INTERVIEW WITH ASHISH PARTHASARTHY, HEAD OF TREASURY AT HDFC BANK

'Credit growth numbers expected to be significantly higher by the end of FY18'

Consumption growth in India has remained strong; if monsoon turns out good, rural demand will further get impetus, leading to higher consumption demand

ON WEDNESDAY, the Reserve Bank of India (RBI) announced no cut in repo rate even as the government and some financial houses expected a cut in the rates. ASHISH PARTHASARTHY, head of treasury at HDFC Bank, told SANDEEP SINGH that the RBI could cut repo rates by up to 50 basis points in FY18 as inflation remains at low level. While the credit growth has failed to take off despite low interest rate in the economy, he said that credit growth numbers would be significantly higher by the end of the financial year. Edited excerpts:

It seems that the government was expecting a rate cut but the RBI decided to keep repo rates constant. Do you think that the current growth rates and inflation numbers call for a rate cut?

As most people did not expect a rate cut, the RBI policy has been in line with the broader expectation. On the other hand, the RBI was expected to revise its forecast in line with broader view and it has brought its inflation forecast for first and second half in line with market expectations. The RBI's growth forecast is also more in line with some forecasts at around 7.3 per cent at GVA (gross value added) level and that seems to be a plausible number for the economy to achieve.

Now, the market has started expecting a rate cut and significant number of participants feel that a rate cut will come in August. From a growth perspective, Q4 numbers were lower but we will have to wait for more clarity. Inflation, on the other hand, has definitely surprised everyone on the downside. So, given the current inflation numbers in relation to what was expected, there is a room for a rate cut. I think that there is a room for up to 50 basis points cut in repo rates in this fiscal.

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ASHISH PARTHASARTHY
HEAD OF TREASURY AT HDFC BANK

While we have seen low interest rate levels in the past, do you think this time there is a better chance of it sustaining over the medium-to-long term?

It is quite likely that these low interest rate levels sustain for an elongated period of time. However, it will depend on sustained low rate of inflation. Traditionally, for many years, we used to have double-digit CPI (Consumer Price Index)-based inflation, but there have been some structural shift in commodity prices. Crude oil has seen a big change, as there has been a structural change on the front of new sources of supply and there has also been move towards renewable resources for power, automobiles, etc. If oil prices remain subdued, they will have an impact.

The interesting part is the food inflation, which is an important component in India. It has seen a significant downward shift but it needs to be seen if it has come down structurally. While low rates are expected to prevail, we need to acknowledge that we are in a country with reasonably large population and the per-capita resource availability remains low as compared to many other countries. That will continue to put pressure on demand and prices.

What role can the monetary policy play in keeping the interest rate low in the long run?

Given the fact that inflation has come down, to sustain them to reasonably lower levels (around 4 per cent) for an elongated period of time, the monetary policy will have to be conservative and rates will have to be kept slightly higher than they possibly could be in order to keep inflation at lower level over an elongated period. I feel that the MPC (Monetary Policy Committee) is likely to remain conservative. Yes, there will be rate cuts but they will see how each cut impacts the overall economy.

Inflation expectations have come down from double digits earlier, but they are still at around 8 per cent and if the inflation is kept at 4-5 per cent level for a longer period, the inflation expectation will also come down.

Despite rates being low, we have not seen credit growth in the economy?

A low interest rate environment is only an enabling criteria. We know that inflation is in control and the gap between output growth and potential growth also exists and both imply that monetary policy has to be an easy one. Other things also play a role such as the capacity utilisation levels. Until the idle capacity starts getting utilised, we can't see new investment expenditure.

Do you see credit growth picking up anytime soon?

The consumption growth in India has remained strong, and if we have a good monsoon this year, rural demand will further get impetus, leading to higher consumption demand. I think that by the end of this financial year, the credit growth numbers would be significantly higher than what they are now. Sectors catering to the consumption side will see the impact. While the government is spending reasonable amount of money on infrastructure, industries supplying to infrastructure needs may also see some capex (capital expenditure). My optimism is based on that fact that consumption growth will drive the capacity utilisation and we will see a pick-up in private capex.

How do you see the broader economy to do in terms of growth and what are the concerns?

The bottlenecks continue to be there. The infrastructure story is known, over-leveraged corporate balance sheets are there and even the NPA (non-performing assets) issues continue. So, the concerns are very much there and there are no quick or ready solutions. These will constrain the growth of the economy. Otherwise, we seem to be fine. To my mind, we will continue on a growth path which is possibly lower than the potential rate of growth. I however, don't expect it to fall down. I expect, the real GDP (gross domestic product) growth rate to be around 7-7.5 per cent for the next three years. We can do better if these constraints are removed, but there are no quick solutions.

