

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:2675

ANSWERED ON:12.03.2010

INTEREST RATE ON SAVINGS

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Will the Minister of FINANCE be pleased to state:

- (a) whether the interest rates on various savings schemes including fixed deposits with banks have been slashed by the government during the last three years;
- (b) if so, the details thereof, scheme-wise alongwith reasons therefor;
- (c) whether such reduction has adversely impacted the amount deposited under such saving schemes considering the inflation rate is much higher than the interest rates on the saving schemes;
- (d) if so, the details thereof alongwith the correlation between inflation rate and interest rate;
- (e) whether any parity is maintained between interest on advances and deposits; and
- (f) if so, the details thereof and if not, the reasons therefor?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE(SHRI NAMO NARAIN MEENA)

(a) & (b): The interest rate on small savings schemes have remained unchanged since March 1, 2003. However, so far as fixed deposits with banks is concerned, with effect from October 22, 1997, RBI has given the freedom to scheduled commercial banks to fix their own interest rates on domestic term deposits of various maturities with the prior approval of their respective Board of Directors/Asset Liability Management Committee (ALCO).

However, RBI does regulate interest rates on savings bank accounts and the savings bank interest rate is currently fixed at 3.5% per annum, remaining unchanged since March 1, 2003.

In response to reduction in key policy rates of the Reserve Bank of India (RBI) and the emerging economic situation, banks have reduced interest on deposits since October, 2008.

(c) & (d): Despite reduction in interest rates on bank deposits these have continued to grow. According to the latest information of the RBI, during the current financial year upto February 12, 2010, aggregate deposits of scheduled commercial banks increased by Rs.6.1 lakh crores recording a growth of 16.6% on year-on-year basis.

(e) & (f): No strict parity is maintained between interest rates on deposits and advances. However, since deposits constitute the bulk of loanable funds of banks, broadly speaking, if interest rates on deposits are reduced this is expected to translate into reduction in lending rates over a period of time. For instance, between September, 2008 and February, 2010 term deposits of more than one year of major banks were reduced from 8.75% - 10% to 6% - 7.5%. During the same period, prime lending rates of five major banks also declined from 13.25% -14% to 11% -12%.