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RBI ready to tackle any impact of Fed rate hike, says Rajan

According to Rajan's estimates, the rate hike will not be more than 25 basis points (bps).

BS Reporter & PTI | Kolkata
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Reserve Bank of India (RBI) Governor [Raghuram Rajan](#) on Friday tried to allay the Street's fears about the impending rate increase by the US Federal Reserve, saying the central bank was ready to counter any effect of it.

According to Rajan's estimates, the rate hike will not be more than 25 basis points (bps). "There is a 70-75 per cent chance of a Fed rate hike and I also feel that Fed

Reserve Bank isn't done with rate cuts, says Rajan

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has prepared the way very carefully for an increase and they are likely to go ahead," Rajan said after RBI's board meeting here.

Earlier, in response to a query on the global outlook, Deputy Governor [Urijit Patel](#) said the markets have factored in the possibility of a rate hike which would cause some changes in the financial flow. "Our expectation is that the US Fed is almost certain to increase rates, The anticipated changes have been factored in by the markets. So there will not be much of

an effect; important will be to analyse the language used by the Fed," Patel said.

The [US Federal Reserve](#) will meet on December 15-16 to decide on the rates. A rate hike is much anticipated as US jobs data has shown a positive growth. Earlier this month, Federal Reserve Chair [Janet Yellen](#) had strongly indicated to the Congress that Federal Reserve policy makers are likely to vote to raise US interest rates in two weeks — barring any major shocks to the global economy. The [RBI](#) governor also said that the central bank was taking a close look at the various provisions given to the [banks](#) to recover bad loans.

"Having given those powers, we are now looking at how those powers are implemented and as we learn how they are used we will obviously have a dialogue with the banks," Rajan said.

In the face of a rising number of stalled projects giving rise to bad loans [RBI](#) had brought in provisions like strategic debt restructuring (SDR) and the 5/25 mechanism to give tooth to banks' power of recovering bad debt. So far, since SDR was introduced in June, it has been invoked by [banks](#) in nine cases, with at least one other due. But none of these cases have seen [banks](#) swap debt for equity, take control or significantly cut debt, raising doubts whether the [banks](#) are using the provisions to hide bad loans.

Rajan, though, disputed this saying, "In many cases the [banks](#) have attempted to take action, there have been many impediments. The ability to impede action has been fairly strong in the hands of large promoters. Over time, we need to increase the power of the [banks](#) so that they can recover the money," he said.

Rajan said the central bank was open to more bond purchases maintain adequate liquidity in the system. "As and when we get the sense that more long-term liquidity is needed, appropriately we will do an open market purchase of securities," he said.

Regarding the change in the guidelines for calculation of base rate, Rajan said [RBI](#) had discussed with the [banks](#) and their views had been taken into account. "We have made adjustments and the final structure will not be a difficulty for them."

On requirement of capital by nationalised banks, he said it would depend on the profits, growth in assets and the extent of dilution of government stake in them, he said. "The exact requirement will depend on what assumptions one is making," Rajan said. Regarding Friday's board meeting, Rajan said discussions were held on global and domestic economic concerns as well as financial literacy. He said RBI's intention was to supply the market with plenty of liquidity. "All instruments are available with [RBI](#) for short-term, medium-term and long-term liquidity," he said.

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