


## Budget likely to hold no shocks for the banking sector

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**BENGALURU:** The banking sector has been abuzz with activity in the two months following demonetisation. Now that fresh funds have started flowing into the banks, lenders across the country have cut the marginal cost of funds based lending rate (MCLR) raising investors' hopes. MCLR is the minimum rate of interest below which a bank cannot lend.



For individual customers, further rate cuts inducing a spur in retail borrowing could be expected, pointed out Bhargavi Sridharan, CEO of Finmitra. If the government focuses on boosting demand, then credit growth would see a pick-up, she added.

However, even though banks are flush with funds, they need to be recapitalised, said Dr Charan Singh, full-time visiting faculty and former RBI Chair Professor at the Indian Institute of Management Bangalore. "There are no queues in banks for loans. Yes, the banks will be looking for an opportunity to lend to the

industry, but the industry needs to have commercially viable projects which they would like to bring to the bank."

Also, all the money that has come in thanks to demonetisation might not be available for lending. "We are not sure how much of this money which has come into the banking system would be available for lending purpose. Therefore, we are not sure of the situation either on the supply side or the demand side," Singh added.

But the Union Budget 2017, set to be presented on February 1 by finance minister Arun jaitley, is unlikely to have any shocks or surprises for the banking sector, said Nitin Bhatia, personal finance expert. "This quarter also, the government decided not to reduce interest rates for the small savings scheme. It is also election time; I don't think there will be any major announcements."

This year might look positive for those availing home loans but at the same time, it poses risk for banks giving away loans, he added. "When you are in a hurry to lend, there might be a risk of increasing NPAs (non-performing assets). Banks have begun lending for those with less than 700 credit scores. There is also a possibility that once the money is in the system, people might want to withdraw it again. If these two scenarios happen, then banks will be in big trouble."

With payments banks, digital wallets and a lot of other challenger, the banking sector will have to respond to the substantial challenges it faces, noted Sridharan.

