

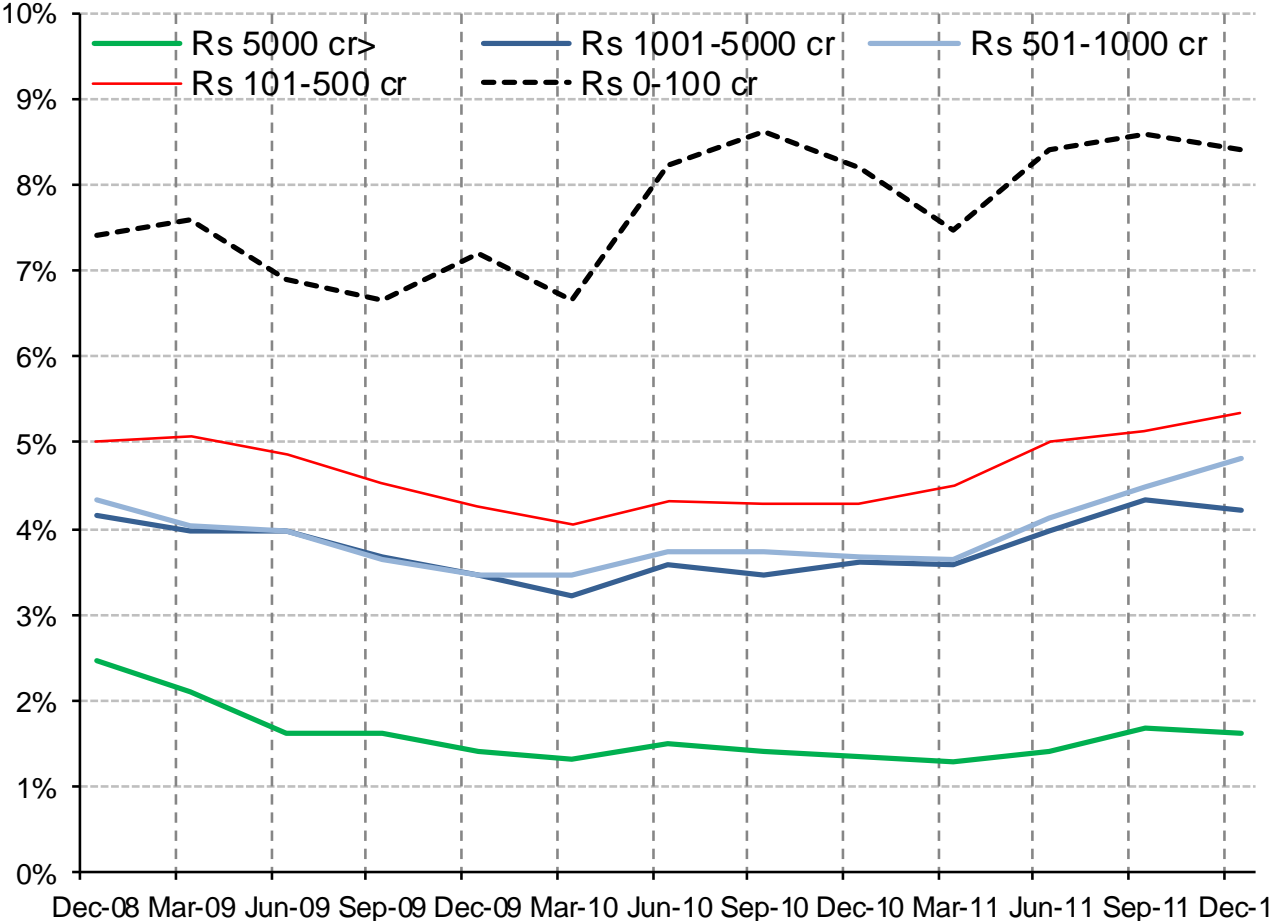
# Interest rates view FY13: Implications for lending rates



