INTERVIEW WITH ASHISH PARTHASARTHY, TREASURER, HDFC BANK

'We may see one or two rate cuts this fiscal'

THE MARKET is anxiously waiting to see if the newly-appointed Governor of the Reserve Bank goes for a cut in repo rates in the forthcoming monetary policy meeting in October. ASHISH PARTHASARTHY, treasurer, HDFC Bank told SANDEEP SINGH that he expects two rate cuts of 25 basis points each in the current financial year as the inflation is expected to soften. Stating that the deposit rates may come down further, he said that the lending rates may fall more on account of low credit growth in the economy. Excerpts:

Barely two days after the new Governor took over, the government indicated that it wants lower interest rates in the economy. Do you see further rate cuts by RBI this year?

The way I see it is that now it is extremely clear that the focus of the monetary policy is inflation targeting and thus there is reasonable clarity on that. Any cut in interest rate will depend on the inflation trajectory. The government of the day always wants lower interest rate and I have not been able to understand why. RBI is a big institution and will take a call on the outlook and you will see lower interest rate, provided that the inflation trajectory is met.

While interest rate cuts looked unlikely till some time back, recent forecasts on softening of inflation going forward, now raise the hope of further cuts. I think that there may be one or two rate cuts in this fiscal and

the rate cut maybe another 25-50 basis points.

Why has there been a lag in cutting lending rates by banks?

Interest rates are market determined and are a factor of demand and supply. Also the Marginal Cost of Funds based Lending Rate (MCLR) of most banks is in close range and the rates are aligned accordingly. Given the cost of credit, banks need to earn a certain net interest margin (NIM) to be profitable for growth so that they don't destroy capital. Banks are commercial entities and given that there are so many banks and customers have access to all, it is all market determined and what they get is a competitive rate.

Do you agree with the argument that higher small savings rate stops banks from bringing down deposit rates and thereby lending rates?

I think it is only partly true. Small savings rate don't significantly impede deposit accretia. The rates have to be at an appropriate level where the investor gets real rate of return, else there will be less of savings and more of consumption and that will create its own issues. I, however, feel that the small savings rate are slightly on the higher side and they can come down a bit.

While deposit rates are expected to come down further by 25-50 basis points, the lending rates should fall more because of low credit growth.

The credit growth is down to around 7.5 per cent, do you see it picking up?

Investment activity is very low key and I think it will take some time for it to pick up. While the GDP growth levels have been stable, you will see slow and steady pick up.

The chorus for developing a strong bond market in India has been there for several years now. What do you think is needed for the same?

For the bond market to develop you should have a large pool of institutional investors. But in India we don't have a large pool and it will take time to get there. While you have institutions such as LIC and EPF, over the last couple of years the MF corpus has grown which has brought about increased activity. The primary requirement of the bond market is a large pool of savings and large number of institutional investors. Even for existing investors there are restrictions in investing in private sector bonds. So how will the private sector grow? You need to remove the restriction from certain investors. Life insurance companies have the longest maturity profile and the cost of funds are also very low and they are best suited to take credit risk. So, if they don't do it then who will do it.

What are some of the concerns for debt and equity markets?

Globally, all the markets are driven by liquidity and following the liquidity, valuations in India have moved on to the higher side – both equity and debt. While things look fine as of now, the concern is that any unexpected development can result into an unfavourable movement.