

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:2241

ANSWERED ON:06.08.2010

INFLATION

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Will the Minister of FINANCE be pleased to state:

- (a)whether in an attempt to contain the rising inflation, Reserve Bank of India (RBI) has decided to increase repo rate by 25 basis points;
- (b)if so, the details thereof;
- (c)whether this steps is likely to increase the interest rates on various components offered by banks to the consumers;
- (d)if so, the details thereof;
- (e)the results of earlier such steps by RBI in containing the inflation; and
- (f)the extent to which the inflation is likely to be curbed by these steps of the RBI?

Answer

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

(a) and (b): Yes, Sir. The Reserve Bank of India raised the repo rate by 25 basis points and the reverse repo rate by 50 basis points under the Liquidity Adjustment Facility (LAF) in the First Quarter Review of Monetary Policy announced on July 27, 2010.

(c) and (d): Monetary measures work through a complex process of long and variable lags. Thus, changes in the repo and reverse repo rates by the Reserve Bank of India will impact the deposit and lending interest rates with a lag.

(e) and (f) : Since October 2009, when the Reserve Bank of India signalled reversal of its policy stance, it has cumulatively raised the cash reserve ratio (CRR) by 100 basis points and the repo and reverse repo rates under the LAF by 100 basis points and 125 basis points, respectively. Currently, the CRR stands at 6.0 per cent of net demand and time liabilities (NDTL) and repo and reverse repo rate at 5.75 per cent and 4.50 per cent respectively. The Reserve Bank also raised the statutory liquidity ratio to the pre-crisis level of 25 per cent and closed some sector-specific facilities in October 2009. It is expected that measures initiated by the Reserve Bank of India will help moderate inflation by reining in demand pressures and inflationary expectations. In its First Quarter Review of Monetary Policy (released on July 27,2010) the Reserve Bank of India has placed the indicative projection of WPI inflation for March 2011 at 6.0 per cent.