

Annex 1: Sequence of Interest Rate Liberalisation 1992-93 to 1997-98

	1992-93	1994-95	1995-96	1996-97	1997-98
Policy Rate					
Bank Rate	12.0 per cent	12.0 per cent	12.0 per cent	12.0 per cent	Bank Rate reactivated by linking it to all other refinance rates effective April 16, 1997. Bank Rate moderated to 11.0 per cent effective April 16, 1997, 10.0 per cent effective June 26, 1997, and 9.0 per cent effective October 22, 1997 and hiked to 11.0 per cent effective January 17, 1998 and moderated further to 10.5 per cent by March 19, 1998.

	1992-93	1994-95	1995-96	1996-97	1997-98
Repo Rate	Repos introduced in December 1992 for maturity of up to 14 days.			Repos reactivated in November 1996.	<p>Introduction of fixed-rate repo effective November 29, 1997.</p> <p>Repos allowed on all Central Government dated securities and Treasury Bills effective April 1997.</p> <p>UTI, LIC, IDBI and other non-bank participants were allowed to access short-term liquidity through repos.</p>

	1992-93	1994-95	1995-96	1996-97	1997-98
Money Market (Interest rates on all money market instruments are market determined by 1992)	Guidelines have been issued in April 1992 to set up MMMFs.		Reverse repo facility with RBI in Government dated securities extended to DFHI and STCI replacing refinance facility to these institutions.		Standing Committee on Money Markets was set up. Access to call/notice market liberalised through PDs. The minimum maturity of CPs reduced to 30 days from three months. The minimum size of CDs issue reduced in April 1997. The minimum size of operational transaction (routed through primary dealers) reduced from Rs.10 crore to Rs.5 crore in October 1997.

	1992-93	1994-95	1995-96	1996-97	1997-98
Government Securities	364-day and 91-day auction Treasury Bills introduced in April 1992 and January 1993, respectively. The Central Government's market borrowings in dated securities have been put through auction.	Details of transactions in Government securities put through SGL accounts being published since September 1994 to improve transparency.	The setting up PDs and SDs for dealing in Government securities. The introduction of DvP for Government securities in July 1995.		The permission of FIIs to invest in Government dated securities effective January 30, 1997. Supplemental Agreement (March 26, 1997) to replace the system of <i>ad hoc</i> Treasury Bills with the system of WMA with interest on the same is set at market related rates.
Deposit Rate	In April 1992, banks were given freedom to fix interest rates on term deposits of 46 days to three years and over within the ceiling prescribed by RBI.	The structure of interest rates was made more flexible in October 1995 by giving banks freedom to fix their own interest rates on domestic term deposits with a maturity of over two years; a ceiling interest rate continued to be prescribed for deposits of maturity 46 days to two years.		In July 1996, banks were given further freedom to fix interest rates on maturity over one year on domestic term deposits	The interest rate structure was linked to the Bank Rate for maturity of 30 days and up to one year effective April 16, 1997. Interest rates on term deposits have been completely deregulated since October 1997

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Lending Rate	There were six categories of lending rates depending on the size of credit i.e., five different slabs of lending rate for loan amount below Rs.2 lakh besides the stipulation of a minimum lending rate for loan amounts above Rs.2 lakh. These slabs were compressed into three, effective April 22, 1992, and again to two, effective April 8, 1993.	Effective October 18, 1994, the Bank stopped prescribing the minimum lending rate and were free to fix the interest rates on loans above Rs.2 lakh..		In view of very high interest rate spreads, the banks were required to announce the maximum spread over the PLR since October 1996 for all advances other than consumer credit, after approval from their respective Boards.	To enable a smooth transition to the loan system as opposed to cash credit system of credit delivery, PLRs for the cash credit and demand loan component might be declared separately as also PLR for term loans of 3 years and above. Banks were given the freedom to offer a fixed rate or a floating rate linked to an anchor rate on deposits.