28<sup>th</sup> June 2012

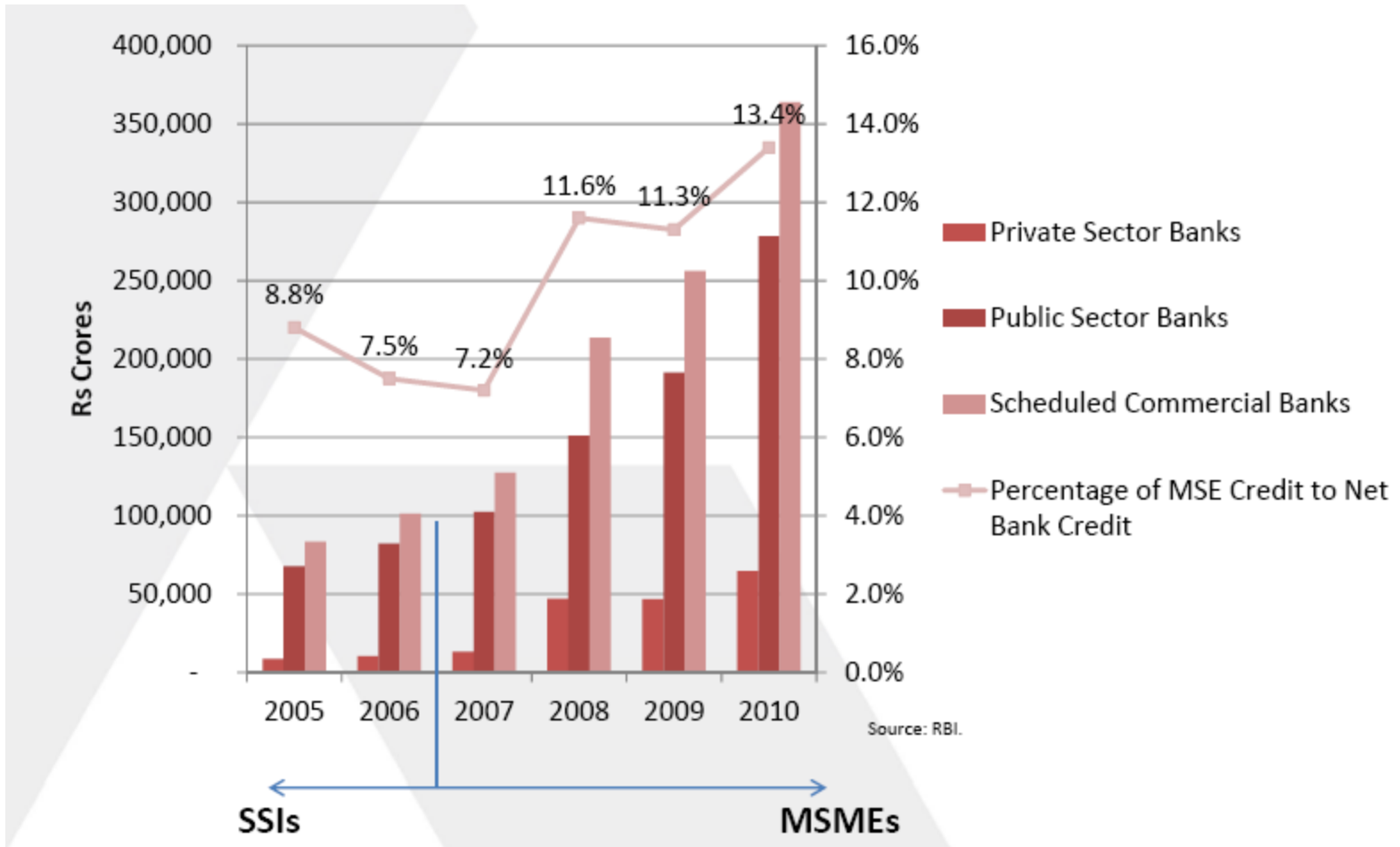
# Why should interest rate trends be important for SMEs? Because interest payments seem to be an important cost

