

Assocham Business Barometer

“RBI Monetary Policy Prospects”

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Industry expects RBI annual policy to be ‘Growth-oriented’ with sectoral focus : Assocham Business Barometer

As the Reserve Bank sets to announce its Annual Monetary policy in the backdrop of world wide recession diminishing the growth prospects of the Indian economy, an Assocham business survey has showed that industry is keenly looking forward to a growth-oriented credit policy with enhanced focus on crisis rid sectors including exports, textiles, gems and jewellery.

More than 92 per cent of the corporate heads unanimously felt that the annual monetary policy of the RBI for the financial year 2009-10 should focus on reviving the growth path in the Indian economy.

The Assocham Business Barometer Survey “RBI Monetary Policy Prospects”, took stock of the industrial opinion on the RBI actions necessary to bring back the Indian economy on the growth trajectory. Around 77 per cent of the CEOs were of the opinion that RBI needs to place more focus on pushing up sectoral credit disbursements as the worldwide recession has severely hit the industrial segments such as textiles, gems and jewellery and information technology (IT). All of these sectors are labour-oriented; hence their demise has created serious problems of unemployment.

Construction is another sector whether investments need to be boosted to prevent the slowdown in the pace of activity. A majority (75 per cent) of those surveyed believed that it is a good time for the RBI to re-look at the stringent regulations imposed on the real estate sector.

The RBI had increased the risk weights in case of commercial real estate from 100 per cent to 150 per cent. In the background of rising real estate prices fuelled by the excess money supply from foreign sources, the RBI has increased the provisioning requirements in respect of the standard assets in real estate to 2 per cent from 1 per cent.

Almost 69 per cent of the ABB respondents appreciated the efforts of the RBI stating that it has been quite active in reducing the interest rates. However, they expressed their apprehension that

the present interest rates do not justify the zero inflation level and steeply falling growth in industrial production.

The wholesale price index for the week ended April 4, 2009 was 0.18 per cent. The industrial growth rate has been falling in negative range while the data showed 1.2 per cent decline in IIP in the month of February 2009.

The business community feels that the banks should not be risk averse and adopt a liberal approach in lending in order to boost demand. The credit deposit growth ratio has come down from 74.2 per cent in the financial year 2007-08 to 71.9 during January, 2009.

The repo rate, the rate at which the RBI lends money to the banking system has been reduced from 9 per cent to 5 per cent. The reverse repo rate, the rate at which the RBI pays banks for deposits placed with it, has been reduced from 6 per cent to 3.5 per cent. The cash reverse ratio has been reduced from 9 per cent to 5 per cent.

The ABB poll suggested that 72 per cent of those questioned believed that RBI should evolve new methods of enhanced money flow and rapid credit delivery in the economic system.

The corporate debt market which accounts for 14 per cent of the total debt market in India, is not a well developed. The industry feels that policy makers should look at the measures required adding vibrancy to the corporate debt market.

Corporate debt flotation has fell by a substantial 43.7 per cent to Rs. 4160 crore in March 2009 compared to the previous month. The number of issues fell drastically to six during the month. However, the interest rates are still strong in the range of 8.85 per cent to 12.5 per cent.

The discount rate of certificate of deposits have come down from 8.92 per cent-21 per cent in October to, 5.4 per cent-11.50 per cent in the month of February, as analysed during the fiscal 2008-09. Hence there was a, a decline of 3.52-9.50 per cent averaging to 6.5 per cent.

The interest rates on the commercial papers issued by the companies have come down to 5.25 per cent-12.50 per cent from 11.90-17.75 per cent, a decline of 6.65 per cent-5.25 per cent, average 5.95 per cent.

As the RBI sets in to announce its Annual Credit Policy, the Assocham Survey assessed the performance of the central bank role at the time when the whole world witnessed the worst financial crisis since the 1930's Great Depression.

About 76 per cent of the CEOs who participated in the ABB survey believed that RBI has been successful to a large extent in warding off the effects of global financial crisis in India.

However, 63 per cent of the respondents felt that the Indian banking system still requires higher degree of transparency than at present.

The Assocham urged the Reserve Bank of India to take measures in order to substantiate 'Financial Inclusion' in the country as the rural economy which accounts for half of the GDP size has huge potential to fuel growth. Referring the data on rural financing, Assocham report state that 58 per cent of the indented rural households have to rely on non-institutional agencies such as professional money lenders (26 per cent), agricultural moneylenders (12.5 5) and landlords (1.5 per cent) for their credit needs.

Further support from the government and central bank to Micro Finance Institutions and Regional Rural Banks is required to push the rural economy which would provide growth and employment opportunities.

Annexure

Questionnaire

Name _____

Designation _____

Organization _____

Sector _____

Contact Details _____

Q) Do you feel the inflation-centric policy followed by the RBI during the high-growth period, has hampered the economy's ability to deal with inflation?

1. Yes
2. No

Q) To what extent you think RBI has been able successful in warding off the effects of global financial crisis on India?

1. To a large extent
2. Completely successful
3. Not successful at all
4. To some extent

Q) Do you feel that RBI should pursue stricter financial regulation norms in the backdrop of the failure of world's largest banks?

1. Yes
2. No

Why?

Q) Do you feel that the annual monetary policy for the year 2009-10 should have more focus on long term growth and stability?

1. Yes
2. No, it should focus on the short term needs of dealing with recession

Q) Is it good time for the RBI to re-look at the stringent regulations imposed on the real estate sector?

1. Yes
2. No

Q) Do you think RBI and the other policy making bodies should move ahead with the plans of further liberalization of the financial sector of India?

1. Yes
2. No

Q) Does the Indian banking system needs requires higher degree of transparency than at present?

1. Yes
2. No

Q) Do you feel RBI needs to take further measures for substantiating 'Financial Inclusion' in the country?

1. Yes
2. No

Q) Do you feel the banking system should evolve new methods of enhanced money flow and rapid credit delivery in the economic system?

1. Yes
2. No

Q) What are your expectations from the annual monetary and credit policy of the RBI for the year 2009-010?
