

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

STARRED QUESTION NO:429

ANSWERED ON:02.09.2011

BANKS BORROWINGS

Bheiravdanji Shri Gadhi Mukeshkumar

Will the Minister of FINANCE be pleased to state:

(a) whether the Government has taken note of the rise in borrowings by the Public Sector Banks (PSBs) from the Reserve Bank of India (RBI) by pledging Government securities;

(b) if so, the details thereof during each of the last three years and the current financial year, bank-wise;

(c) the reasons for the rise in borrowing during the above period; and

(d) the likely impact on the economy as a result of this market intervention?

Answer

THE FINANCE MINISTER (SHRI PRANAB MUKHERJEE)

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

STATEMENT FOR LOK SABHA STARRED QUESTION NO.429 FOR 2nd SEPTEMBER, 2011 REGARDING BANKS' BORROWINGS TABLED BY SHRI SHRI GADHVI MUKESH BHAIKAVADANJI

(a): Scheduled Commercial Banks including the Public Sector Banks (PSBs) invest in Government Securities as part of their statutory requirement to maintain the Statutory Liquidity Ratio (SLR). The RBI manages day-to-day liquidity in the banking system through its Liquidity Adjustment Facility (LAF), which is available to scheduled commercial banks. Under this facility, banks in short of liquidity can borrow from the RBI overnight (for one day) at the Repo Rate (currently at 8 per cent) by keeping government securities as collateral. This is in line with the best international practices.

(b): The details of the borrowings by banks from RBI under the LAF during the last three years and the current Financial Year are given below:

(Rs. Crore)

Year Average Net Daily Borrowings by
Scheduled Commercial Banks
(including Public Sector
Banks) and Primary Dealers
under LAF from RBI

2008-09 (+) 4,212

2009-10 (+) 100,310

2010-11 (-) 46,946

2011-12
(upto August 29) (-) 46,298

Note: (+) indicates placement of funds by banks with RBI and (-) indicates borrowings by banks from RBI. Data are annual averages.

(c): Borrowings by banks from the Reserve Bank of India (RBI) with the Government securities as a collateral is a normal liquidity management operation for banks and this happens whenever there is overall liquidity deficit in the system.

(d): The net borrowings of banks from RBI, in the recent times, is a reflection of the deficit liquidity conditions. This has helped strengthen the monetary transmission mechanism and is consistent with the anti-inflationary stance of monetary policy.