current financial year.

**Other Policy Developments**

For achieving sustainable and inclusive economic growth, RBI’s policy focuses on ensuring adequate flow of credit to agriculture, micro, small and medium enterprises, and export sector. Credit delivery poses many challenges but RBI continues its various initiatives like rolling out financial inclusion plans, improving credit delivery procedures in micro and small enterprises (MSE Sectors), encouraging multiple channels of lending, enhancing scope of business correspondent, encouraging adaptation of information and communication technology (ICT) solutions.

**Priority Sector Lending:** The focus of priority sector lending is to enhance credit facilities to sectors like agriculture, and MSE as these sectors are represented by large number of population, weaker sections and employment intensive sectors.
**Guidelines for Flow of Credit to Agriculture Sector:** In 2010-11, government announced a target of Rs. 3,75,000 crore for flow of agricultural credit, of which 119 per cent was achieved by March 2011 (provisional) by banks including cooperative and RRBs. Banks were advised to step up direct lending to agriculture and credit to small and marginal farmers. For the year 2010-11, government lowered the rate of interest subvention for short-term production credit up to Rs. 3 lakh to 1.5 per cent, while the additional interest subvention for prompt paying farmers was raised to 2 per cent, so effective rate charge to such farmers is likely to come down to 5 per cent.

**Guidelines for Flow of Credit to MSE Sector:** High level task committee was constituted by GOI under the chairmanship of T.K.A. Nair to study various issues relating to MSMEs. On the basis of recommendations of task force, RBI advised SCBs in June, 2010 to increase their share of lending to micro enterprises in MSE sector to 60 per cent in three stages (50 per cent in the year 2010-11, 55 per cent and 60 per cent in the subsequent years) with 10 per cent annual growth in the number of micro enterprises accounts and also 20 per cent year-on-year growth in MSE lending. RBI will monitor achievement of these targets by banks on half-yearly basis, i.e., March and September. To further ease the credit flow to MSME sector, RBI constituted working group under the chairmanship of Shri V.K Sharma to review the working of credit guarantee fund trust for micro and small enterprises (CGTMSE). Working group recommended mandatory doubling of the limit for collateral free loans to MSE sector to 10 lakh from the existing Rs. 5 lakh, increasing extent of guarantee cover, simplifications of procedures for filing claims with CGTMSE, absorption of guarantee fees for the collateral free loans by CGTMSE subject to certain conditions and further increasing awareness about the scheme.
**Financial Inclusion:** RBI has adopted various strategies to achieve sustainable and scalable financial inclusion. It has provided new products to encourage transactions in no frill accounts and up to end March 2011 banks provided 4.2 million ODs amounting to Rs. 199 crore. The banks have also been asked to consider introduction of general purpose credit card (GCC) facility in their rural and semi-urban branches and in March 2011 banks had 0.95 million GCC accounts with outstanding credit of Rs.1308 crore. RBI has introduced regulatory measures like relaxation of KYC requirements to include job card issued by MANREGA signed by an officer of state government or letter issued by unique identification authority of India.

**Enhancing Communication:** RBI pays a lot of attention towards effective communication of its policy objectives. The policy is communicated to public through periodic monetary policy statements, other publications, speeches by top management and press releases. In order to further enhance the efficiency of communication process various new initiatives were taken by RBI. From September 2010, RBI introduced mid-quarter review (MQRs). It was decided to announce MQRs in June, September, December and March. The MQRs are less intensive process as compared to quarterly reviews and there are no pre-policy consultations with stakeholders from financial markets and industry. Only Technical Advisory Committee (TAC) members are consulted in run up to MQRs. This was done to take policy actions in response to fast evolving local and domestic developments. Steps were also taken to strengthen two-way communication process including webcasting of the governor’s press conferences and interaction with researchers and analysts on credit policy after quarterly review. To be transparent in its working, RBI also puts audio recording and transcripts of press conferences and teleconference with analysts on its website. Further, RBI also endeavours to put in public all data that go into formulation of policy and first such release was done in February, 2011 of Technical Advisory Committee (TAC) on monetary policy.
**Switchover from Benchmark Prime Lending Rate (BPLR) to Base Rate (BR):** BPLR introduced in 2003 could not be transparent as banks could lend below BPLR. It became difficult to assess the transmission of policy rates of RBI to lending rates of banks. Working group under the chairmanship of Shri Deepak Mohanty was set up to review the BPLR system and suggest changes to make credit pricing more transparent. On the basis of their recommendations made in October 2009, RBI issued guidelines on base rate system in April 2010. Base rate system came into effect on July, 2010. It replaced BPLR system. In this new system, the actual lending rate charged to borrowers is the base rate plus borrower specific charges. The base rate is, basically, the minimum rate for all loans; and banks are not permitted to resort to any lending rate below the base rate except in some specific cases like differential rate of interest (DRI) advances, loans to banks’ own employees, loans to banks’ depositors against their own deposits, interest rate subvention given by government to agricultural loans, and rupee export credit and some specific cases of restructured loans. Base rate system will help in better pricing of loans, enhance transparency and improve assessment of the transmission of monetary policy. Base rates are changed by banks in response to policy rates.

