

# TIGHT MONEY EMI's to stay high but fixed deposits to fetch more

# RATE SQUEEZE AGAIN



## INTEREST RATES

Reserve Bank moves to make funds costlier for banks

Sachin Kumar

■ sachin.kumar1@hindustantimes.com

**MUMBAI:** Your wait for lower monthly instalments (EMIs) just got longer, with the Reserve Bank India slapping a new set of measures that will effectively jack up interest rates — though the central bank is not saying so.

However, there's a silver lining. Your fixed deposits are now likely to fetch more.

Measures announced by the RBI on Tuesday to prop up the falling rupee by sucking out liquidity from the system will make funds costlier for banks, thereby dimming hopes of a rate cut in its policy review on July 30.

However, costlier funds may force banks to increase deposit rates.

"Short-term deposit rates on 90-180 days will go up," said Rana Kapoor, managing director and CEO, Yes Bank. "We have not reduced our lending rates for the last one year despite 1% cut in the repo rate. We do not expect any change in that (lending rate)."

Experts advise borrowers to pre-pay loans as EMIs are expected to remain elevated. Those looking for risk-free investment options should go in for fixed deposits.

## A BUCK THAT DOESN'T STOP



**0.5%** Of the deposits banks are permitted to borrow using the repo window. Repo is the rate at which banks borrow from RBI at 7.25%.

**99%** Of daily cash reserve ratio requirements banks required to keep with the RBI compared with earlier 70%

**₹4000-5000cr**

Estimated amount of cash that recent RBI measures are likely to take from the system.

### WHAT?

■ Capped the amount of short-term money that banks can borrow from RBI at lower rates

### WHY?

- Funds will become costlier for banks
- They may be forced to hike deposit rates to lure funds
- This may nudge foreign funds to stay in India
- This may stem dollar outflow, arrest rupee slide

### WHAT'S IN IT FOR YOU?

- Costlier funds means a rate cut hope has dimmed
- So, your EMIs will remain elevated
- If you have surplus money to invest, wait-and-watch to see how bank deposits move
- Some experts say banks may raise lending rates
- This may force you change plans on purchases of houses and cars

"Consumers will be able to lock their savings at higher rates if they invest in fixed deposits now. The RBI's measures are temporary and term deposit rates will come down after these measures are rolled back," said Vishal Dhawan, financial planner and founder of Plan Ahead Wealth Advisors. "Borrowers should prepay loans as interest rates are expected to

remain high."

However, some feel that the RBI is unlikely to roll back its measures soon.

"We have ruled out chances of a repo rate cut for the current fiscal year," said Vidya Mahambare, principal economist, Crisil. "These measures are unlikely to be reversed soon and we expect them to be in place for 3-9 months," she added.