

## Lower interest rate won't necessarily boost growth: Reddy

'Reduction in interest rates by itself does not increase credit flow', says Reddy

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*Y V Reddy*

A cut in interest rates will not necessarily increase liquidity and growth, former RBI governor Y V Reddy said today amid rising tension between the central bank and the government after the former left key policy rate unchanged.

Yesterday, Reserve Bank Governor Urjit Patel-led Monetary Policy Committee

(MPC), in a slightly less hawkish policy statement, had said it was not cutting interest rates as it wanted to be more sure that inflation will stay subdued.

"We can't simply say growth has to pick up, private investment has to pick up, therefore reduce the interest rate. That's my limited point... I will still give benefit of doubt (to the MPC). The MPC in its wisdom would have considered all options. I can't find fault with the MPC decision," Reddy said on the sidelines of an event here.

Pointing to the rigidities in the system, Reddy said: "Reduction in interest rates by itself does not increase credit flow."

According to the former governor, if the RBI agrees with the finance ministry all the time, then it is "superfluous".

"And if it keeps disagreeing with the finance ministry, then it is obnoxious. I think some amount of tension (between the RBI and the finance ministry) we have to accept," he explained.

While leaving the repo rate unchanged for the fourth straight time at 6.25 per cent -- a six-and-half-year low -- and reverse repo rate at 6 per cent, RBI made it easier for banks to lend more by cutting the statutory liquidity ratio by 50 basis points to 20 per cent of total deposits from June 24.

SLR is the percentage of deposits banks must park in government securities.

The finance ministry has been pushing for a reduction in interest rates and its stand is seen at odds with the latest decision of the MPC. Even Chief Economic Advisor Arvind Subramanian openly expressed his frustration with the status quo.

There has been a call to reduce rates, given the economic slowdown and weak credit growth.

Later, at the event, Reddy said most of the problems of global finances cannot be understood without understanding the international monetary system. Under the current global financial architecture, capital becomes mobile but not labour and this empowers global capital.

"In the absence of global governance, the dominant economy's currency is used for settlement," he added.

Speaking at the same event, former deputy governor Rakesh Mohan said there is need for a global institution like the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB) for financing the infrastructure sector in developing countries like India and China.

"I believe we are on the cusp of change. After World War II, power had shifted from Europe to the US. Now, we are on the verge of power shifting from Europe plus the USA to Asia," Mohan remarked.