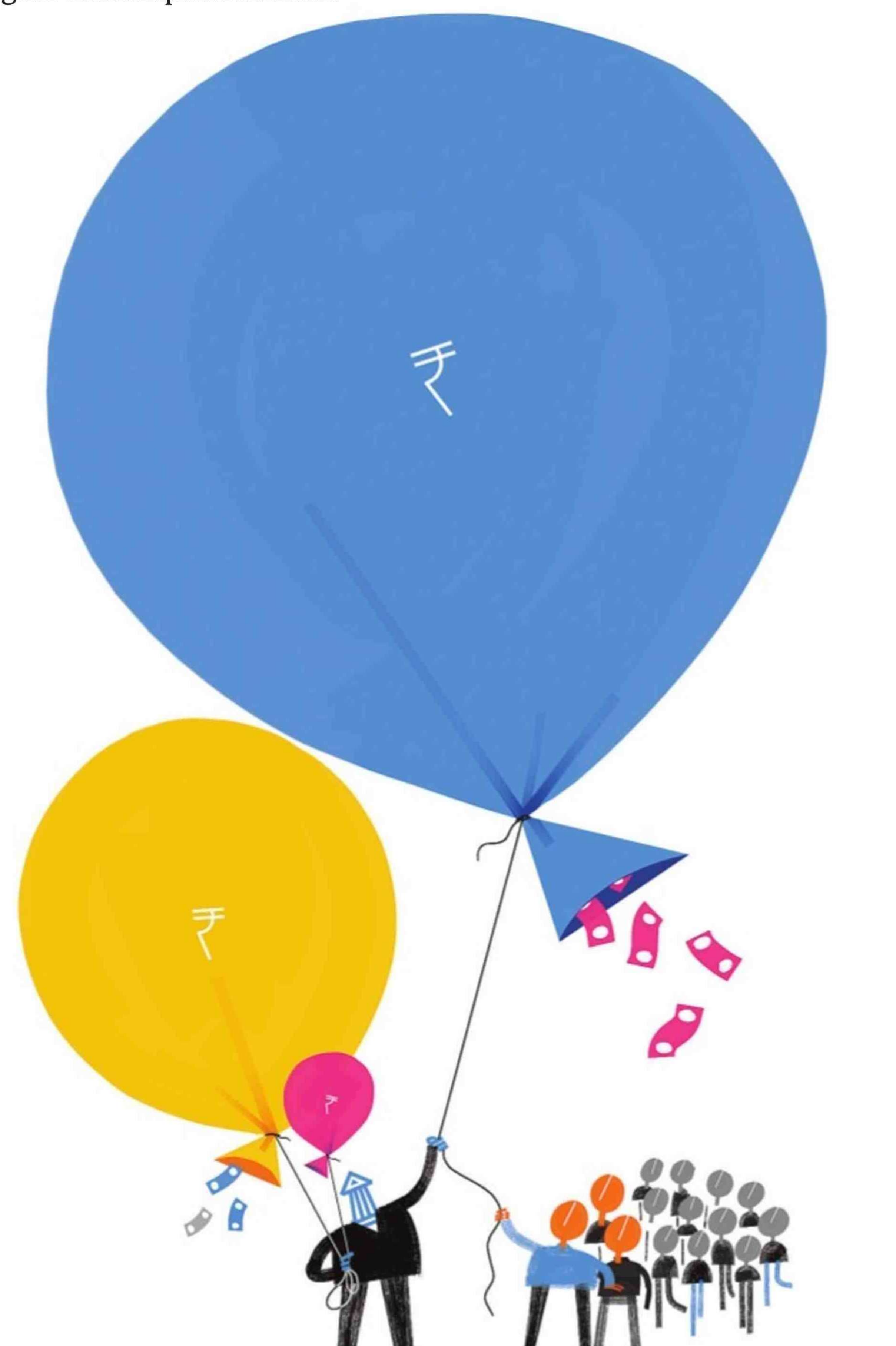

Illustration: C R Sasikumar

Foreign institutional investors have been investing strongly in the Indian markets, do you expect that to continue?

Money has been coming as the interest rates are higher. If they get interest over and above their benchmark rates, those in other money markets will come in. Another enabler has been a stable Indian currency. Even the dollar return on Indian fixed income was significantly higher than what possibly they could have generated in other places and that's why they were looking to invest.

Money will continue to come in if investors get a return over their hurdle or target rate and if returns in India are higher than in other markets. It may slow down in case the inflation goes up globally as it will play out and impact India, too. Even the US Federal Reserve is expected to slowly increase rates and that can also play a role.