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As on 05 Feb, 2015, 03:59 PM

GOLD
27237.00

-165.00 (-0.60%)

SILVER
37837.00

-534.00 (-1.39%)

CRUDE OIL
3047.00

-17.00 (-0.55%)

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Consumers Look Up to Jaitley for EMI Relief as Rajan Holds Rates

NDTV | Written By: [Varun Sinha](#) | Updated On: February 04, 2015 08:06 (IST)

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Consumers struggling under the burden of high EMIs have been feeling cheated as a majority of banks have not lowered lending rates despite the 25-basis point repo rate cut by Reserve Bank on January 15. The irony is that "big brother" Raghuram Rajan cannot do much about it.

"The RBI is not the owner... it is not in any way in day-to-day running of banks. We cannot nudge them to lower rates," said Dr Rajan after announcing a status quo on interest rates on Tuesday. "We can only comment that despite a substantial fall in long-term interest rates and corporate bond rates, bank lending rates have remained flat."

Industry now wants the government to step in. "The banks must be nudged if not by RBI, at least by the finance ministry, the government being the owners," said Rana Kapoor, president of Assocham.

Dr Rajan noted today that many banks have been relatively quick to cut their deposit rates, but not so quick to cut their lending rates. He suggested that increasing competition among banks may force lenders to cut base rate.

The fear of rising competition is unlikely to pressure banks to cut rates as big lenders including State Bank of India and ICICI Bank have refrained from cutting interest rates so far. According to Reuters, only three of India's 45 commercial banks have cut base rates since January 15. Among the three lenders, two are state-run United Bank and

Union Bank.

In a bid to prod lenders to cut rates, the RBI on Tuesday slashed the statutory liquidity ratio by 50 basis points. The reduction in SLR will boost system liquidity as banks will now have to keep fewer deposits (in the form of government bonds, cash or gold) with the RBI.

But analysts say the move is unlikely to impact lending rates. "The SLR cut is insignificant as most banks hold heavy quantity in SLR as there are no significant lending opportunities," said UR Bhat of Dalton Capital.

According to Care Ratings, commercial banks maintained SLR of 27.6 per cent as of January 9, 2015, which is well above the prescribed requirement of 21.5 per cent.

Bank officials say rates cannot be lowered because cash conditions are tight, but analysts say the problem is low demand. Credit offtake continues to be sluggish, forcing banks to hold on to high rates to maintain profitability, analysts say.

Dr Rajan, too, hinted that it's the profit motive that's preventing banks from cutting rates. "I presume some are hoping they can get the spread for a little more time to repair banks' balance sheets."

Most banks, particularly state-run lenders, are struggling amid rising bad loans, forcing them to hang on to high rates. But the lack of transmission of rate cut is bad news for the government, which is betting on a revival in demand to pull the economy out of the current slumber.

After the January 15 rate cut, Finance Minister Arun Jaitley had said, "The rate cut would put more money in the hands of consumers and help revive investment."

It is for this reason that the industry hopes the government will step in. Consumers too seem to have little option but to hope that Mr Jaitley will bring them some relief from high EMIs.

Story first published on: February 03, 2015 17:41 (IST)

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