GOVERNMENT OF INDIA

MINISTRY OFFINANCE

RAJYA SABHA

QUESTION NO09.11.2010

ANSWERED ON

INCREASE IN REPO RATE BY RBI .

56 Shri Y. S. Chowdary

Will the Minister of COALCOALCOALCOALCOALFINANCE be pleased to state :-

(a) whether it is a fact that RBI is planning to increase the repo rate or the rate at which banks borrow short-term funds from the Central Bank by 25 basis points to 6 per cent;

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

(c) whether RBI has also hiked the reverse repo rate by 50 basis points to 5 per cent to contain inflation which is still hovering around 8.5 per cent;

(d) whether following the RBI`s move the loans like Home, Car and other retail loans shall become more costlier; and

(e)if so, the steps taken by Government to keep the lending rates under control?

ANSWER

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE

(SHRI NAMO NARAIN MEENA)

(a) to (c): On the basis of the assessment of macroeconomic situation, the Reserve Bank in its Mid-Quarter Review on September 16, 2010 increased the repo rate under the Liquidity Adjustment Facility (LAF) by 25 basis points from 5.75 per cent to 6.0 per cent and the reverse repo rate under the LAF by 50 basis points from 4.5 per cent to 5.0 per cent. Subsequently, in its Second Quarter Review of Monetary Policy for 2010-11 released on November 2, 2010 the Reserve Bank further increased the repo and reverse repo rates by 25 basis points each. Accordingly, the repo rate stands raised to 6.25 per cent and the reverse repo rate to 5.25 per cent. The Reserve Bank had taken into account both global and domestic macroeconomic situation in calibrating this policy move and, in particular, it was guided by the domestic growth drivers, inflation/inflationary expectations and the liquidity position. These actions are expected to sustain the anti-inflationary thrust in the face of persistent inflation risks aggravated by the structural nature of food price increases while at the same time being moderate enough not to disrupt growth.

(d) & (e): Changes in the policy rate (Repo and reverse repo rates) are transmitted to banks' lending rates with a lag, depending on several factors. There is no evidence as of now of any notable increase in interest rates.