

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:2644

ANSWERED ON:18.08.2006

REVIEW OF MONETARY POLICY

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Will the Minister of FINANCE be pleased to state:

- (a) whether Reserve Bank of India in its first quarterly review of annual monetary policy 2006-07 hiked reverse repo rate by 25 paise to 6% ;
- (b) if so, the details thereof ;
- (c) whether due to this step of RBI the loan interest rates are likely to go up ;
- (d) if so, extent to which this step of the Government is likely to hit the real and auto sector ;
- (e) the impact on economy and inflation in the country ;
- (f) whether certain sectors have opposed this step of the RBI ;
- (g) if so, details thereof; and
- (h) the steps proposed to be taken for maintaining the status quo ?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL)

(a) and (b) The Reverse Repo rate has been increased by 25 basis points from 5.75 per cent to 6.00 per cent.

(c)to(e) The interests on loans have been deregulated and are decided by banks keeping in view various factors viz. general credit off-take in the banks, experience in managing loans, liquidity position, RBI's policy, prevailing interest rates in banking system, rate of inflation and cost of funds. The sectoral impact of interest rates is not likely to hit the real and auto sector.

As per first quarter review of annual statement on monetary policy for the year 2006-07 of RBI, the stance of monetary policy, inter-alia, would be to ensure a monetary and interest rate environment that enables continuation of growth momentum by appropriate policy responses and containing year on year inflation rate for 2006-07 in the range of 5.0 to 5.5 percent.

(f) and (g) A section of press has reported that there has been a mixed reaction to the RBI move to increase Repo and Reverse Repo rates.

(h) Annual policy statement of the RBI is reviewed by it from time to time in accordance with a pre-announced schedule.