

**GOVERNMENT OF INDIA  
FINANCE  
LOK SABHA**

UNSTARRED QUESTION NO:1646  
ANSWERED ON:02.12.2005  
EXCHANGE RATE AND INTEREST RATE  
Singh Shri Chandrabhan Bhैया

**Will the Minister of FINANCE be pleased to state:**

- (a) whether the Indian economy is likely to have an indirect impact in the event of a formidable adjustment between the exchange rates and interest rates;
- (b) if so, whether the market borrowing cost of the Government goes up if the expense pressure pushes the domestic interest rates;
- (c) whether the position in regard to home loans is likely to be affected by the increase in the general rates of interest;
- (d) whether the Indian banking sector is all set to withstand the impact of hike in the rates of interests;
- (e) whether the interest rates have been increased on the American Dollar, British pounds, European Unions Euro deposits under the foreign exchange and NRI deposits and NRI deposits (External) scheme; and
- (f) if so, the details thereof?

**Answer**

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S.S.PALANIMANICKAM)

(a): Any large adjustments in the exchange rates of major currencies are not expected to result in disruption in the Indian foreign exchange market. Presently, India does not have capital account convertibility, and as such fluctuations in the interest rates overseas may not have a direct immediate impact on the local economy. The fiscal and monetary policies are geared to minimise any adverse impact of such fluctuations.

(b), (c) & (d): The interest rates in respect of the open market borrowings of the Government of India have become market related since 1992. The domestic interest rates are primarily a function of demand for and supply of loanable funds. The credit policy of the RBI prescribes the Bank rate, the repo and reverse repo rates. Interest rates on advances for different purposes including home loans are determined by the banks based on their risk perception and business considerations. RBI has not increased the Bank rate in the domestic economy during the recent mid-term review of the Annual Policy Statement for the year 2005-06 in October 2005.

(e) & (f): Effective close of business in India, on November 17, 2005, it has been prescribed by RBI that the interest rates on fresh repatriable Non-Resident (External) Rupee (NRE) deposits for one to three years should not exceed 75 basis points (as against 50 basis points effective since November 1, 2004) above the London Inter-Bank Offered Rate (LIBOR)/Swap rates for US dollar of corresponding maturity. From the above mentioned date, the interest rates on NRE savings deposits will also be at rate applicable to domestic savings deposits (as against the ceiling of LIBOR/Swap rates for six month maturity on US dollar deposits).