

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:1421
ANSWERED ON:27.11.2009
LOANS TO INDUSTRIES
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Will the Minister of FINANCE be pleased to state:

(a) whether there has been a decline in lending to industries by banks due to complicated process of advancement of loan, higher rate of interest on loans in India as compared to other countries and recession in the industrial sector;

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

(c) the corrective measures taken by the Government in this regard?

Answer

The Minister of State in the Ministry of Finance (Shri S. S. Palanimanickam)

(a) & (b): Available data on sectoral deployment of bank credit with the Reserve Bank of India (RBI) shows that credit to industry increased by 34.6%, 21.6% and 16.5% as on year ended September 2008, March 2009 and September 2009, respectively, as compared to overall bank credit growth of 25.7%, 18.1% and 12.6 % respectively, during these periods.

The following factors have contributed to the slowdown in bank credit to the industry:

overall credit demand from the manufacturing sector slowed down reflecting a decline in commodity prices and drawdown of inventories;

corporates were able to access non-bank domestic sources of funds and external financing - which had almost dried up during the crisis - at lower costs;

unlike in the previous yearJ oil marketing companies reduced their borrowings from the banking sector as oil prices moderated;

a significant amount of bank finance has gone to the corporate sector through banks` investment in units of mutual funds.

(c): Since mid-September 2008, the RBI has cut the repo rate by 425 basis points and reverse repo rate by 275 basis points. The CRR was also reduced by 400 basis points of Net Demand and Time Liabilities (NDTL) of banks. Taking cues from the reduction in the policy rates by the Reserve Bank and early liquidity conditions, all public sector banks, most private sector banks and foreign banks have reduced their lending rates. The reduction in the range of Benchmark Prime Lending Rates (BPLRs) was 125-275 basis points by public sector banks, followed by 100-125 basis points by private sector banks and 125 basis points by five major foreign banks during the period October 2008-November 06, 2009.