

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:1386
ANSWERED ON:18.07.2014
IMPACT OF INTEREST RATES
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Will the Minister of FINANCE be pleased to state:

- (a) whether the Government has conducted any study/assessment on the impact of high interest rates on investment in manufacturing and infrastructure sectors;
- (b) If so, the details thereof;
- (c) If not, the reasons therefor; and
- (d) the corrective measures taken/being taken by the Government to soften the interest rates to boost economy in the country?

Answer

FINANCE MINISTER (SHRI ARUN JAITLEY)

(a) to (c) The slowdown in investment is due to a combination of factors such as weak business sentiment, global slowdown resulting in lower demand for exports, infrastructure bottlenecks, the rise in interest costs as well as other costs owing to elevated levels of inflation etc. The Government continuously monitors macro indicators including sectoral investment pattern in the economy. As per the Central Statistics Office, the rate of investment declined from 35.5 per cent of Gross Domestic Product in 2011-12 to 34.8 per cent in 2012-13 with large variations observed in the investment rates of the different sectors of the economy.

(d) The Government has been pursuing the path of fiscal consolidation so as to not to put pressure on the prevailing domestic interest rates. In tandem with the government fiscal consolidation, the Reserve Bank of India (RBI) has been adopting the policy of monetary easing to support growth in line with the moderation in inflation and inflation expectation. The RBI has reduced the statutory liquidity ratio (SLR) by 50 bps on June 3, 2014 with a view to enable banks to expand credit to the non-Government sector so as to finance investment. During 2014-15 (up to end June), the median Base Rate of banks, remained unchanged at 10.25 per cent.