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Nifty LIVE

11,517.50 -38.40



NSE Gainer-Large Cap >

NMDC

114.85 5.70



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Gold (MCX) (Rs/10g.)

34,441.00 -141.00



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Market Watch

Government wants banks to lower interest rate spread to bring down cost of capital

BY [ATMADIP RAY](#), ET BUREAU | JUL 09, 2019, 09.53 PM IST

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KOLKATA: The government is in favour of banks lowering their interest rate spreads which would help reduce the cost of capital and boost the economy, India's principal economic advisor [Sanjeev Sanyal](#) said.

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The [interest rate spread](#) – the difference between deposit and lending rates – is significantly higher in India compared with global norms.

Sanyal believes that the stage is set for banks to lower spreads, with the cleansing of balance sheets and increasing traction in recovery of bad loans through the bankruptcy process.

“The insolvency and bankruptcy process is finally bringing the money back. As the system gets cleaned, banks will be able to lower rates. When the process begins, the vicious cycle will turn into a virtuous one,” Sanyal said Tuesday in Kolkata, on the sidelines of the AGM of the [Indian Chamber of Commerce](#).

He said that there has been a 600-basis point reduction in inflation over the last five-six years while lending rates have not come down commensurately. On [interest rate transmission](#), RBI Governor [Shaktikanta Das](#) Monday said it used to take up to six months for an interest rate cut to be transmitted to consumers but things have improved lately.

[Niti Aayog](#) Vice-chairman [Rajiv Kumar](#) said the target of achieving a \$5 trillion economy by 2024-25 is doable, and the private sector would have to take the lead. “It cannot be done by the government alone,” Kumar said at the ICC event.

Sanyal said that with inflation trajectory under control, corporates should get capital at lower real interest rate.

“Now, we have anchored inflation and have seen this level for some time, it is now possible to lower the cost of capital,” he said, adding that about 90% of the fiscal deficit is on account of interest payment. So, the high cost of capital has been the primary concern for both the government and industry.

At the fiscal level, the government has decided to borrow overseas where capital is cheaper.

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