### Non-Finance Corporates' Interest Cost to Net Sales (%)



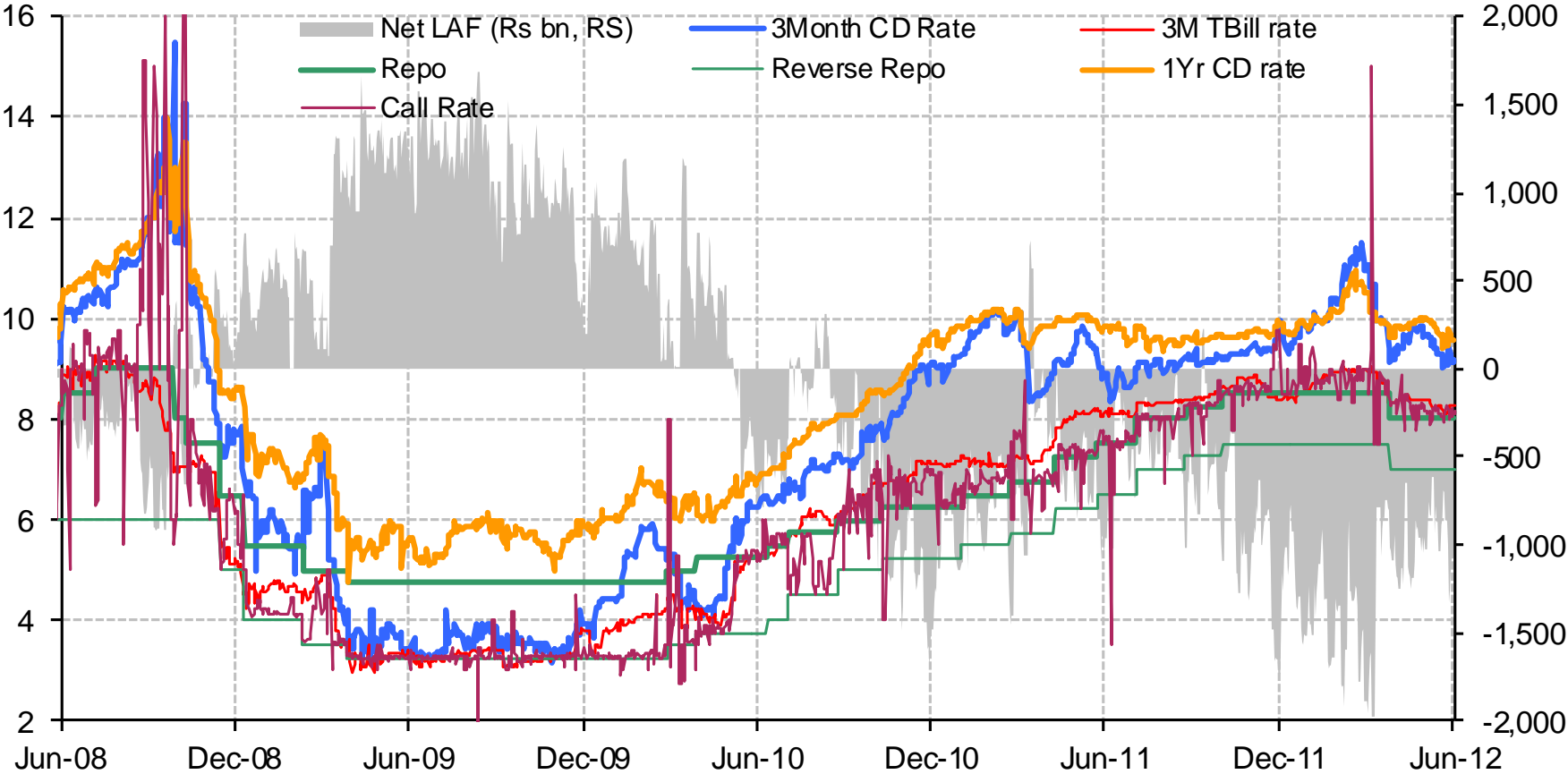
... and bank lending to SME's has gone up significantly, which increases interest burden in a high interest regime

Flow of bank credit to MSMEs (Rs crores)



