GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF FINANCIAL SERVICES

LOK SABHA
UNSTARRED QUESTION NO. 4953

TO BE ANSWERED ON THE 16th December, 2016/ Agrahayana 25, 1938 (SAKA)

Bank Liquidity after Demonetisation

QUESTION

4953. SHRIMATI VEENA DEVI:

Will the Minister of FINANCE be pleased to state:

(a) whether the Reserve Bank of India has taken any steps/measures to absorb the excess liquidity in the banks post demonetization;

(b) if so, the details thereof;

(c) whether the excess cash flow lending has helpful in reducing the interest rates and extending funds/loans to the needy small and medium enterprises and startups in the country; and

(d) if so, the details thereof?

ANSWER

The Minister of State in the Ministry of Finance
(SHRI SANTOSH KUMAR GANGWAR)

(a) & (b): Reserve Bank of India (RBI) has taken several measures to absorb the excess liquidity in the banks post demonetisation. It has introduced incremental CRR of 100% on deposits collected between September 16 and November 11,2016 effective from the fortnight beginning November 26. Subsequently, RBI has reviewed the situation and withdrawn the incremental CRR effective from 10th December, 2016. Secondly, it increased the market stabilisation Scheme limit to ₹ 6 lakh crore from earlier limit of ₹ 30,000 crore with a view to mop up additional liquidity from the system effective from 2nd December, 2016. For regular liquidity management repo and reverse repo both fixed and variable ones are used by RBI.

(c) & (d): While adequate liquidity is essential for meeting the needs of the productive sectors, there is not a direct link between excess liquidity and lending rates. Lending rates are determined by quite a lot of factors, of which liquidity is one. RBI vide its guidelines on Interest Rate on Advances dated 17th December 2015 followed by Master Direction dated 29th March 2016 on Interest Rate on Advances, have directed all Scheduled Commercial Banks to calculate Base Rates using the Marginal Cost of Funds. The Government and RBI do not interfere in fixing the interest rate on loans. Presently, each bank fix the Marginal Cost Lending Rate (MCLR) based on RBI guidelines and varies from bank to bank.

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