RBI repo cut: India Inc cheers move, 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 on Tuesday cut to a six-year low of 6.25 per cent in a unanimous decision by the newly constituted Monetary Policy Committee (MPC).

The new rate-setting panel's move to slash key policy rate by 0.25 per cent has been lauded by India Inc which said that the move will boost sentiment and reinvigorate growth impulses. They also hoped that banks will transmit the benefit to borrowers.

WATCH VIDEO: Reserve Bank Of India Cuts Repo Rate By 25 bps To 6.25%

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. 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.

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

Here's what India Inc said:

Ficci President Harshvardhan Neotia: "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."

Rana Kapoor, MD & CEO, YES BANK: "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.

CII Director General Chandrajit Banerjee: "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."

Assocham Secretary General D S Rawat: "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."

Sterlite Power CEO Pratik Agarwal: "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."

George Alexander Muthoot, Managing Director, Muthoot Finance: "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."

Surendra Hiranandani, CMD, House of Hiranandani: "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."

Hindustan Power CFO Nidhi Narang: "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."

Mr. Rajeev Talwar, CEO, DLF Ltd.: "The 25 basis point rate cut has come at the right time. A near normal monsoon, robust sowing for the kharif season, and supply side measures to curb food inflation have given the Reserve Bank of India the necessary space for rate cut right at the beginning of festive season. We now earnestly hope that the banks will quickly pass the benefit of this repo "rate cut to their customers by bringing down their lending rates, given the easy liquidity conditions and the recent downward adjustment in small saving rates. A cut in home loan rates will surely help buyers firm up their decision to buy a house in this festival season and give fillip to sales."

Ms. Upasna Bhardwaj, Senior Economist of Kotak Mahindra Bank: "Reacting to the recent deceleration in food prices and hence overall headline inflation, RBI delivered a 25bps repo rate cut. While maintaining an accommodative stance, RBI has sounded cautious on upside risks to inflation. The room for further accommodation looks limited from hereon given the upside risks emanating from an increase in aggregate demand due to 7CPC, good monsoons, GST implementation and HRA increase from 7CPC."

Ms. Bekxy Kuriakose, Head – Fixed Income, Principal Pnb Asset Management: "RBI cut the Benchmark Rates by 25 basis points in its first policy meeting under Monetary Policy Committee, with all the 6 members supporting the cut. The policy outcome was as per market expectation, which had partially factored in the rate cut in the prices. The statement spoke about the slowing momentum of food inflation and reduction of small savings rate and felt that the upside risk to inflation was somewhat lower than last policy statement. In the post policy con-call RBI spoke about real interest rate around 1.25%, compared to 1.5%-2,0% earlier. We expect another 25 basis rate cut by March 2017."

Mr. Rajeev Jain, CFO, Intex Technologies (India) Ltd: "With festival time around the corner this is the biggest Diwali gift, the Central Bank could give to consumers. We feel Banks & NBFCs will directly benefit by the 25bps fall in interest rate. We also hope that it 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."

(with inputs from PTI)