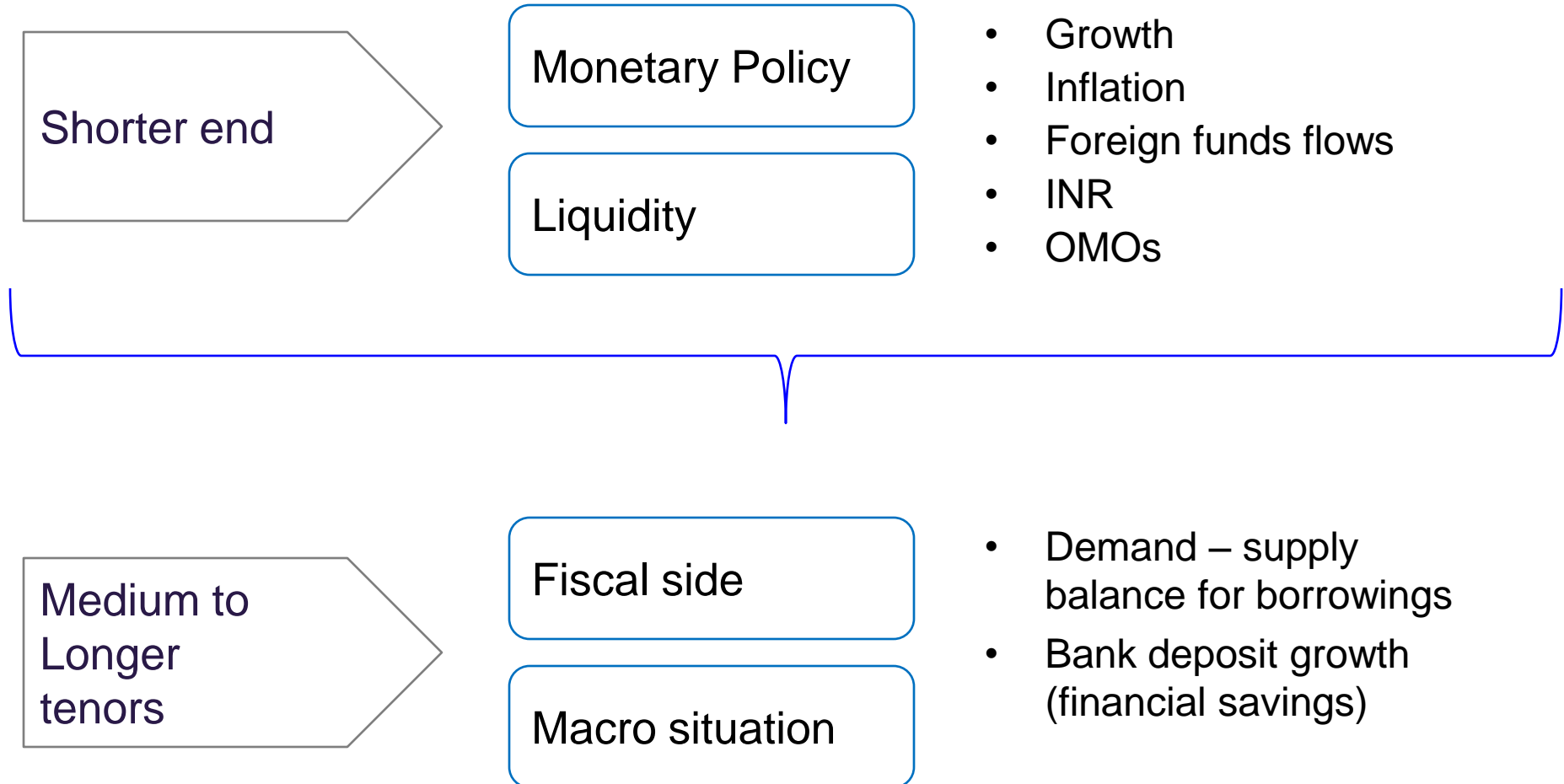
# A high domestic liquidity deficit had pushed up cost of funds much above the RBI's repo rate increase

