

**GOVERNMENT OF INDIA  
FINANCE  
LOK SABHA**

UNSTARRED QUESTION NO:124  
ANSWERED ON:17.10.2008  
IMPACT OF GLOBAL FINANCIAL CRISIS  
Rao Shri Errabelli Dayakar

**Will the Minister of FINANCE be pleased to state:**

- (a) whether the country is facing the heat of financial crisis turmoil due to the global turmoil;and
- (b) if so,the details thereof and the steps taken in this direction to balance the financial economy in the country?

**Answer**

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

(a): Pursuant to the crisis in the global financial markets and news about the bankruptcy of Lehman Brothers on September 15, 2008, Indian stock markets have witnessed a fall. Sensex has recorded a fall from 13531.27 on September 15, 2008 to 11309.09 on October 13, 2008. The Nifty recorded a fall from 4072.9 to 3490.7 during the same period.

However, the fundamentals of the Indian economy have been strong and continue to be strong. Our banking system is stable and sound. What we are witnessing today in the Indian markets is an indirect effect of the global financial situation. This is only a reflection of the uncertainty and anxiety in the global financial markets. However, there is no reason for any anxiety or uncertainty in India.

(b): Some of the steps taken by the Government, RBI and SEBI in this direction to balance the financial economy in the country are as follows:

1. Hike in interest rates on FCNR (B) deposits to LIBOR/Swap + 25 basis points and on NR(E) Rupee deposits to LIBOR/Swap + 100 basis points
2. Market Intervention by RBI to augment supply in the domestic foreign exchange market. All the transactions by the RBI will be at prevailing market rates and as per market practice.
3. Allowing Scheduled banks to avail additional liquidity support under the Liquidity Adjustment Facility (LAF) to the extent of up to one per cent of their Net Demand and Time Liabilities (NDTL)
4. Allowing banks to avail of additional liquidity support exclusively for the purpose of meeting the liquidity requirements of mutual funds to the extent of up to 0.5 per cent of their NDTL
5. The Reserve Bank has decided to conduct the Second LAF on a daily basis with effect from September 17, 2008.
6. Reducing the Cash Reserve Ratio by 250 basis points from 9 percent to 6.5 per cent of NDTL.
7. Under the Agricultural Debt Waiver and Debt Relief Scheme, Government has agreed to provide to commercial banks, RRBs and co-operative credit institutions a sum of Rs. 25,000 crore as the first instalment.
8. It has been decided to increase the Foreign Institutional Investors (FII) investment limit in corporate bonds from \$3 billion to US\$ 6 billion.
9. SEBI has decided that the position of the securities lent by FIIs and their sub-accounts abroad shall be disseminated on a consolidated basis twice a week i.e. on Tuesday and Friday of every week.
10. SEBI has further informed that it has been monitoring the activities of a few large financial institutions in India to ensure that the orderly functioning of the market is not hampered. SEBI is also continuously reviewing the situation in consultation with the stock exchanges and the depositories. RBI-SEBI Technical Committee is also closely monitoring the developments in the global financial markets and its impact on the Indian markets.