

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:4611
ANSWERED ON:23.12.2005
REPORATE
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Will the Minister of FINANCE be pleased to state:

- (a) whether the RBI has increased reserve repo rate on 25 basis point to 5.25% to curb the rate of inflation ratio; *
- (b) if so, the extent to which this step of the Government is likely to curb inflation;
- (c) whether RBI has also warned banks which are underpricing loans to large corporate houses; and
- (d) if so, the other steps taken or being taken by RBI in financial management of the country?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI S.S. PALAN1MANICKAM)

(a) & (b) : In view of the current macroeconomic and overall monetary conditions, Reserve Bank of India has increased the fixed reverse repo rate by 25 basis points under the Liquidity Adjustment Facility (LAF) effective from October 26, 2005 to 5.25 per cent from 5.00 per cent. The Repo-rates do not have linear impact on the rate of inflation, which is also affected by various factors including Bank Rate, Repo Rates, Cash Reserve Ratio (CRR) etc. The Reserve Bank of India takes these monetary measures keeping in view the overall stance of monetary policy consistent with emphasis on price stability, provision of appropriate liquidity to meet genuine credit needs, support export and investment demand in the economy and stabilise inflationary expectations.

(c) & (d) : In view of the public perception that there is underpricing of credit for corporates while there could be overpricing of lending to agriculture and small and medium enterprises, a need has arisen to review the current procedures and processes of pricing of credit through a well structured and segment wise analysis of costs at various stages of intermediation in the whole credit cycle. RBI has, in the Mid Term Review of Annual Policy 2005-06, advised the Indian Banks' Association (IBA) to consider, in consultation with its member banks, reviewing the Benchmark Prime Lending Rate (BPLR) System afresh and issuing transparent guidelines for appropriate pricing of credit.