### Interest rates reflective of Cost of funds



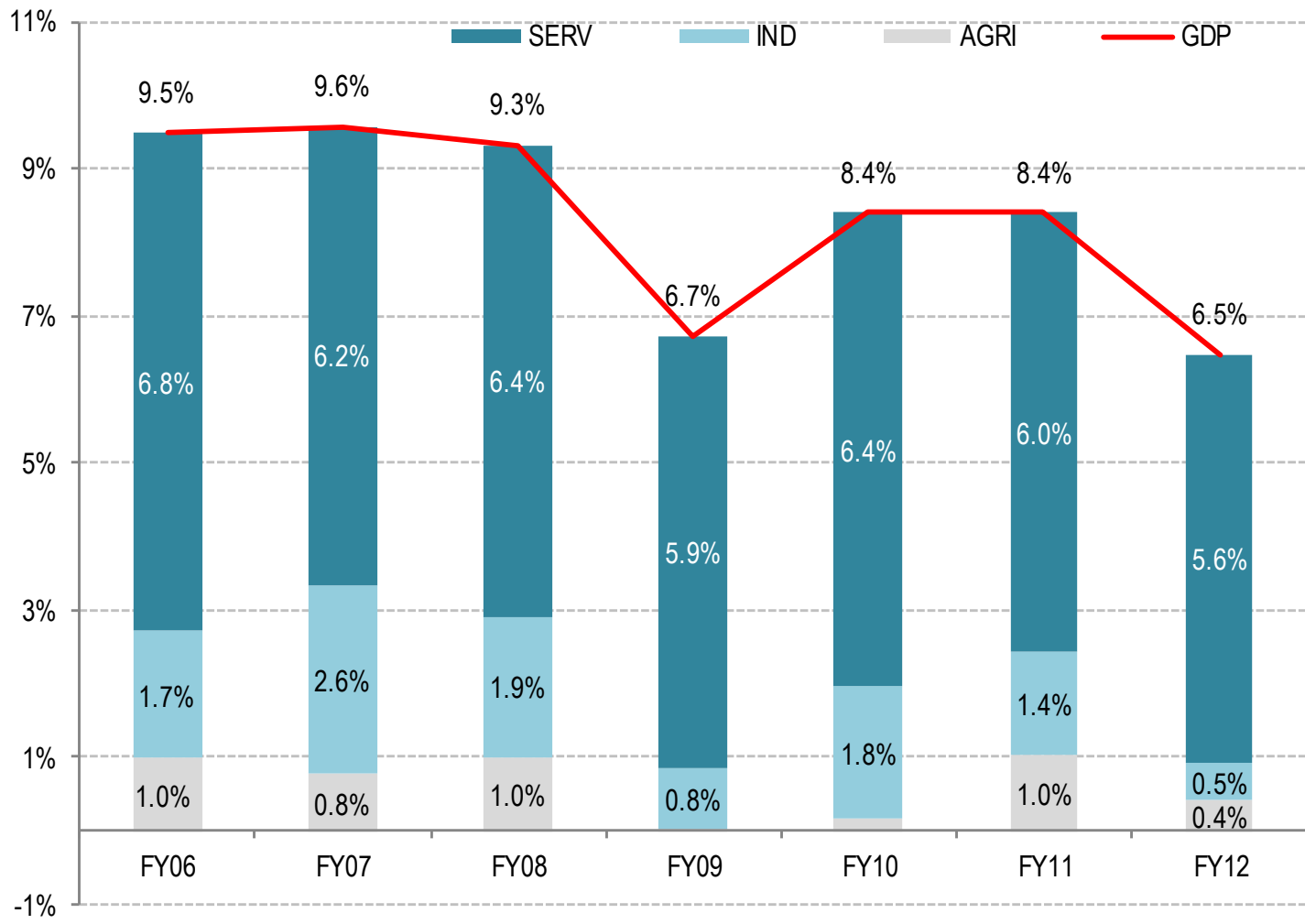
**So what is the outlook on rates from here on?**

## Factors which will influence cost of borrowing



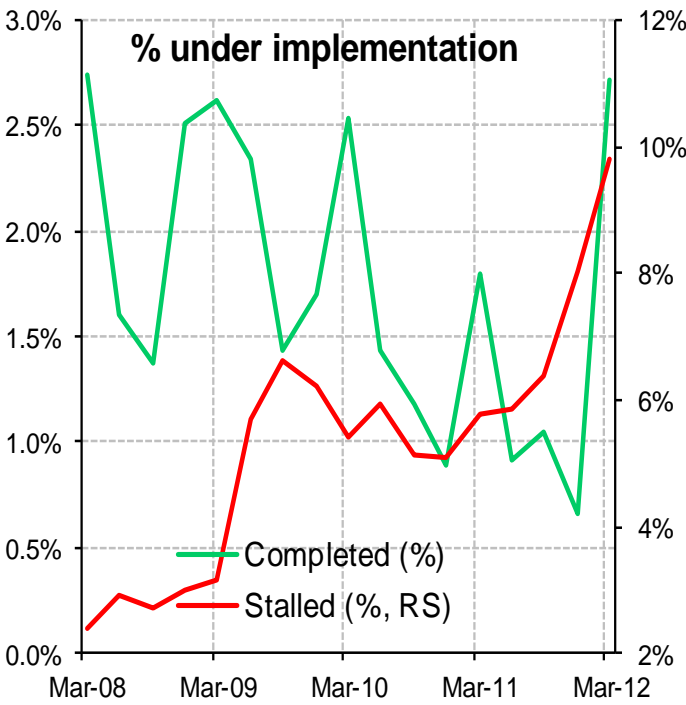
While the growth slowdown has been driven mainly by the industrial segment, and that too by a sharp drop in capex ...

