

>

Title: Statement regarding the ongoing global financial crisis and its impact on India.

THE PRIME MINISTER (DR. MANMOHAN SINGH): Mr. Speaker, Sir, I wish to make a statement on the ongoing global financial crisis and its impact on India. Hon. Members are aware that this crisis had its origins in the United States and spread quickly to Europe. While the crisis began in the housing mortgage market, it soon extended to the money market and the credit market. As a result, several financial institutions were pushed to the brink of insolvency. The US and some other developed countries have bailed out a number of financial institutions and banks.

MR. SPEAKER: Silence in the House please. They are not distributed ever. Please do not distribute it here.

DR. MANMOHAN SINGH: They have also taken a number of unconventional steps to infuse liquidity, recapitalize the banks and unfreeze the credit market. The financial storm has shaken confidence in the system and precipitated a steep decline in stock markets. It has produced a sharp slowdown in economic activity, with the prospect of a prolonged recession in industrialized countries. Many observers have described this as the worst crisis since the Great Depression of 1930s. India, like other developing countries, is experiencing the ripple effects of the financial crisis. However, we have taken a number of steps to minimize the impact. Our first concern was to ensure the stability of our banking system. I am happy to inform the House that the Indian banking system is not directly exposed to the sub-prime mortgage assets. *â€¦ (Interruptions)*

MR. SPEAKER: You may wait until he finishes.

DR. MANMOHAN SINGH: Their exposure to other problem assets is also minimal. Our banks, both in the public sector and in the private sector, are financially sound, well capitalized and well regulated. [\[p7\]](#)

There should be no fear of a failure of any bank. In particular, I wish to assure depositors in our banks that their deposits are entirely safe.

Although our banks are safe, and they are also providing credit in line with anticipated credit targets, the global turmoil has led to a contraction in other forms of commercial credit. External commercial borrowings, which are used by the corporate sector have dried up, as have international suppliers credits. This has led to a reduction in overall credit availability in the economy even though credit from commercial banks has expanded satisfactorily. This contraction produced a liquidity crisis in the system.

We have taken a number of steps to address this problem. Between October 6, 2008 to October 15, 2008, the Reserve Bank of India cut the Cash Reserve Ratio by a total of 250 basis points. The Statutory Liquidity Requirements were relaxed initially by 1 percentage point and subsequently an additional window of 0.5 percentage points was introduced specifically to enable banks to draw funds to provide liquidity to mutual funds. As a result of these steps, the liquidity position in the Indian financial system has improved considerably. The call money rate today is around 6.8 per cent.

Government also arranged to provide, in advance, a sum of Rs.25,000 crore to the banking system under the Debt Waiver and Debt Relief Scheme. The limit of investment by Foreign Institutional Investors in corporate bonds was increased from US 3 billion dollar to US 6 billion dollar.

Earlier today, the Reserve Bank announced a 100 basis points cut in the repo rate which is the rate at which banks can borrow, against surplus SLR securities. Government welcomes this decision of the RBI. It will have a beneficial effect on the interest rate structure and, in combination with the other steps to increase liquidity, will help to support economic activity and investment. It is broadly consistent with our objective to control inflation which has already begun to moderate. I am happy to inform honourable Members that the Wholesale Price Index has declined in the last three weeks and, although the current rate is still high, the movement in the level of prices shows a clear deceleration in the current momentum of inflation. We expect a further reduction in the Wholesale Price Index in the next two months.

Mr. Speaker, Sir, the Government is conscious of the fact that it is not enough to infuse liquidity. The liquidity must translate into expanded flow of credit to industry, trade and business. Suitable advisories have, therefore, been issued by the RBI and the Ministry of Finance to the banks to ensure that borrowers are provided adequate credit, including export credit and working capital. Banks must also provide adequate funds in the form of investment or credit to mutual funds and NBFCs who, in turn, lend to industry, trade and business. These institutions are an important part of the larger financial system and banks are being encouraged to provide liquidity to ensure that there is no disruption in economic activity.

