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Amendments to the Reserve Bank of India Act and Cash Reserve Ratio

Reserve Bank of India

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**RESERVE BANK OF INDIA**

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June 22, 2006

Amendments to the Reserve Bank of India Act and Cash Reserve Ratio

The Reserve Bank of India (Amendment) Bill, 2006 has been enacted and has come into force with its gazette notification. Consequent upon amendment to sub-Section 42(1), the Reserve Bank, having regard to the needs of securing the monetary stability in the country, can prescribe Cash Reserve Ratio (CRR) for scheduled banks without any floor rate or ceiling rate. Accordingly, some changes in the provisions relating to cash reserve ratio (CRR) are necessary, as set out below.

CRR Rate for Scheduled Banks: Before the enactment of this amendment, in terms of Section 42(1) of the RBI Act, the Reserve Bank could prescribe CRR for scheduled banks between 3 per cent and 20 per cent of total of their demand and time liabilities. Banks hitherto have been required to maintain minimum CRR balances of 3.0 per cent of their net demand and time liabilities (NDTL) as on the reporting Friday of the second preceding fortnight, on a daily basis, subject to the average maintenance of 5.0 per cent of NDTL during the fortnight. At present, banks have to maintain a minimum of 70 per cent of the average daily CRR balances in a fortnight.

In the light of the enactment of the Reserve Bank of India (Amendment) Bill, 2006, the Reserve Bank has decided to constitute an Internal Technical Group to undertake an overall review of the "system" and draw out a medium term roadmap. Pending the recommendations of the Group, it has been decided to continue with the *status quo* on the existing provisions of CRR maintenance, including the CRR rate and extant exemptions which will be operative till further change. Accordingly, scheduled banks shall continue to maintain CRR of 5 per cent of their total demand and time liabilities. Furthermore, pursuant to the amendment, the erstwhile statutory minimum CRR maintenance requirement of 3 per cent no longer exists. Appropriate notifications are being issued separately.

Interest on CRR balances of Scheduled Banks: The Reserve Bank has been paying interest on scheduled banks' CRR balances above the statutory minimum of 3.0 per cent and up to the prescribed level of 5.0 per cent - known as eligible cash balances - at an interest rate determined by the Reserve Bank which has been set at 3.5 per cent with effect from September 18, 2004. No interest is payable on any amount actually maintained in excess of the balance required to be maintained. Consequent upon the amendment of sub-Section 42 (1A) of the Act the statutory minimum CRR of 3.0 per cent no longer exists. Furthermore, with the removal of the sub-Section 42 (1B) of the Act, the Reserve Bank cannot pay interest on any portion of CRR balances of banks. Consequently, no interest will be payable on CRR balances with effect from the fortnight beginning June 24, 2006.

CRR Rate for Non-scheduled Banks: The CRR for non-scheduled banks and non-scheduled co-operative banks continue to be governed by the provisions of Section 18 and Section 56, respectively, of the Banking Regulation Act, 1949 which remain unchanged. Accordingly, non-scheduled banks, including non-scheduled co-operative banks shall continue to maintain cash reserve ratio equivalent to 3.0 per cent of their demand and time liabilities as on the last Friday of the second preceding fortnight.

G.Raghuraj
Deputy General Manager