

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

STARRED QUESTION NO:65

ANSWERED ON:25.11.2011

INTEREST RATE

Joshi Shri Pralhad Venkatesh; Sayeed Muhammed Hamdulla A. B.

Will the Minister of FINANCE be pleased to state:

- (a) whether the interest rates have been raised on several occasions during the last two years;
- (b) if so, the details of each increase and the reasons therefor;
- (c) whether the Government has conducted any study to assess the impact of such frequent hikes in interest rate on inflation, real estate sector, consumer durables, automobiles sector, etc. and if so, the details thereof;
- (d) the details of the sectors, benefited and the sectors which have suffered losses due to such frequent hikes; and
- (e) the steps taken/being taken by the Government for bringing stability in the interest rate for a reasonable period of time and also to lower the interest rate so as to help the common man?

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.65 FOR ANSWER ON 25TH NOVEMBER, 2011 REGARDING INTEREST RATE BY SHRI HAMDULLAH SAYEED AND SHRI PRALHAD JOSHI.

The Reserve Bank of India (RBI) has increased the Repo Rate thirteen times, since March 2010, to contain inflation and anchor inflationary expectations. The commercial banks, taking cue from the monetary tightening by the Reserve Bank, have also raised their Benchmark Prime Lending Rate (BPLR) from September 2010 and Base Rate from July 2010.

Monetary Policy operates by containing aggregate demand. While the increase in repo rate along with other monetary measures has impacted the inflationary pressures favourably, there are visible sign of moderation in the growth of different sectors of the economy. In particular, the impact of slowdown in aggregate demand is relatively more on interest sensitive sectors such as real estate sector, consumer durable and automobiles sector.

Considering the persistence of inflation at a level much above the comfort zone of the RBI for almost two years, the Reserve Bank has raised the policy rate at regular interval resulting in increase of lending rate by the commercial banks. With a view to lessen the burden of increase in the interest rate on vulnerable section of the society and to support certain sectors of the economy, Government has been giving interest subvention on an ongoing basis.