

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:1857
ANSWERED ON:02.12.2011
SHORTAGE OF DOLLAR IN BANKS
Jindal Shri Naveen

Will the Minister of FINANCE be pleased to state:

- (a) whether the Banks have been facing acute shortage of U.S. Dollars due to spurt in its demand;
- (b) if so, the details thereof;
- (c) whether reports of Indian Banks organizing dollars from the market through swap deals come to the notice of the Government;
- (d) if so, the details thereof; and
- (e) the action taken / proposed to be taken in this regard?

Answer

The Minister of State in the Ministry of Finance (Shri Namo Narain Meena)

(a) & (b): There was general global dollar liquidity crunch after USA, several European countries` and banks were downgraded by rating agencies. The cost of raising dollar resources for banks had gone up globally. Some of the Indian banks also reportedly faced dollar funding problems as the cost of borrowing dollars in the overseas market went up. The situation has since eased a bit, though future scenario would depend on the international developments.

(c) & (d): It is a normal market practice for Indian banks to raise dollar resources in the domestic foreign exchange market using rupee liquidity through swaps after taking into consideration the cost involved in such a transaction.

(e): Reserve Bank of India (RBI) have taken various measures to improve the sentiment and thereby enhance the foreign currency inflows into the country which inter-alia, include:

(i) Enhanced all-in-cost for Trade Ceiling with effect from November 15, 2011;

(ii) Enhanced the all-in-cost for External Commercial Borrowings (ECB) w.e.f. November 23, 2011;

(iii) With effect from November 23, 2011, borrowers have been instructed that the proceeds of the ECB raised abroad meant for Rupee expenditure in India, such as, local sourcing of capital goods, on-lending to Self-Help Groups or for micro credit, payment for spectrum allocation, etc. should be brought immediately for credit to their Rupee accounts with AD Category I banks in India;

(iv) With effect from 15.11.2011 the ceiling rate on export credit in foreign currency provided by banks has been increased to LIBOR plus 350 basis points from the present ceiling rate of LIBOR plus 200 basis points, till March 31, 2012;

(v) With effect from 15.11.2011 the ceiling interest rate on the lines of credit with overseas banks has also been increased from six months LIBOR /EURO LIBOR / EURIBOR plus 250 basis points, till March 31, 2012;

(vi) With effect from close of business as on November 23, 2011, interest rates on fresh Non-Resident (External) Rupee (NRE) Term Deposits for one to three years maturity should not exceed the LIBOR/SWAP rates plus 275 basis points, as on the last working day of the previous month, for US dollar of corresponding maturities (as against LIBOR/SWAP rates plus 175 basis points effective from the close of business on November 15, 2008).

(vii) In respect of FCNR(B) deposits of all maturities contracted effective from the close of business in India as on November 23, 2011, interest shall be paid within the ceiling rate of LIBOR/SWAP rates plus 125 basis points for the respective currency/corresponding maturities (as against LIBOR/SWAP rates plus 100 basis points effective from the close of business on November 15, 2008). On floating rate deposits, interest shall be paid within the ceiling of SWAP rates for the respective currency/maturity plus 125 basis points.

RBI is closely monitoring the situation in this regard.