GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:802
ANSWERED ON:24.02.2006
BANK LENDING RATES
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Will the Minister of FINANCE be pleased to state:

(a) whether due to the pressure on liquidity, retail lending rates, including the housing loans, are going to rise in Public Sector Banks and Private Sector Banks;

(b) if so, the details thereof;

(c) the reason for the pressure on liquidity;

(d) whether domestic term deposit rates are on an upward trend; and

(e) if so, the reasons therefor?

Answer

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

(a) to (c); The Reserve Bank of India (RBI) has reported that as per its Third Quarter Review of Annual Monetary Policy for 2005-06, the pressures on liquidity are partly arising from seasonal and transient factors including the redemption of India Millennium Deposits (IMDs) and are partly cyclical, associated with the pick up in growth momentum and the demand for bank credit. The RBI ensures that appropriate liquidity is maintained in the system so that all genuine credit requirements of the economy are met with due emphasis on credit quality. However, RBI has deregulated the interest rates, on advances above Rs.2 lakhs with effect from October 1994. For credit limits upto Rs.2 lakh, banks have been asked to charge interest not exceeding the Benchmark Prime Lending Rate (BPLR). The individual banks determine interest rates to be charged to a particular borrower subject to BPLR and spread guidelines.

(d)&(e): The RBI has deregulated the deposit rates, except those for saving bank accounts, since October, 1997. Banks are free to determine their own deposit rates depending on their commercial judgement. The interest rates on term deposits offered by public sector banks (PSBs) stood at 2.25-7.00 per cent in February 2006 as against 200-7.00 per cent in December 2005.

The range of term deposit rates in respect of private sector banks changed from 3.00-7.25 per cent in December 2005 to 3.50-7.25 per cent in February 2006.