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Market Watch

Low interest rate regime critical for survival of banks: KV Kamath

BY PTI | UPDATED: JUL 07, 2020, 11.03 PM IST

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NEW DELHI: Banker and former president of [New Development Bank](#) KV Kamath on Tuesday pitched for a [low interest regime](#), saying it is critical for survival of banks at this juncture. In view of the current economic slowdown induced by the [coronavirus](#) outbreak and subsequent lockdowns, Kamath's advice for lenders is considerable as banks are staring at a surge in non-performing assets (NPAs).

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"I think the banking sector was having a problem, but I think the banking sector with all the efforts of the government, the capital that was injected and so on was coming out of the problems. It needs a little more hand-holding when it was coming out of the challenges," he said in an interview to a news channel.

The career banker said that the pick-up in growth is important for improving the health of the banking sector.

"...with the steps that have been taken, the growth will happen whether it is in the corporate India, whether it is in rural India or whether it is in retail India, I think we need to maintain momentum of growth," he said.

"Second is at this point in time low interest rates. Lower interest rates are going to be critical for survival of banks... I would guess that interest rates need to drop even further if the banks have to come around without too much pain. Otherwise they will probably come around

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Kamath said "capital injection will be required, but the order of capital injection will be significantly lower than what it is, if you run the high interest rates regime. So I think banks really need to look at how they work with the government, with the regulator to ensure that low interest rate climate endures".

Praising the decision of the [RBI](#) for extending moratorium to borrowers till August, Kamath said it was very well done.

"I am even more heartened when I see bankers come out and say or some [NBFCs](#) come out and say that 'X' per cent of my customers took the moratorium, that was 2 months back, but today remaining of them have said that we will pay in time; extremely good news. So, I would think and hope that continues," he said.

However, if there are sectors which genuinely have a problem, policymakers could consider one-time restructuring, he added.



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