GOVERNMENT OF INDIA
FINANCE
LOK SABHA

STARRED QUESTION NO:228
ANSWERED ON:12.03.2010
CASH RESERVE RATIO
Hegde Shri Anant Kumar;Sharma Shri Jagdish

Will the Minister of FINANCE be pleased to state:

(a) whether the Government has revised the Cash Reserve Ratio (CRR) to regulate liquidity of the banks during the current financial year;

(b) if so, the details thereof alongwith the liquidity infused into/drained out of the banking system as a result of these revisions;

(c) whether banks have registered growth in their credit from revisions of CRR during the said period;

(d) if so, the details thereof;

(e) whether frequent revisions of CRR has adversely affected the liquidity of banks and price-rise scenario; and

(f) if so, the reasons for frequent revisions of CRR?

Answer

FINANCE MINISTER(SHRI PRANAB MUKHERJEE)

(a) to (f): A Statement is laid on the Table of the House.

STATEMENT IN REPLY TO LOK SABHA STARRED QUESTION NO. 228 FOR ANSWER ON 12TH MARCH, 2010 REGARDING CASH RESERVE RATIO BY SHRI JAGDISH SHARMA AND SHRI ANANTKUMAR HEGDE.

(a) to (f): In its Third Quarter Review of Monetary Policy announced on January 29, 2010, the Reserve Bank of India increased the Cash Reserve Ratio (CRR) by 75 basis points from 5.00 per cent to 5.75 per cent of scheduled banks' net demand and time liabilities (NDTL) in two stages to absorb about Rs.36,000 crores of excess liquidity from the system.The repo rate and the reverse repo rate under the liquidity adjustment facility (LAF) were not changed.

The policy action to raise the CRR was shaped by three important considerations:
(i) the consolidating recovery should help to clearly and explicitly shift the stance from 'managing the crisis' to 'managing the recovery';
(ii) even though the inflationary pressures in the domestic economy predominantly stem from the supply side, the consolidating recovery increases the risks of these pressures spilling over into a wider inflationary process; and
(iii) strong anti-inflationary measures may undermine the recovery which is yet to fully take hold. The decision to raise the CRR by 0.75 basis points was based on RBI's assessment of the overall macroeconomic situation.

On a year-on-year basis, the bank credit recorded 15.1 per cent growth as on February 12, 2010 as compared with 19.8 per cent growth a year ago. Bank credit growth this year should be seen in the context of improved access of corporate to non-bank sources of funds. Taking into account the increased availability of funds from domestic non-bank and external sources, the Third Quarter Review of Monetary Policy (January 29, 2010) of the Reserve Bank has projected the adjusted non-food credit growth for 2009-2010 at 16 per cent.

Despite increase in the CRR, the banking system continues to be flush with surplus liquidity as reflected in the large amount of funds being placed under the reverse repo window of the RBI on a daily basis. The increase in CRR announced on January 29, 2010 was after a reduction of 400 basis points of net demand and time liabilities in 4 stages between October 11, 2008 and January 17, 2009, effected to mitigate the adverse impact of the global financial crisis on the Indian economy.