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Will banks benefit from new RBI governor Shaktikanta Das?

BY SAIKAT DAS, ET BUREAU | DEC 11, 2018, 10.48 PM IST

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MUMBAI: [Shaktikanta Das](#), the new governor of the [Reserve Bank of India](#), has revived banking industry's hopes that there could be some relaxation on stricter rules. At the same time, banks may stare at treasury gains amid expectation of falling bond yields.

His prolonged association with the government is likely to act as a catalyst, which should augur well for mutual policy framing.

"Bonds should rally expecting a softer interest rate regime next year," said Ashish Vaidya, head of markets for India at Singapore's [DBS Bank](#). His association with the government will help. Short-term investor sentiment should be revived amid higher demand for sovereign bonds."

"Banks' credit too may expand in the coming quarters," said Vaidya.

The benchmark bond yield initially shot up 12 basis points on Wednesday, pulling prices down. But, it recouped its losses as state-owned banks are said to have stepped up buying at higher levels. Bond yields and prices move in opposite direction. The gauge ended at 7.52%, seven basis points lower than Monday's closing.

Public sector banks have been net buyers of government bonds in the past four trading sessions. A fall in yields will prove profitable for those banks that bought them at higher levels. The government's fiscal condition will improve if RBI shares its reserves.

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"The government's prompt decision to appoint the new RBI governor displays maturity in handling a ticklish situation," said Bhaskar Panda, senior VP, Treasury Advisory Group, at [HDFC Bank](#). The new governor designate is an old hand so to speak, and is expected to provide appropriate solutions in the current situation."

"This should bring back confidence to the markets," he said.

In its bi-monthly policy, RBI hinted at possible change in rate cycle next year, citing softer rise in consumer prices.

Moreover, there are 11 banks that have been going through the central bank's austerity measures, known as prompt corrective action in regulatory parlance that restricts usual lending business. The government was believed to be seeking a relaxation of such norms, citing credit squeeze.

"Bank credit growth is likely to rise amid expected easing of select norms. Banks' profitability is also likely to rise," said a senior executive of a large foreign bank, who didn't want to be identified.

Das is said to know some government bankers with whom he had interacted during the [demonetisation](#) days more than two years ago. This too should help him in dealing with banks.

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