GOVERNMENT OF INDIA
FINANCE
LOK SABHA

STARRED QUESTION NO:133
ANSWERED ON:27.11.2009
CREDIT GROWTH RATE
Majhi Shri Pradeep Kumar;Patel Shri Kishanbhai Vestabhai

Will the Minister of FINANCE be pleased to state:

(a) whether the credit growth rate in the country remains low despite the various remedial measures taken;

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

(c) whether the Government has taken up the said issue with various Public Sector and other banks during the review meetings;

(d) if so, the details thereof;

(e) whether the Reserve Bank of India has issued any fresh instructions to banks after the said review meetings; and

(f) if so, the details thereof?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE MINISTER (SHRI PRANAB MUKHERJEE)

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

STATEMENT IN REPLY TO LOK SABHA STARRED QUESTION NO.133 FOR ANSWER ON 27TH NOVEMBER, 2009 REGARDING CREDIT GROWTH RATE TABLED BY SHRI KISHNBHAI V. PATEL AND SHRI PRADEEP MAJHI.

(a) & (b): According to the latest data available upto 6th November 2009, the rate of growth of bank credit on financial year basis accelerated to 4.2% from 1.2% as on 28th August 2009. However, despite this, credit growth during the current financial year so far at 4.2% remains lower than growth of 11.5 per cent recorded during the comparable period of last year. As per Reserve Bank of India (RBI), the main reasons for lower growth of credit are as follows:

Overall credit demand from the manufacturing sector slowed down reflecting a decline in commodity prices and drawdown of inventories.

Corporates were able to access non-bank domestic sources of funds and external financing at lower costs.

Unlike in the previous year, oil marketing companies reduced their borrowings from the banking sector as oil prices moderated.

A significant amount of bank finance has gone to the corporate sector through banks' investment in units of mutual funds.

Banks have also reined in credit to the retail sector due to the perceived increased risk on account of the general slowdown.

(c) & (d): The government reviewed the credit growth of all public sector banks and those in the northern region on 10th June 2009 and October 28, 2009 respectively. The PSBs were advised to take advantage of the busy season and enhance credit flows with special emphasis on increasing lending to employment generating sectors especially agriculture and the micro & small enterprises.

(e) & (f): After taking into account the macro economic situation including the liquidity conditions in the global and domestic financial markets, the RBI in its Second Quarter Review of Monetary Policy announced on 27th October 2009, maintained status quo in the Bank Rate, Repo Rate, Reverse Repo Rate and the Cash Reserve Ratio but restored the Statutory Liquidity Ratio (SLR) to 25% w.e.f. the fortnight beginning November 7, 2009. This increase is not expected to impact liquidity and credit to the private sector while no change in policy rates is expected to facilitate pick up in credit with stronger anticipated recovery in the ensuing two quarters.