Annex 1: Sequence of Interest Rate Liberalisation 1998-99 to 2003-04

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Policy Rate						
Bank Rate	Moderated thrice during the year each by 1 percentage point to 8.0 per cent by March 02, 1999.	Unchanged at 8.0 per cent during the year.	Moderated to 7.0 per cent by April 02, 2000, but hiked to 8.0 per cent by July 22, 2000. Brought down again to 7.0 per cent by end of the year through a cut of 50 bps each twice.	Brought down to 6.5 per cent by October 23, 2001 through a 50 bps cut.	Brought down to 6.25 per cent by October 29, 2002 through a 25 bps cut.	Bank Rate reduced to 6.0 per cent in April 2003
Repo Rate		Set at 6.0 per cent under repo auction by RBI	Set at 5.0-6.0 per cent under repo auction by RBI 7.0-15.5 per cent cut-off under LAF	Set at 6.0-7.0 per cent cut-off under LAF	Set at 5.0-6.0 per cent cut-off under LAF	Repo rate reduced to 4.5 per cent in August 2003

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Money Market	IRS introduced in October 1998. The minimum maturing period of CP reduced to 15 days from 30 days	Guidelines for IRS/FRAAs were issued in July 1999.	Introduction of LAF on June 5, 2000 to stabilise short-term interest rates through an informal corridor.	Movements towards a pure inter-bank market call money market. Restrictions on non-bank lending on call/notice money market. Introduction of Backstop facilities. Permission to corporate to raise their call/notice money transactions through PDs.	Restrictions on lending and borrowing of banks on call money market.	Restrictions on borrowing of PDs in call/notice money market

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Government Securities	<p>To further deepen the government securities market, liquidity support to PDs against securities in SGL accounts was provided in place of the reverse repos with PDs in April 1998.</p> <p>Introduce of uniform price auction method in respect of 91-day Treasury Bills auctions in October 1998.</p>			<p>With effect from June 2, 2001, all transactions settled through DVP were on T plus 1 basis.</p> <p>Introduction of NDS to facilitating transparent electronic bidding in auctions and secondary market transactions on a real-time basis</p>		

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Deposit Rate	In April 1998, the minimum maturity of term deposits was reduced from 30 days to 15 days and banks were permitted to determine their own penal interest rates for premature withdrawal of domestic term deposits.			The minimum maturity period for term deposits to 7 days from the present 15 days at the discretion of individual banks. But, this facility will be available only in respect of wholesale deposits of Rs.15 lakh		

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Lending Rate	In order to remove the disincentive to the flow of credit to small borrowers below Rs.2 lakh, instead of prescribing a specific rate uniformly for all banks, PLR was converted a ceiling rate on loans up to Rs.2 lakh. Banks were allowed to charge fixed/floating rate loan at or above PLR for credit limit of over Rs. 2 lakh.	The concept of Tenor linked Prime Lending Rates (TPLRs) was introduced to give the Scheduled Commercial Banks more operational flexibility. Banks were given the flexibility to charge interest rates without reference to the PLR in respect of certain categories of loans/credit like bills, lending to intermediary agencies, etc.		Keeping in view the international practice and to provide further operational flexibility to commercial banks in deciding their lending rates, it was decided to make PLR a benchmark rate. Accordingly, commercial banks were allowed to lend at sub-PLR rate for loans above Rs.2 lakh. The export credit interest rate rationalized by linking the same to ceiling rate related to PLR.	The Reserve Bank had indicated the intention of collecting PLR as well as the maximum and minimum interest rates on advances charged by the banks and place the same in public domain for customers' protection and meaningful competition. Accordingly, the bank-wise information on the same is disseminated in the RBI web site for each quarter starting from the quarter ended June 2002.	In order to enhance transparency in banks' pricing of their loan products, the Reserve Bank advised banks to announce a benchmark PLR with the approval of their Boards.