

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

STARRED QUESTION NO:304
ANSWERED ON:16.04.2010
INTEREST ON FIXED DEPOSITS
Acharia Shri Basudeb

Will the Minister of FINANCE be pleased to state:

- (a) the details of rates of interest applicable to the short term and long term fixed deposits in the banks during the last three years;
- (b) whether the Reserve Bank of India/banks have slashed the rates of interest despite the rising prices of essential commodities during the said period;
- (c) if so, the details thereof and the reasons therefor;
- (d) whether such reduction in the interest rates has driven away the depositors from the nationalised banks to the private banks; and
- (e) if so, the corrective measures taken/proposed to be taken by the Government in this regard?

Answer

FINANCE MINISTER(SHRI PRANAB MUKHERJEE)

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

STATEMENT IN REPLY TO LOK SABHA STARRED QUESTION NO.304 FOR ANSWER ON 16TH APRIL, 2010 REGARDING INTEREST RATES ON FIXED DEPOSITS BY SHRI BASUDEB ACHARIA.

(a): Details of changes in deposit rates of scheduled commercial banks by different maturities during the last three years are given at Annex.

(b) & (c): With effect from October 22nd, 1997 RBI has given the freedom to commercial banks to fix their own interest rates on domestic term deposit of various maturities with the prior approval of their respective Board of Directors/Asset Liability Management Committee (ALCO). While fixing the deposit rates, commercial banks respond, inter alia, to monetary policy initiatives of the RBI and changing conditions in the economy and financial markets. During the first half of 2008-09 there were signs of overheating of the economy. The RBI therefore tightened its monetary policy and increased the key policy rates. In response to this scheduled commercial banks increased interest rates including those on deposits. However, the situation changed dramatically in September 2008 with the global financial crisis. To fight the crisis the RBI took a series of measures which included sharp reduction in key policy rates to ease liquidity and stimulate the economy. The scheduled commercial banks responded to these measures by reducing interest rates on both credit and deposits. The rate of WPI based inflation also moderated considerably during the first half of 2009-10 turning negative in between June and August 2009. The economy recorded an impressive growth during the second quarter of 2009-10 partly in response to the stimulus measures and low interest rate regime. However, from November 2009 onwards, spearheaded by price increase in food items the rate of inflation rose sharply. As part of calibrated exit strategy and also to anchor inflationary expectations and contain inflation, the RBI increased the CRR and the Repo and Reverse Repo rates in February and March 2010. The impact of these very recent measures on interest rates on deposits is yet to unfold.

(d) & (e): Bank category-wise data shows a much higher growth of deposits mobilized by public sector banks (including nationalized banks) compared to private sector banks. During 2007-08, deposits growth of Public Sector Banks was 22.9% compared to deposits growth of 19.9% for Private Banks. In 2008-09, deposits growth of Public Sector Banks went up to 24.3% compared to merely 8% for Private Banks. In 2009-10, deposits growth of Public Sector Banks was 18.5% whereas that for Private Banks was lower at 12.3%. As a result of this, the share of Public Sector Banks in total deposits which was 73% in 2007-08 went up to 77% in 2009-10, whereas the share in total deposits of Private Banks declined from 21% to 18% during the same period.