

Don't raise interest rates, Assocham urges banks

'Impact of higher rates may tell on economic growth'

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Banks should not rush into increasing their lending and deposit rates despite the Reserve Bank of India raising the benchmark repo rate, industry body Assocham said.

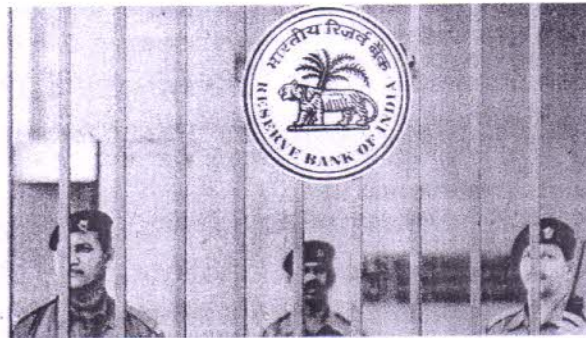
The association cited surplus liquidity in the system as a comfort factor for banks.

"In the policy presentation on August 1, the top RBI brass said it clearly that there is generally a lag between the announcement of a rate change and transmission in the system.

"If this holds true in the cases where the repo rate was dropped, it should also hold true now that the benchmark lending rates have been tweaked up", said an Assocham spokesman.

He said the RBI itself had stated in the credit policy review document of August 1 that the "systemic liquidity has remained generally in surplus mode during the June-July period."

The Assocham said while the RBI has been doing a



Guarding against costs: Quoting RBI, Assocham says systemic liquidity has remained in surplus mode in June-July. •AFP

'good job in managing the day to day liquidity in the banking system', banks need not rush to raise lending rates. The credit demand has not been rising quickly, either, he said.

'Delicate stage'

"The state of the economy is poised at a very delicate stage," the Assocham said in a statement.

"There is an upward growth bias; but it cannot be taken for granted. Interest-sensitive sectors like automobile, consumer durables and real estate have a great

multiplier effect and should not be burdened with rising interest costs. Increased interest costs act like a double whammy. The cost of production goes up while consumer demand gets subdued."

The chamber said, "Let there be a lag between the increase in the repo rate and the transmission.

"Corporate India and the trade would use this window effectively for bringing in operational efficiency so that the effect on the ground does not show much of a cost change."