India Inc cheers rate cut, urges banks to follow suit

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In the first monetary policy review under new RBI Governor Urjit Patel, the interest rate was today cut to a six-year low of 6.25 per cent in a unanimous decision by the newly constituted Monetary Policy Committee (MPC). (Reuters)

Commending the new rate-setting panel's move to slash key policy rate by 0.25 per cent, India Inc today said it will boost sentiment and reinvigorate growth impulses and hoped that banks will transmit the benefit to borrowers.

In the first monetary policy review under new RBI Governor Urjit Patel, the interest rate was today cut to a six-year low of 6.25 per cent in a unanimous decision by the newly constituted Monetary Policy Committee (MPC).

"The cost of capital has to be more competitive to drive investments. Businesses need to see an urgent revival in growth. Also, a moderate interest rate regime will lead to an uptick in interest sensitive sectors such as consumer durables, automobiles and housing," Ficci President Harshvardhan Neotia said.

Home Loan, Car Loan EMIs To Come Down As RBI Cuts Repo Rate

"The maiden policy decision taken by RBI's MPC is completely justified by the ongoing disinflation in the economy. Today's rate cut will boost sentiment and contribute towards reinvigorating growth impulses in the infrastructure, construction & manufacturing sectors.

"Backed by a healthy set of domestic macros and sustained global deflation, I expect 75 bps further easing in the coming months," Rana Kapoor, MD & CEO, YES BANK, said.

The cut, first in six months, came amidst big clamour for easing rates especially after the departure of former Governor Raghuram Rajan, who was often accused of stifling growth by keeping rates too high.

"At the anvil of the busy credit season when the demand for bank credit is anticipated to go up, the RBI intervention to reduce interest rates and other welcome liquidity supporting measures would enable banks to transmit the cut to borrowers and thereby support the growth cycle," CII Director General Chandrajit Banerjee said.

In a Facebook post, Union Minister for Power, Coal, New & Renewable Energy and Mines Piyush Goyal said the repo rate cut will ensure rapid growth and give a boost to Make in India, rapid infrastructure creation and affordable power.

The six-member MPC, headed by Patel, reduced repo rate or the short term rate at which central bank lends to banks, to 6.25 per cent. Consequently, the reverse repo rate has also come down by a similar percentage point to 5.75 per cent.

The move will lead to reduction in lending rates by banks, leading to lower EMI for housing, car loan and corporate borrowers.

"The industry expects a lot of value addition from the MPC and possibly another rate cut before March 2017, while expecting the real transmission of the lower rates by the banks," Assocham Secretary General D S Rawat said.

"The rate cut should spur growth and the corporate sector should see it as an encouraging move to foster investment. However, the speed of transmission of this rate cut would be an important determinant," President of the Indian Merchants Chamber Deepak Premnarayen said.

Sterlite Power CEO Pratik Agarwal said: "It's clear that India is determined to maintain a 1.5-2 per cent real rate of interest. This will satisfy the urgent need for growth and also encourage savings at the same time."

All the six members of the panel voted in favour of the rate cut decision.

"A relief on the cost of funds is awaited eagerly by the corporate India, which should help them to improve financial health and plan for the next leg of growth.

"With the pro-growth stance of the RBI, it gives a clear hint to India Inc to push for growth, take investment decisions as it can now foresee rates softening further," said George Alexander Muthoot, Managing Director, Muthoot Finance.

"We believe the rate cut was very much required for the economy, and if inflation data supports there could be another cut of 25 bps towards the end of the financial year," Angel Broking CMD Dinesh Thakkar said.

EEPC India Chairman T S Bhasin said there is a strong case for lower interest rates for the exporters, noting that a special dispensation should be considered by the Reserve Bank of India to boost the country's shipments.

"This (rate cut) will not result in a significant rise in the demand for credit from the corporate sector immediately, but can drive down the cost of borrowings for banks and give them some incentive to drop lending rates, thereby giving existing borrowers a much-needed breather," Surendra Hiranandani, CMD, House of Hiranandani, said.

Principal Economist at India Ratings & Research Sunil Sinha termed it a case of front loading the rate cut and resting the hope on moderation of food inflation due to favourable monsoon and its impact on crop production, particularly pulses.

"The cut will act as a fillip and can prompt the banks to make funds available to the industry especially sectors like infrastructure and power at a lower rate. This can lead to kick starting the investment cycle in these core sectors," Hindustan Power CFO Nidhi Narang said.

"We hope the reduction in interest rate will be passed on to consumers resulting in recovery of consumer sentiments, thereby giving boost to consumer durables and housing demand during this festive period through cheaper financing and loans," Rajeev Jain, CFO, Intex Technologies (India) said.