**C-D Ratio:** The C-D Ratio was increased to 74.12 per cent at the end March, 2011, which indicated that credit was properly channelized.

**4.1.15 CREDIT POLICY (2011-12)**

During the year 2011-12, the growth rate was estimated to be 6.9 per cent which was expected to increase to 7.6 per cent in 2012-13. Agriculture and service sectors estimated the growth of 2.5 per cent and 9.4 per cent respectively, whereas industrial growth fixed firmly at 4-5 per cent. India remains among the fastest growing economies of the world. The Indian economy’s performance in 2011-12 was marked by slowing growth, high inflation, and widening fiscal
and current gaps. Global financial crisis condition deteriorated further during 2011-12. The Reserve Bank continued to undertake several policy initiatives during the year to make the Indian banking system sound, strong and inclusive, consistent with developments in global regulatory reforms. The monetary policy stance during 2011-12 was shaped by the predominant priorities of controlling inflation and arresting the growth slow-down. Inflation slowed in response to past monetary tightening and growth decelerated in 2011-12. The gross NPAs of public sector banks increased to 3.2 per cent of gross advances at the end of 2011-12 from 2.3 per cent at the end of 2010-11. The salient features of the policy are explained below:-

**Movement in Key Policy Rates and Reserve Requirement**

**Bank Rate:** Bank rate continued to remain at 6 per cent. Being the discount rate as per the Reserve Bank Act, the Bank rate should technically be higher than the policy repo rate. Therefore, the Reserve Bank increased the bank rate by 350 basis points from 6.00 per cent to 9.50 per cent per annum, with effect from February 13, 2012.

**CRR:** The reserve bank reduced the CRR by 75 basis points effective from January 28, 2012 (5.50 per cent) and March 10, 2012 (4.75 per cent). Further, based on an assessment of the prevailing macro-economic situation, the Reserve Bank cut the CRR by 50 basis points to 4.25 per cent effective September 22, 2012 and November 3, 2012.

**Lending Rate:** Lending rate continued to fluctuate between 7.50 and 8.00 per cent during the year.

**Repo Rate:** The Reserve Bank raised its key policy repo rate 6.75 per cent to 8.50 per cent by 175 basis points (bps) during April to November 2011. Keeping in view the slow-down growth, the Reserve Bank reduced the key policy repo rate by 50 basis points to 8 per cent on April 17, 2012.

**Reverse Repo Rate:** The Reserve Bank raised its reverse repo rate by 125 basis points from 6.25 per cent effective May 3, 2011 to 7.50 per cent effective October 25, 2011 in four stages.
SLR: There were no relevant changes in SLR during the financial year 2011-12. It remained stagnant at 24 per cent. However, in August 2012, the Reserve Bank reduced SLR by 1 per cent point to 23 per cent with a view to facilitate credit availability to productive sector.

Call Money Rate: The call money rate ranged between 6.50 per cent and 6.75 per cent during the financial year 2011-12.

Export Credit: The interest rate on export credit in foreign currency was deregulated effective May 5, 2012. This measure is anticipated to increase foreign currency loans to exporters. With a view to encouraging exports in certain specified sectors, the Government of India decided to extend interest subvention of 2 per cent in rupee export credit for these sectors.

Other Policy Developments

Priority Sector Lending: During 2011-12, majority of public sector banks failed to meet the priority sector target. Though at an aggregate level, foreign banks’ performance was better as compared to domestic banks; bank-wise data revealed that some foreign banks also failed to meet the priority sector lending target. Reserve Bank constituted a committee under the chairmanship of Shri M.V. Nair in August 2011 to revise guidelines with regard to priority sector lending classification and related issues. Under revised guidelines, overall target of priority sector should not be changed, but it was decided that the foreign banks which that have 20 branches or more will be subject to the same targets as domestic banks to be achieved within a period of five years from April 1, 2013, whereas rest of the foreign banks will continue with the overall target of 32 per cent. The focus of the committee was on direct lending by banks to small/marginal farmers and micro enterprises. The revised guidelines aim to refocus direct agricultural lending to individuals; Self-Help Groups (SHGs) and Joint Liability Groups (JLGs) engaged in agriculture and allied activities, while keeping the targets unchanged both under direct and indirect agriculture lending.
**Marginal Standing Facilities:** Reserve Bank introduced the Marginal Standing Facility (MSE) with effect from May 9, 2011. Reserve Bank enhanced liquidity cushion for banks under MSF. Under this, SCBs were allowed to borrow overnight up to 1 per cent of their respective NDTL without the obligation to seek a specific waiver for default in SLR compliance arising out of use of this facility. Reserve Bank also permitted banks to avail of funds from the Reserve Bank under the MSF against their excess SLR holdings with effect from December 21, 2011.

