GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:67
ANSWERED ON:22.02.2013
MORTGAGING GOVERNMENT SECURITIES
Das Shri Ram Sundar

Will the Minister of FINANCE be pleased to state:

(a) whether the Government has taken note of excessive increase in the loan being availed by public sector banks from Reserve Bank of India (RBI) by mortgaging Government Securities;

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

(c) the reasons for increasing the quantum of loan availed during the said period; and

(d) the details of the adverse effects likely to be caused to the economy as a result of such market intervention?

Answer

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

(a) Scheduled Commercial Banks (SCBs) including the Public Sector Banks (PSBs) invest in Government Securities as part of their statutory requirement to maintain the Statutory Liquidity Ratio (SLR). The Reserve Bank of India (RBI) manages day-to-day liquidity in the banking system through its Liquidity Adjustment Facility (LAF), which is available to SCBs. The LAF is implemented through Repo (liquidity injection) and Reverse Repo (liquidity absorption) operations. Under this facility, banks, which are short of liquidity, can borrow from the RBI overnight (for one day) at the Repo Rate by keeping government securities as collateral that are held by the banks in excess of the requirement under the Statutory Liquidity Ratio(SLR) under Section 24 of the Banking Regulation Act, 1949. Since May 09, 2011, an additional window called "Marginal Standing Facility" has been instituted under which a bank can use SLR securities to the extent of 2% of the Net Demand and Time Liability (NDTL) to borrow funds from RBI at a rate exceeding Repo Rate by 1%. This is in line with the best international practices.

(b) The details of RBI LAF operations as regards net absorption or injection (daily average) with the public sector banks during the last three years upto 19th February, 2013 are given below:

(Rs. In crore)

Year	Net absorption (-) / Injection (+)
2009-10	(-) 62,562
2010-11	(+)30,427
2011-12	(+)49,978
2012-2013 (upto Feb 19, 2013)	(+)35,322

Bank-wise details of the LAF operations are enclosed at Annex.

(c): During the last three years, RBI operations have been both for the purpose of liquidity absorption as well as liquidity infusion. The liquidity condition in the banking system is affected, inter alia, by (a) the changes in the Government of India balance with the RBI (b) changes in the currency in circulation and (c) RBI's foreign exchange operations.

(d): 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. 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.