ADITYA BIRLA CAPITAL

PROTECTING INVESTING FINANCING ADVISING

Publication: Business Standard	
Page No: 12	Date: October 31, 2012

EXPERT TAKE

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Mistaken and disappointing

The monetary policy is a little conservative. The finance minister has already appealed for some action on the rate front, given that the government has introduced reforms, food inflation is down and sufficient buffer stock of grain is available. We needed a cut in the rates. Bankers have also asked for a rate cut to strengthen their home loan portfolio and reduction in equated monthly instalments (EMIs) of home loan borrowers.

The Reserve Bank of India (RBI) has cut the cash reserve ratio to increase liquidity in the system. What is the problem with RBI? I think ₹17,500 crore of fresh funds will add to inflation. If more money comes into the market, it will push up prices. Instead, lowering of rates will not push up inflation. It will only give a boost to sectors such as housing, automobiles and overall industry. A lowering of rates will not increase property prices; so much of stock is lying unoccupied. It will spur the housing segment in the country.

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It (the policy) is a bit of a disappointment. RBI has said it is watching the situation closely. Let us hope that in the next policy announcement, RBI will announce some rate cut.

A MAHENDRAN
Managing Director
Godrej Consumer Products Ltd

Mistake; growth focus needed

The monetary policy is disappointing. The expectation of a repo rate cut has not happened. Companies are looking for support, which is not in sight. While the concerns regarding inflation are valid, there is need to boost investment. With cost of finance still high, I see the lull in investments persisting. How, then, do you kickstart growth?

This issue will have to be addressed at some stage. The sooner this happens, the better. Which means initiating rate cuts in the third, rather than the fourth, quarter of this financial year would be a better option. You can then expect some momentum in investment, impacting gross domestic product growth this year. If rate cuts are pushed to the fourth quarter, the effects will be visible only in the next financial year. Speed is of essence here. Also, the reforms push by the government would have to be supported, which is why it is imperative for the central bank to concentrate on growth. I find the government and RBI moving in opposite directions, not the right signal to stakeholders.

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A cut in the cash reserve ratio, while beneficial to the banking sector, hardly augurs well for companies. The need of the hour is to bring down the cost of capital.

AJAY SRINIVASAN
Chief Executive
Aditya Birla Financial Services

Understandable focus on inflation

The central bank undoubtedly faces multiple macro-economic challenges. Growth has slowed meaningfully, inflation remains sticky and the country faces elevated current account and fiscal deficits. The Reserve Bank of India (RBI) has lowered the year's gross domestic product growth forecast from 6.5 per cent to 5.8 per cent and increased the March 2013 inflation forecast from seven to 7.5 per cent. The extent of slowing is highlighted by the fact that the latest FY13 growth projection is 150 basis points below the one of 7.3 per cent in April.

RBI is essentially trying to navigate the twin problems of slowing growth and sticky inflation with a two-pronged approach. First, to make sure there is ample liquidity in the system and productive sectors are not starved of credit. This explains why it has cut the CRR rate 175 bps, from six to 4.25 per cent in the past 10 months. Second, RBI is trying to lower the high inflation and inflationary expectations faced by the country since 2010. As it says, "managing inflation and inflation expectations must remain the primary focus of monetary policy".

The Reserve Bank of India continues to follow a path of "calibrated easing" in this tough environment

As the impacts of diesel price rise fade and inflation shows signs of moderating, we expect RBI to be much more focused on targeting our growth slowdown.

SESHAGIRI RAO
Joint Managing Director and Group CFO
JSW Steel

CRR can't be a monetary tool

It is unfortunate that the Reserve Bank of India (RBI) has not changed the policy rate in spite of several data points such as lower industrial production, slow credit growth and dwindling investments showing absolutely disappointing trends.

When the banks are borrowing in excess of ₹75,000 crore under the repo window from RBI, a CRR cut of 0.25 per cent (₹17,500 crore) doesn't really change the liquidity situation in the money market, thus helping to ease the interest rates. CRR is being used as monetary tool instead of liquidity tool.

Indian industry has been going through a painful phase of high interest rates, declining demand and insufficient availability of working capital.

Industry has been going through a phase of high interest rates, declining demand and insufficient working capital

The puzzle, however, remains how the inflation is inching up structurally with virtually no pricing power with the industry. The industry is not able to pass on even the cost due to inflationary impact.

It clearly establishes that the high cost of goods and services are due to constraints attributable to expensive supply side logistics. The profitability of industry is under stress. This requires to be addressed by encouraging investments in the supply side infrastructure, rather than squeezing the investment demand with unaffordable interest rates.