GOVERNMENT OF INDIA

MINISTRY OFFINANCE

RAJYA SABHA

QUESTION NO02.03.2010

ANSWERED ON

MONETARY MEASURES TAKEN BY RBI

476 Dr. Gyan Prakash Pilania

Will the Minister of COALHEALTH AND FAMILY WELFAREINFORMATION AND BROADCASTINGFINANCE be pleased to state :-

(a) the proportion of money estimated to be absorbed from the currency market on raising the Cash Reserve Ratio (CRR) by 0.75 per cent by Reserve Bank of India;

(b) the impact it would have on price-rise;

(c) whether the apex Bank`s decision of not raising the Repo Rate and Reserve Repo Rate has been taken under the influence of his Ministry and Planning Commission;

(d) whether countries like China, Brazil, Maxico etc. have attempted to check the flow of currency by raising the interest rate; and

(e) whether it would lead to weakening of banks loan giving capacity and impact growth rate?

ANSWER

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE

(SHRI NAMO NARAIN MEENA)

(a) & (b): According to the Reserve Bank of India (RBI), about Rs. 36,000 crore of excess liquidity is expected to be absorbed from the system by raising the Cash Reserve Ratio (CRR) by 75 basis points. The absorption of excess liquidity should help anchor inflationary expectations.

(c):The decision of the RBI to raise the CRR and not to raise the repo rates was based on RBI`s assessment of the overall macro-economic situation. It was deemed to be the best response to the existing circumstances by the RBI.

(d) & (e): Monetary measures taken by central banks in other countries have been in response to their country-specific situations. For instance, the People`s Bank of China (PBOC) raised the Required Reserve Ratio (RRR) by 50 bps effective January 18, 2010 and further 50 basis points effective February 25, 2010 as a reaction to a sharp increase in bank lending and to cool inflation and asset bubbles. However, despite tightening of global liquidity, global recovery is becoming more firmly entrenched and there are no signs of slackening of growth rate in response to change in monetary policy rates.