

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

STARRED QUESTION NO:573
ANSWERED ON:05.05.2000
REDUCTION IN INTEREST RATES OF BANKS
MADHAVRAO SCINDIA;NARESH KUMAR PUGLIA

Will the Minister of FINANCE be pleased to state:

- (a) whether the Reserve Bank of India has further reduced the bank interest rates and Cash Reserve Ratio by one per cent;
- (b) if so, the details thereof and the reason therefor;
- (c) the impact of reduction of CRR and interest rate on the profitability of banks;
- (d) whether the Savings deposit rates have also been reduced from 4.5 per cent to 4 per cent;
- (e) if so, whether it would hit hard the middle class depositors, especially the retired people;
- (f) whether the Government propose to roll back the Savings deposit rates in the interest of middle class depositors; and
- (g) if not, the reasons therefor?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI BALASAHEB VIKHE PATH):

- (a) Yes Sir.
- (b) The Reserve Bank of India (RBI) have announced on April 1, 2000 a reduction by one percentage point in the Bank Rate from 8.0 per cent to 7.0 per cent. Cash Reserve Ratio (CRR) was also reduced by 1.0 percentage point in two stages of 0.5 percentage point each effective from fortnights beginning April 8, 2000 and April 22, 2000 respectively. These measures are intended to enhance liquidity and reduce the cost of funds to banks.
- (c) These measures are expected to have a beneficial impact on the profitability of banks.
- (d) Yes, Sir.
- (e) Savings banks accounts are used by middle class depositors mostly for meeting their day-to-day transaction needs. Depositors have options to invest their money in term deposits of any maturity above 15 days at higher rates of interest.
- (f) No, Sir.
- (g) Does not arise in view of reply to (e) above.