GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:3082
ANSWERED ON:19.08.2011
LIQUIDITY OF BANKS
Mahato Shri Narahari;Roy Shri Nripendra Nath

Will the Minister of FINANCE be pleased to state:

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(a) whether the Government has enhanced the liquidity of Banking Sector consequent upon the global melt down;

(b) if so, the details thereof for the last three years and the current financial year;

(c) whether the Banks have failed to provide adequate loans to the Housing and Automobile Sectors despite such enhanced liquidity by the Government;

(d) if so, the details thereof and the reasons therefor; and

(e) the steps taken / being taken by the Government for utilisation of such enhanced liquidity by the Banks?

Answer

The Minister of State in the Ministry of Finance (Shri Namo Narain Meena)

(a),(b) & (e): In response to the global financial crisis, the Reserve Bank of India (RBI) undertook a number of monetary and liquidity measures. These, among others, included the reduction in the Cash Reserve Ratio (CRR) from 9 per cent in September 2008 to 5 per cent by January 2009; reduction in the Statutory Liquidity Ratio (SLR) from 25 per cent to 24 per cent; opening of new refinancing windows; refinance to SIDBI, NHB and EXIM Bank; reduction in prudential norms with regard to provisioning and risk weights. Simultaneously, in view of the adverse impact of the global slowdown on the domestic economy, policy rates were also cut substantially - the repo rate by 425 basis points from 9 per cent in September 2008 to 4.75 per cent in April 2009 and the reverse repo rate by 275 basis points from 6 per cent in November 2008 to 3.25 per cent in April 2009. The objective of these measures was: first, to maintain a comfortable rupee liquidity position; second, to augment foreign exchange liquidity; and third, to maintain a policy framework that would keep credit delivery on track so as to arrest the moderation in growth.

Reflecting the monetary policy stance, liquidity conditions, which were in surplus from December 2008 to May 2010, switched to deficit from June 2010. The liquidity in the system changed from a surplus of around Rs.33,000 crore in May 2010 to a deficit of around Rs.120,000 crore in December 2010. In other words, liquidity support of around Rs.1,20,000 crore was provided to banks in December 2010.

(c) & (d): As regards credit, movements in credit depend upon both demand and supply factors. Banks extend loans on the basis of their commercial assessment taking into accounts the available funds with them as well as the risk profile of the borrowers. Year-on-year credit growth by scheduled commercial banks in respect of housing and vehicles accelerated sharply in March 2011. While housing loans growth accelerated further in June 2011, it decelerated marginally in respect of vehicle loans. The details are as under:-

(year-on-year growth in per cent)

	Housing loans	Vehicle loans
March 2009	7.3	5.8
March 2010	7.7	2.9
March 2011	15.0	24.3
June 2011	17.0	22.9