

RBI takes pre-emptive measures to contain inflation



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pkchakravarty 31 October 2007 7962 views

MACROECONOMIC objective –growth with price stability, savings and investment—are the guiding principle announced by the Reserve Bank of India after reviewing its monetary policy in its headquarters located in Mumbai on Tuesday.. Although interest on home loan has not been reduced, there is good news for those who borrow from banks for construction or buying flats or houses, vehicles and other consumer durables. With the rise in per capita income, the upper and middle classes in the society are improving their quality of life. And the banks have helped them to a great extent by providing loans for the purchase of personalized vehicles and consumer durables like refrigerators, air conditioners, TV sets, cell phones etc.

It is like a two- way traffic. While people are able to be in possession of the modern gadgets, manufacturers also benefit and provide jobs to a large number of people. The people in the manufacturing and housing sectors were hoping against hope that interests on home loan would be reduced for the promotion of the construction activities which still remain as one of the largest employers. But interest rate on home loan has not been reduced .Nor is there any proposal to hike it in the near future. But there is as stated earlier good news for the borrowers from banks. These have been warned by the RBI to desist from adopting abusive practices to recover their outstanding dues. The banks have also been directed to review their policy and practice regarding the procedures relating to engagement of recovery agents many of whom is alleged to be bullies with the borrowers. This directive issued by the central bank to the banks will come as great relief to millions of borrowers who are under threat of the recovery agents. RBI has assured the nation that it may take up with the government enactment of legislation for providing fair lending practices and may impose ceiling on interest rates. The hike in Cash Reserve Ratio (CRR) through which the RBI seeks to control liquidity in the market to check inflation may reduce chances of a cut for home loan borrowers .The people who seek

loans for purchasing or building houses,can take heart that interest on such borrowings will not rise .Neither will fall soon.

This has been made clear by RBI Governor Dr Y V Reddy. Since cost of construction of houses are going up due to various factors, it would have been better, if the loan taken for such purpose by middle and lower income groups was reduced. Unorganized construction sector can provide jobs to many more people than now, if it is promoted. Its promotion is possible by motivating people to own their own homes. The procedures for obtaining loans for house buildings are too cumbersome to be followed by the common people in rural and semi urban areas. These needed to be simplified.

Ever since interest rates started moving up, borrowers with floating rates of interest have been complaining that they have received a raw deal because banks brought down rates for new customers while continuing to charge higher rate for the old customers with floating rate loans. Banks have managed to offer cheaper loans to new customers by reducing the spread between PLR and new loans. Rates on old loans were constant as PLR was unchanged. What is appreciated is that the RBI has warned the banks against introducing conditions such as a step up penalty on home loans where the penalty keeps rising along with interest burden with monthly default. The RBI has been motivated to take the decision in the wake of the sub prime crisis in the United States where overzealous lenders have advanced money to people with weak repayment capacity. The crisis was precipitated by a ballooning of defaulters following interest rates hiked coupled with a crash in real estate prices reducing value of the security. India must try to avert such a situation.

Home loan apart, the RBI has stressed the need for strengthening and modernizing the co-operative banks in the country so that these can play a vital role in the rural and semi rural areas. For introducing Information Technology (IT) in such banks, the RBI has adopted a much delayed policy. RBI itself will go in on a massive scale for introducing IT

for its more effective and better functioning. Here question may be raised why there is so much delay in introducing IT by the RBI so that people need not rush there and hang around.

Common people can look forward to more help from RBI in settling their grievances. It is hoped that even after increasing CRR of banks by 50 basis points from November 10, there will be enough liquidity in the market. The optimism is based on reports that the US Federal Bank equivalent to the RBI may go in for reducing rates of interest again. Foreign Institutional Investors (FIIs) ,People of Indian Origin (PIOs) and Non Resident Indians (NRIs) will therefore have no other alternative but to invest in the Indian Stock Markets. With five months left for ending the current fiscal, the performance of the Indian Central bank will be keenly watched to see whether it is able to keep inflation under check.

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