GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:1621
ANSWERED ON:10.12.2004
STATEMENT OF RBI GOVERNOR
Maheshwari Smt. Kiran;Rao Shri Kavuru Samba Siva

Will the Minister of FINANCE be pleased to state:

(a) whether the attention of the Government has been drawn to the news item captioned `oil crisis looming large` appearingin the Hindustan Times, dated October 28, 2004;

(b) if so, the facts of the matter reported;

(c)whether as per RBI Governor, if the Indian economy is resilient enough to absorb the oil shock, the ogre of petrol inflation will adversely impact India`s growth prospects; and

(d) if so, the reaction of the Union Government with steps taken by the Government to tackle the problem?

Answer

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

(a)&(b) Yes, Sir. The news item states, iter alia, that if oil prices remain at $50 plus per barrel for the rest of the financial year 2004-05, GDP growth will be eroded by 1.5 percentage points and inflation could rise by 4.8 percentage points (if the Government were to abstain from controlling retail oil prices). Further, if crude prices average $60 per barrel in financial year 2005-06, GDP growth will be eroded by 3 percentage points and inflation could rise by 3.5 percentage points due to the direct and indirect effects.

(c) In the Mid Term Review of Annual Policy for the year 2004-05, the RBI has placed the overall GDP Growth for the year 2004-05 in the range of 6.0 to 6.5 per cent as against the earlier expectation of 6.5 - 7.0 per cent, assuming that the combined down side risks of high and uncertain oil prices and sudden changes in the international liquidity environments remain manageable.

(d) Containment of inflation remains high on the agenda of the government. Anti-inflationary policies of the government include strict fiscal and monetary discipline, rationalisation of excise and import duties of essential commodities so that there is no undue burden on the poor,effective supply-demand management of sensitive items through liberal tariff and trade policies, and strengthening the public distribution system. Specific measures taken by the government to contain inflation include the following:

On June 15, 2004, the government reduced excise duties on selected petroleum products to keep their domestic retail prices in check in the face of rising international prices of oil. Excise duty on petrol was reduced from 30 per cent to 26 per cent, on high speed diesel from 14 per cent to 11 per cent and on liquefied petroleum gas (LPG) from 16 per cent to 8 per cent.

On August 18, 2004, the government further reduced excise and customs duties on selected petroleum products. Customs duty on petrol, diesel, LPG and kerosene was reduced by 5 percentage points each, while excise duty was reduced by 3 percentage each for petrol and diesel and by 4 percentage points for kerosene.

On August 20, 2004, the government reduced customs duties on non-alloy steel and ships for breaking to 5 per cent from 10 and 15 per cent respectively in order to check high inflation in metals and metal products. Melting scrap of iron and steel was fully exempted from customs duty.

To check the liquidity overhang in the system, the Reserve Bank of India (RBI), on September 11, 2004, hiked the cash reserve ratio (CRR), to be maintained by banks, by 50 basis points to 5 per cent of their demand and time liabilities.

In a bid to control the prices of edible oils and make its availability easy, the government on September 16, 2004 cut tariff values on many vegetable oils by around $50 a metric ton.

In its Mid-Term Review of the Annual Policy Statement for 2004-05 announced on October 26, 2004, the RBI hiked the reverse repo rate (i.e. the interest rate paid on bank funds placed with the RBI against government paper) by 25 basis points to 4.75 per cent.

As there was a fall in the international prices of crude oil, oil companies reduced the prices of petrol by up to Rs. 1.26 per liter with effect from November 15, 2004.