GOVERNMENT OF INDIA
FINANCE
LOK SABHA

STARRED QUESTION NO:274
ANSWERED ON:19.08.2011
FLUCTUATIONS IN LENDING RATE
Kashyap Shri Virender;Panda Shri Prabodh

Will the Minister of FINANCE be pleased to state:

(a) whether the Credit Policy presumptions, have necessitated change/fluctuations in lending, repo and reverse repo rates during the last three years and the current year;

(b) if so, the details thereof;

(c) whether the fiscal deficit and Gross Domestic Product growth have shown a rising trend during the same period and if so, the details thereof, year-wise;

(d) whether the continuous rise in the interest rates have impacted certain sectors of the economy; and

(e) if so, the details thereof and the reaction of the Government thereto?

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.274 FOR 19TH AUGUST, 2011 REGARDING FLUCTUATIONS IN LENDING RATES BY SHRI VIRENDER KASHYAP AND SHRI PRABODH PANDA

(a): Economic events since 2008, both global and domestic, necessitated a rapid calibration of the monetary policy rates to achieve the objectives of sustaining high growth and stabilizing the price situation and the financial system.

(b): There were four distinct phases in monetary policy stance during the last three years and the current year till July 2011, as detailed below:

(i) To arrest inflation that was rising sharply due to global commodity price rise, monetary policy was tightened in the period April-July 2008 and repo rate was raised to reach 9.0 per cent on July 30, 2008.

(ii) From August 2008 till mid-October 2008 the policy rates (repo and reverse repo rate) were not changed. The repo rate was 9 per cent and the reverse repo rate was 6 per cent. Again in the period mid-April 2009 to mid-March 2010, policy rates remained unchanged.

(iii) In the wake of the global financial crisis triggered by the collapse of M/s. Lehman Brothers, the Reserve Bank, beginning mid-September 2008, followed an accommodative monetary policy stance. In addition to several other measures, it also reduced the repo rate from 9.0 per cent to 4.75 per cent and the reverse repo rate from 6 per cent to 3.25 per cent between mid-October 2008 to mid-April 2009 to mitigate the adverse impact of the global financial crisis on the Indian economy.

(iv) Since mid-March 2010, the Reserve Bank has raised the repo rate eleven times by a cumulative of 325 basis points in view of inflationary pressures.

(c): To obviate the adverse impact of the twin global crises of 2008-09, namely global commodity price rise in the first half and global financial crisis in the latter half, expansionary fiscal policies were followed in 2008-09 and 2009-10. Having regard to the unsustainability of the fiscal expansion to boost aggregate demand in the medium term, fiscal consolidation resumed in 2010-11. In response to the calibrated policy responses, growth in real gross domestic product (GDP at constant 2004-05 prices at factor cost) rebounded sharply in 2009-10 and 2010-11 after the brief slowdown in 2008-09. Details are given in Table below.

Table: Real GDP growth and fiscal deficit to GDP ratio

(In percent)

Year	Growth in real GDP	Fiscal deficit/GDP
2008-09	6.8	6.0
2009-10	8.0	6.4
2010-11	8.5	4.7
2011-12 (BE)	Not available	4.6

(d): The rise in interest rates was a concomitant of the series of policy rate hikes by the RBI to control inflation and to rein in inflationary expectations in the economy. Since July 2010, the banks have raised their base rates in the range of 75 to 325 basis points; the banks' modal base rate has gone up by 225 basis points. Costs of borrowing has gone up as a consequence in general and sectors sensitive to interest rates are likely to be affected relatively more than others. The observed deceleration in growth in automobile and real estate sectors also owes to higher prices arising from the market conditions.

(e): Government, on an ongoing basis, has been giving interest subvention to certain sectors of the economy and sections of society based on merits.