

# Business Standard

## Letter to BS: SBI's repo-linked rates move has opened a new window

The transmission of the policy rates into the economy will be complete if only all the financial intermediaries pass it

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This refers to "Quicker

transmission" (March 11). Despite the growing competition among the financial intermediaries for garnering low-cost resources, the State Bank of India linked its interest rates on savings deposit, overdrafts and cash credits on the threshold limit above Rs 1 lakh with the repo rate of the Reserve Bank of India. Accordingly, the rate on savings deposit above Rs 1 lakh is repo rate (6.25 per cent) minus 2.75 per cent that comes to 3.5 per cent and for cash credits and overdrafts above Rs 1 lakh, it is 6.5 per cent (6.25 plus spread of 2.25). The lower rate on the savings deposit will lead to the conversion of the savings deposit into short-term fixed deposits and flight of these deposits to acquire other forms of assets. But if all the financial intermediaries proceed for such changes, the conversion of financial assets into other forms of assets will not take place and will not adversely impact the business and profitability of the individual bank that went for such a change.

The transmission of the policy rates into the economy will be complete if only all the financial intermediaries pass it. Partial transmission of the changes in the repo rate is against the purpose for which the changes have been initiated. The banking regulator has to advise all the financial intermediaries in general and the banking sector in particular to make corresponding changes in the deposit and lending rates to speed up investments.

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