

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:4478

ANSWERED ON:20.08.2010

LIQUIDITY CRUNCH IN BANKS

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Will the Minister of FINANCE be pleased to state:

- (a) whether the credit growth rate is 10 per cent higher than that of deposit growth rate;
- (b) if so, the details thereof and reasons therefor;
- (c) whether there is a possibility of liquidity crunch due to high rate of growth in credit, particularly in credit cards, housing, commercial real estate and personal loans;
- (d) if so, the details thereof;
- (e) whether the Banks have borrowed from Reserve Bank of India (RBI) to maintain their liquidity; and
- (f) if so, the details thereof alongwith the steps taken/being taken by the Government/RBI in this regard?

Answer

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

(a): No, Sir.

(b): The details of credit and deposit growth rates during the current financial year`is given below:

(Percent)			
Effective date	Deposit	Growth	Credit Growth
26-03-2010	17.0	16.7	
30-04-2010	15.4	17.6	
28-05-2010	14.9	18.1	
02-07-2010	14.9	21.7	
30-07-2010	14.0	19.7	

Source: RBI.

One of the reasons for lower growth in bank deposits was financing of 3G Spectrum & Broadband Wireless Access (BWA) by banks. Credit growth on the other hand accelerated when most of the telecom companies approached the banks for funds.

(c) & (d): There was a temporary tightening of liquidity in the months of May, June and July of the current financial year which was due to the reasons mentioned above and not due to higher growth of retail credit growth in sectors like credit cards, housing, commercial real estate and personal loans.

(e) & (f): To meet the additional demand for funds from banks the RBI announced additional liquidity support under the Liquidity Adjustment Facility (LAF) to the extent of upto 0.5% of the net demand and time liabilities of scheduled commercial banks. A second LAF (SLAF) was also made available on a daily basis. Both these facilities, which were initially available till 02-07-2010 were later extended. Further, the issuance of Treasury Bills was reduced and Government Securities were bought back ahead of schedule in June 2010 to further ease the liquidity position.