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Will banks respond to RBI's call for lower rates?

BY [ATMADIP RAY](#), ET BUREAU | FEB 21, 2019, 11.33 PM IST

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KOLKATA: Some banks may reduce lending rates from next week onward responding to Reserve Bank of India's call for creating positive market sentiment. The lending rate cut may just be symbolic at this point as sticky deposit rates are coming in the way of smooth monetary transmission.

RBI Governor [Shaktikanta Das](#) held a meeting with country's top bankers on Thursday and nudged them to reduce the financing cost to encourage [investment](#).

"Market sentiment on soft rates needs to be created," the Governor was said to have told bankers.

RBI lowered the benchmark [repo rate](#) by 25 basis points but no lender except for [State Bank of India](#) followed suit. SBI's reduced home loan rate by a mere 5 bps points, immediately after RBI's rate cut decision but it was also seen as symbolic.

Bankers present at the meeting held at RBI's headquarters on Mint Road said that tight liquidity and year-end pressure have prevented them from reducing deposit rates, which has crucial role in rate dynamics under the marginal-cost-based lending rate (MCLR) system. The impact of deposit rate cut also comes with at least three-four months lag.

"Mathematically, there seems to be no room available for rate cut since the March MCLR remained almost flat as compared to last months," a chief executive with a public sector lender said.

"But if we discount the future, there may be some possibility of lowering rates. Also, the repo rate reduction has provided some headroom with lower borrowing cost and also helped banks mark-to-market investment gains," said the CEO, who was present at the meeting.

Several banks have asset liability committee meeting in the last week of February where decisions on interest rates will be taken.

Governor Das called on bank chief executive to discuss the monetary transmission of repo rate which is typically slow when the central bank signals lowering of rates.

"If some banks now cut rates, it will be merely for optics. Cut in lending rates without deposit rate reduction will put further pressure on already thin interest rate margin," said a CEO of a smaller state-owned bank who was not invited at the meeting.

SBI Chairman Rajnish Kumar had said Tuesday that there was no room for lending rate cut without deposit rate reduction.

Das, a former economic affairs secretary in Narendra Modi government, however argued that India needs softer rates to push growth. "The more recent high frequency indicators point to investment demand losing some traction, with production of capital goods and import of capital goods contracting in recent months," Das said at the Monetary Policy Committee earlier in the month.

There has been pick-up in credit with the growth print being at around 15% but it has largely been driven by private sector banks, while public sector banks remained laggards burdened by a huge pile of sticky loans.

The governor expected the food inflation to be benign in the backdrop of excess domestic supply conditions in many food items. Despite, lower inflation projections, RBI has revised growth outlook downwards to 7.4% for FY20 from its earlier prediction of 7.6%.

At the February MPC meeting, RBI revised the CPI inflation prediction downwards to 2.8% for fourth quarter in FY19, from earlier forecast of 2.7-3.2%. The projection for H1 in FY20 is at 3.2-3.4% with risks broadly balanced around the central trajectory.

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RBI Deputy Governor Viral Acharya however expressed concerns over the elevated level of inflation excluding food and fuel, the upward risks that could emanate from oil prices, fiscal implications of sustained food deflation and lack of adequate and sustained downward adjustment in household inflation expectations over the past 12 months.

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