



'Economists are talking nonsense on GDP decline'

Q&A

The government's move to scrap old notes of ₹500 and ₹1,000 denominations would be good for the economy in the long run, says **ADITYA PURI**, managing director of HDFC Bank. According to him, the worst is behind us, in terms of long queues and inconvenience, and that the focus should now shift to the advantages arising out of it. Edited excerpts from an interview with **Niraj Bhatt** and **Nupur Anand**

What are your views on demonetisation?

India has the highest use of cash in the world, according to a MasterCard report. All countries have some cash economy but such a high usage of cash is not in everybody's best interest. It doesn't create transparency and it affects black money, not only in stock but also in flow. The more cash transactions you have, the higher the likelihood of cash finding its way into the informal economy. Also, the cost of cash is very high.

Demonetisation shouldn't be looked at as an event in itself but as a series of events moving the economy towards greater transparency that ensures more people come into the banking fold.

For instance, the voluntary disclosure scheme, greater emphasis on digital payments for government, the benami transaction Bill, etc have helped. Fear is also a great impetus to push people in the right direction. So, everyone who has touched black money is scared and I'm very happy about it.

Savings that were outside the banking system, which were not being used productively, are coming back for investment or growth. Various estimates peg black money at ₹1.5-3 lakh crore. This money can be used constructively for transfer of wealth and building of infrastructure. But, with the infrastructure that banks have put in place along with the government, one doesn't need so much cash.

Has it not created a problem for banks, especially the incremental cash reserve ratio (CRR) requirement of 100 per cent?

It has brought around ₹8 lakh crore in the banking system. If this much money flows into the system, there will be a temporary aberration, it will lead to steps such as 100 per cent CRR by the Reserve Bank of India (RBI). Let me put this in perspective. When you have surplus liquidity, it upsets the money market rates, the bond rates and creates unnecessary volatility in the forex market. Once there are enough securities and changes in market stabilisation scheme ceiling, RBI would relax the CRR. The fiscal situation will improve, as there will be a larger number of people in the net.

Has it been executed well?

I don't have the guts to say there is no pain but then let's look at it in two ways — transition and long run. Transition is 50 days when the currency has been pulled out and has to be put back. RBI is printing new currency at full capacity.

Turn to Page 16 ▶

FROM PAGE 1

'Economists are talking nonsense ...'

We will be back to normal once the old currency is removed and that amount of currency minus black money is put back in the system coupled with digitisation.

Yes, there was a combination of issues such as people misusing the banking system and then creating shortages, people making a lot of noise and not creating normalcy and long queues etc, but the worst is behind us. You have to understand that if secrecy was required, there would be some pain. Between the government, RBI and the banks, we have tried very hard to minimise the pain. We have come very far in a short period of time. Now, everyone should pull their weight in making it work and it'll work in the long run.

Economists and analysts say gross domestic product (GDP) growth rate could dip 50-200 basis points (bps) and credit growth will fall 600 bps. Your views.

I think it is absolute nonsense. How many times have analysts and economists been right? Some people say GDP will become two per cent, some say six per cent. The question is how do they know GDP will fall? How do they know credit growth will slip? What has happened that will change credit growth so dramatically?

Credit growth now is around 10 per cent and if you include mutual funds and insurance firms, it is around 12-14 per cent. If someone can explain it to me how he thinks it can come down from 14 per

cent to six per cent, I will answer the question less vehemently.

There will be some impact on GDP during the transition period. I don't see an issue, maybe consumption demand might be marginally affected. You see the statements by corporates that they saw a dip in consumption in the first week, but 90 per cent of it has come back subsequently for many of them.

How will banks deploy the surplus cash?

There won't be any surplus cash, as there will be demand. Let's assume the economy will grow at 7.5-8 per cent. So normally, the GDP-to-bank credit demand is two times and there will be at least credit growth of 14 per cent. Plus, I do expect an uptick in demand from semi-urban and rural areas with digitisation and with new people coming into the banking system. I think 50-60 per cent of the surplus will be withdrawn and 40 per cent will be left with banks. After RBI's move of absorbing excess liquidity, the surplus has been removed. So, deployment will happen and probably at lower rates.

By when do you see rates coming down?

After RBI's move of removing excess liquidity and also the monetary policy in December, it is a little tough to say. If RBI's measures last for 10 days, then rates will come down sooner; but, if it gets prolonged, then there is an issue. In the long run, however, rates will come down.