

# We are at turning point of inflation: Aditya Puri

Managing director of HDFC, the largest bank in the private sector, Mr Aditya Puri was in Goa to oversee expansion on services to interior areas. In an interview to DEREK ALMEIDA he spoke on the bank's plans to raise at least 15,000 families above the poverty line through micro finance. Here are excerpts.

**NT:** The Reserve Bank Of India seems to think that hiking interest rates is the best way of containing inflation. You on the other hand have sounded a note of caution. Why?

Aditya Puri: The truth of the matter is that inflation at 9.5 per cent is high, and in a poor country you cannot this rate of inflation. Part of the control will be through a monetary policy where the RBI will have to raise interest rates to curb demand pressure. It is also imperative that we use a combination of monetary and fiscal policy because some of the inflation is not demand induced but is connected to global prices of fuel. If you use only monetary measures demand will be hit and this could affect long term growth.

I think we are at the turning point of the inflation and interest rate cycle. With a good monsoon and good crop inflation should come down to 7 per cent by March.

**NT:** The monetary policy is squeezing the profit margins of banks. How are you'll coping?

AP: To some extent, but as of now major banks have not had a squeeze in margins because they have been able to pass on the interest rates to the borrowers. But there is a limit to how much you can pass on. So if there are further increases then some portion of the increase will have to be borne by the bank which will

put pressure on margins.

**NT:** To what extent is this policy of the RBI affecting growth?

AP: As of now the rate of growth which was 8.6 per cent has come down to 8 per cent, which was the intended desire. I don't think there has been a drastic reduction. A slow down to 8 per cent together with monetary and fiscal policies will bring down inflation.

**NT:** What about your expansion plans for Goa?

AP: We are focusing on Goa as a major growth area for the bank. We want to cover the entire spectrum, from the bottom of the pyramid to the top. So we are starting micro finance where the bank will endeavour to bring at least 15,000 families above the poverty line in the next 18 months. We also want to substitute the money lender where we have introduced loans against gold jewellery for 12.5 to 13 per cent. We are also going into the interior. We have 29 branches in Goa and this will increase to 40, mostly in the interiors with products suitable to the people living there. We are also working with the government by putting in proposals for e-governance.

**NT:** There is this issue of high

salary hikes to bankers and the RBI is keen on putting a cap. Your comments.

AP: First, bankers have the lowest salaries compared with MDs from private companies. Bank MDs do not get any commission on profits. So any impression that bank managers are highly paid is a wrong. So if I am highly paid among a poor lot that does not make me a rich man. Globally a lot of banks got into trouble because their salary structures were such that it promoted greed and they put the bank at risk. Fortunately in India that situation does not prevail. But, in line with global trends, the RBI is saying that compensation paid to senior bank managers should be in line with the performance and a portion of it should be paid on a deferred basis so that it does not happen that one year the bank makes a profits, next year it doesn't, but the manager leaves with the money to get a new job.

**NT:** There is a debate in the country on doing away with subsidies and introducing direct cash payments. Is the banking sector ready for this change?

AP: This is distribution issue. We all agree that today subsidy is not reaching the intended beneficiary, which is a shame and we have to come up with a mechanism to remedy it. So what they are saying is that we have to first identify the beneficiary which is why UID was introduced. Then if UID is linked to bank accounts we will be in a position that ensure that payments are made to the beneficiary.