**Abolition of Foreclosure Charges:** The Committee on Customer Service in Banks under the Chairmanship of Shri M. Damodaran observed that foreclosure charges levied by banks on pre-payment of home loans were resented by home loan borrowers, especially since banks were found to be hesitant in passing on the benefits of lower interest rates to existing borrowers in a falling interest rate scenario. As such, foreclosure charges were seen as a restrictive practice that discouraged borrowers from switching to a cheaper available source. It was, therefore, decided that banks would not be permitted to charge foreclosure charges/ pre-payment penalties on home loans on a floating interest rate basis, with immediate effect. The removal of foreclosure charges on home loans will lead to a reduction in the discrimination between existing and new borrowers, and the competition among banks will result in finer pricing of home loans with the floating rate.

**Improve Customer Service:** Data on complaints received from various Ombudsman offices showed that public sector banks accounted for majority of the complaints underlining the need to improve customer services particularly with respect to pension accounts, as their share of complaints in this area was significantly high. In addition, non-observance of the fair practices code by banks led to number of complaints from customers in recent years.
**Financial Inclusion:** The process of financial inclusion was broadly satisfactory, but there is a long way to go, especially given that India continues to lag behind some major developing countries in terms of financial inclusion. With increased use of technology in banking, greater prominence is required for improving customer services in the areas of net banking and credit/debit cards as well as further developing the existing electronic payment systems.

**C-D Ratio:** The C-D Ratio increased from 74.12 per cent in 2010-11 to 78.62 per cent in 2011-12.

**4.2 CONCLUSION**

Thus, RBI keeps on changing its credit policy as per the conditions of the economy. The main aim of credit policy of RBI is to maintain price stability and achieve high economic growth in the economy. RBI takes several steps from time to time to maintain an appropriate level of liquidity in the economy so as to attain high level of economic growth rate on the one side and controlled inflation on the other. The changing policies from 1997-98 to 2011-12 reflect the changing conditions of Indian economy and responses of RBI to such changes. RBI has taken certain effective steps to smoothen Indian economy during the period of study. Liquidity Adjustment Facility (LAF) was introduced by RBI in June 2000. The funds under LAF are used by the banks for their day-to-day mismatches in liquidity. The Reserve Bank introduced the base rate system from July 2010 which replaced the benchmark prime lending rate system. Reserve Bank also introduced the Marginal Standing Facility (MSE) with effect from May 9, 2011. It enhanced liquidity cushion for banks under this facility. Policy rate showed a fluctuating trend during the study period. So, many ups and downs could be seen during the study period. Reserve Bank reduces the policy rate in order to expand credit and to meet global financial crisis, whereas in order to restrain inflation and
absorb excess liquidity, the policy rate has been increased by the Reserve Bank. The bank rate was reduced from 11.50 per cent in 1997-98 to 9.50 per cent in 2011-12. The current prevailing bank rate is 9 per cent. The repo rate and reverse repo rate were reduced from 9 per cent and 6.75 per cent to 8.50 per cent and 7.50 per cent respectively during the study period. However, the current repo rate and reverse repo rate are 8 per cent and 7 per cent respectively. CRR was reduced from 9.75 per cent in 1997-98 to 4.75 per cent in 2011-12. However, the current CRR is 4 per cent. The SLR was reduced by 1 per cent only, i.e., from 25 per cent in 1997-98 to 24 per cent in 2011-12. However, the current SLR is 23 per cent. Lending rate was reduced from 14 per cent to 8.00 per cent during the study period. However, the current lending rate lies between 10.00 per cent and 10.25 per cent. Call money rate was reduced from 8.69 per cent to 6.75 per cent over the period of study. Current call money rate lies between 6.25 per cent and 8.25 per cent. Credit-deposit ratio remained quite fluctuating during the period 1997-98 to 2011-12. The study has revealed an upward trend with regard to C-D Ratio which implies that credit is being properly channelized into various sectors of the economy. It was 54.10 per cent in 1997-98, and reached at 78.62 per cent in 2011-12.
Table 4.1

VARIOUS POLICY RATES

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**Source:** RBI, Various Publications (1997-98 to 2012-13)
### Table 4.2

**POLICY RATES DURING THE PERIOD (1997-98 to 2012-13)**

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**Source:** RBI, Various Publications (1997-98 to 2012-13)