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'RBI has signalled dear money policy'

Our Bureau

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While the RBI Governor, Dr Y.V. Reddy, has made it clear that the monetary policy will be dear money policy at least till March 31, 2009, the way in which prices respond to the policy will be the yardstick for tightening of the policy in future, says **Mr P.T. Kuppuswamy, CEO, Karur Vysya Bank.**

Stating that the CRR and repo rate hikes would hurt bankers, industries and trade, he said "this is unavoidable. While we are anxious to push through the growth, we should accept that it can come only with a price. If we want to keep that price low, then probably the industry and the public may have to innovate, adopt economical living and contribute more".

"Probably the solution to these problems lies not with the Ministry of Finance or with RBI, but with the Ministry of Energy. If we are able to find out our own energy sources, including the much needed oil, or if we are able to economise our consumption of oil, things may dramatically improve. The banks are left with only the Hobson's choice of increasing the rates," he said.

Mr Balasubramaniam, Chairman, City Union Bank, admitted there was pressure on margins. He said 'the last time the regulator effected a CRR hike, we looked at the sub-PLR accounts, but this time, we would look at increasing the prime lending rate.'

Asked if he expected another hike in the near term, he said 'no, the liquidity position is expected to ease by mid-August. The position will then be comfortable.'

'MORE HAWKISH'

Mr P.S. Prasad, CEO, Dhanalakshmi Bank, expressed no surprise at the 50-bps hike in repo and 25-bps hike in CRR. 'The move, no doubt, is a challenge for banks. We will have to maintain our net interest margin. And to maintain this, we cannot rule out a rate hike.'

"It is more hawkish than expected. With 50-basis point hike in repo rate and 25-bps hike in CRR, some may call it as a case of overkill, but it is visible that there is urgency in policymakers to aggressively rein in money supply and inflation before the impending general election. The RBI appears to have recognised the growth momentum in the economy and the slight complacency towards economic growth," **said Mr Sandesh Kirkire, CEO, Kotak Mahindra Mutual Fund.**

According to **Mr Mallinath Madineni, Chief Investment Officer, Arthaeon Financial Services**, the RBI undertook aggressive monetary tightening measures since the global pressure on inflation from primary commodities and crude prices are not expected to ease soon. Loans for housing, car and personal purpose will become dearer and hence interest sensitive sectors such as banking, realty and automobiles will be hard hit, he said.

Our Mangalore Bureau reports: Mr Gautam Vir, Managing Director and Chief Executive Officer of Development Credit Bank, said that the message is clear that tackling inflation is the number one priority. He said this also signalled of a higher interest rate regime. In a press release here, he said the markets are already running short of liquidity and the CRR hike is expected to constrain liquidity substantially. "Going forward, while the current measures will subdue demand and contribute to taming inflationary pressures, we have to be alert to contradictory global pressures," he added.