Both RBI and Government are carefully monitoring the flow of credit and will ensure that the additional liquidity infused into the system translates into actual credit. We will not hesitate to do more if needed. While the capital adequacy ratios of all our banks are well above the Basel norm and also above the RBI stipulated norm, Government has promised that it will help banks, which have lower ratios, to access funds to increase their Capital Risk Weighted Asset Ratio to 12 per cent.[\[R8\]](#)

The financial crisis and the economic slowdown in the developed countries are likely to have an indirect impact on the Indian economy. Fortunately, this effect will be on an underlying strong performance. GDP growth in the first quarter of 2008-09 was 7.9 per cent. During April-August, 2008, exports increased in dollar terms by 35.1 per cent. Foreign Direct Investment during this period was US\$14.8 billion. Gross tax revenues are on target. The CMIE database shows that a huge amount of money towards capital expenditure is in the pipeline.

Nevertheless, we must be prepared for a temporary slowdown in the Indian economy. The precise impact is difficult to estimate at this point since the depth and duration of the global slowdown remain uncertain. Some estimates project GDP growth to decelerate to 7.5 per cent in the current year. The most pessimistic estimates place it at no less than 7 per cent. Our effort will be to minimize the negative effect of the financial crisis and, once the global situation stabilizes, to return to the growth trajectory of 9 per cent. I would urge hon. Members and the people of India to continue to repose faith in the fundamentals of the Indian economy.

Hon. Members will recall that in anticipation of a slowdown we had stepped up public expenditure in the Budget presented on February 29, 2008. Our expenditure proposals were criticized at the time in some quarters, but I am happy to note that it is now widely acknowledged that increased public expenditure is an important part of the solution. Our expenditure on education, health, National Rural Employment Guarantee Programme (NREGP), National Rural Health Mission (NRHM), Accelerated Irrigation Benefit Programme (AIBP), Jawaharlal Nehru National Urban Renewal Mission (JNNURM) and other programmes will, I believe, stand us in good stead in these difficult times. Besides, the debt waiver and debt relief amounting to Rs.65,000 crore to 3,60,00,000 farmers will also greatly benefit our farmers and enthruse them to increase production.

Mr. Speaker, Sir, India has faced challenges in the past and has overcome them. We have the strength to overcome the current challenges too. In fact, it is when India is challenged that the Indian people rise to the occasion and convert the challenge into an opportunity. There is no place for fear. This is the time for unity of purpose and resolute action. I seek the support of all sections of this august House to the measures taken by Government and the authorities.

(Placed in Library, See No.LT8970-A/08)

...(Interruptions)

MR. SPEAKER: I will certainly allow a discussion.

...(Interruptions)

MR. SPEAKER: Do you want to discuss this matter?

...(Interruptions)

MR. SPEAKER: If you kindly speak one-by-one, I will give you chance to speak.

...(Interruptions)

MR. SPEAKER: I will come to you.

...(Interruptions)

MR. SPEAKER: This is not proper. I will come to you. I am assuring you.

...(Interruptions)

MR. SPEAKER: I will call you. I promise you.

...(Interruptions)

MR. SPEAKER: I will call you.

श्री राम कृपाल यादव (पटना) : हम लोगों को टाइम कब देंगे?

अध्यक्ष महोदय : आज ही देंगे। इसके बाद ही देंगे। [R9] Please do not pressurise the Chair.

...(Interruptions)

SHRI BASU DEB ACHARIA (BANKURA): Sir, on the 22nd July, 2008...(Interruptions)

MR. SPEAKER: Are you referring to the privilege matter?

SHRI BASU DEB ACHARIA : Sir, let me explain the position.

MR. SPEAKER: It is under my consideration.

...(Interruptions)

MR. SPEAKER: Do you want a discussion on the statement of the hon. Prime Minister? If so, then kindly give a notice and I shall allow a discussion.

SHRI BASU DEB ACHARIA : Sir, you have called my name, but I have not spoken.

MR. SPEAKER: I have already said that the matter is under my consideration.

...(Interruptions)