

## Rate-cut transmission will happen over a period of time: SBI chief

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*Refutes RBI Governor's observation that banks have passed on rate cuts only modestly*



Arundhati Bhattacharya, SBI Chairman

Mumbai, August 12:

State Bank of India Chairman Arundhati Bhattacharya on Friday emphasised that transmission of repo rate cuts into lending rates is not strictly one-to-one as banks have about 40 per cent of their deposits that are interest rate agnostic.

When asked for her view on Reserve Bank of India Governor Raghuram Rajan's observation that banks have passed past rate cuts into lending rates only modestly and that they find excuses to not fully transmit the rate cuts, Bhattacharya said "My response is very clear. We have transmitted because from the time the rate cuts started (in January 2015) we ourselves have transmitted (cut lending rate) more than 90 basis points."

She explained that the MCLR (marginal cost of funds based lending rate) formula basically works on the rates of deposits. Amongst the deposits, 40 per cent is CASA (current account, savings account) deposits, which is interest rate agnostic. No rate changes are happening there. So, rate changes are occurring on 60 per cent of bank deposits.

### 'No excuses'

"So, since there has been a rate cut of 150 basis points and if you multiply by 60 per cent, then we have already passed on 90 basis points. So, whatever could be passed on, we have already passed on.

"...Transmission is not something which is a one-on-one relationship. It has to happen keeping a lot of things in mind. You also need to keep in mind that we have gone through an AQR (asset quality review) exercise where a lot of accounts have been classified (as bad loans) and these accounts need provisioning. So, to that extent that will also have to be followed and banks still have to remain profitable," said the SBI chief.

She observed that banks will try and protect their bottomlines while also looking at transmitting. So, transmission will happen.

"It will happen over a period of time and I don't think there are any excuses being made. I think what we are trying to do is as much as we can do, we have been doing (cutting lending rates)," said Bhattacharya.

In his opening statement on Tuesday at the post-policy press conference, RBI Governor Raghuram Rajan said despite easy liquidity, banks have passed past rate cuts into lending rates only modestly.

"Earlier, some bankers said that it was the lack of liquidity that was holding rates high, now I hear from some that it is fear of the FCNR(B) redemptions that is making them reluctant to cut rates. I have a suspicion that some new concern will crop up once the FCNR(B) redemptions are behind us..."

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