Growth rates of GDP and its components (%)

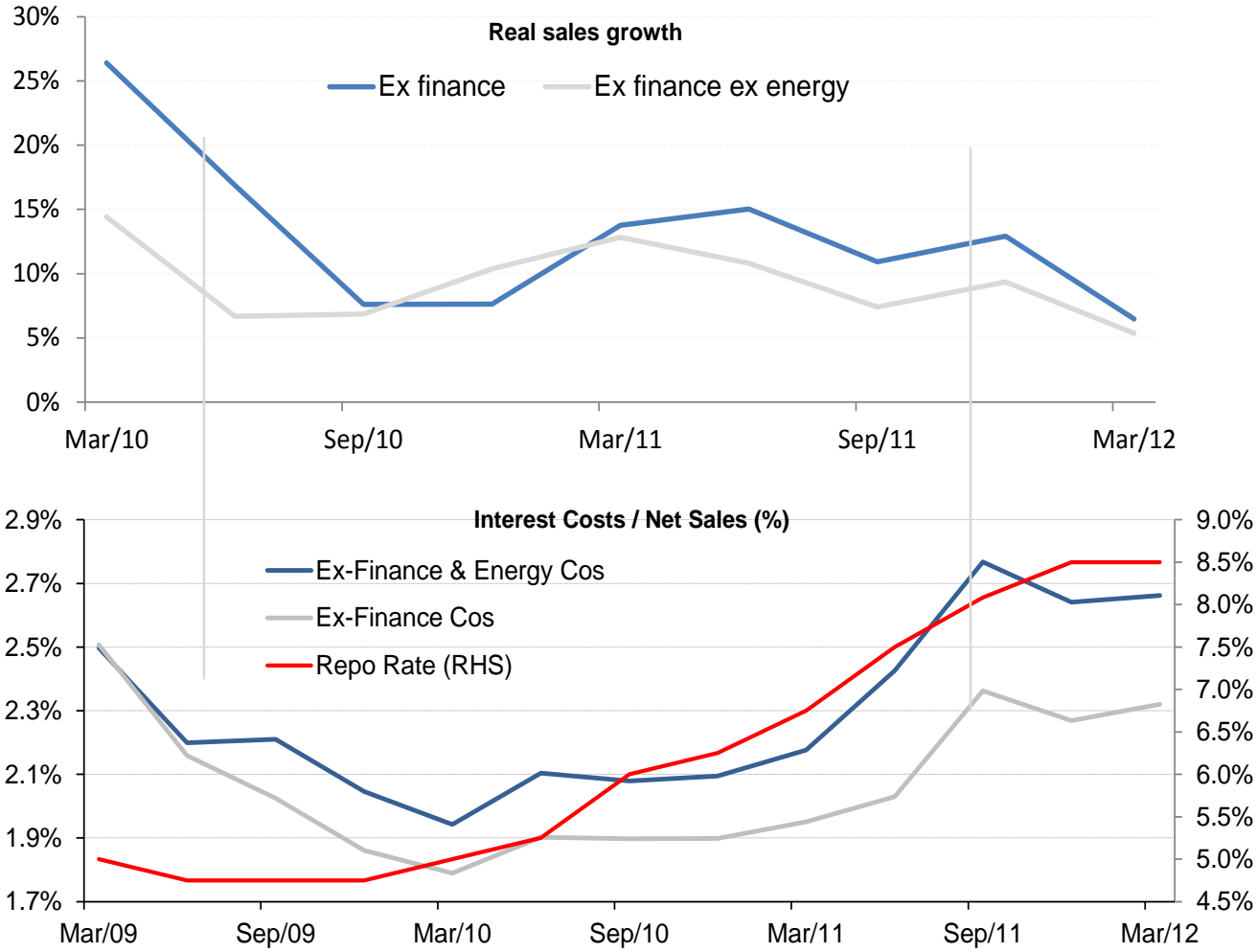


# The perception is that this is more due to implementation delays than interest costs

## Project delays

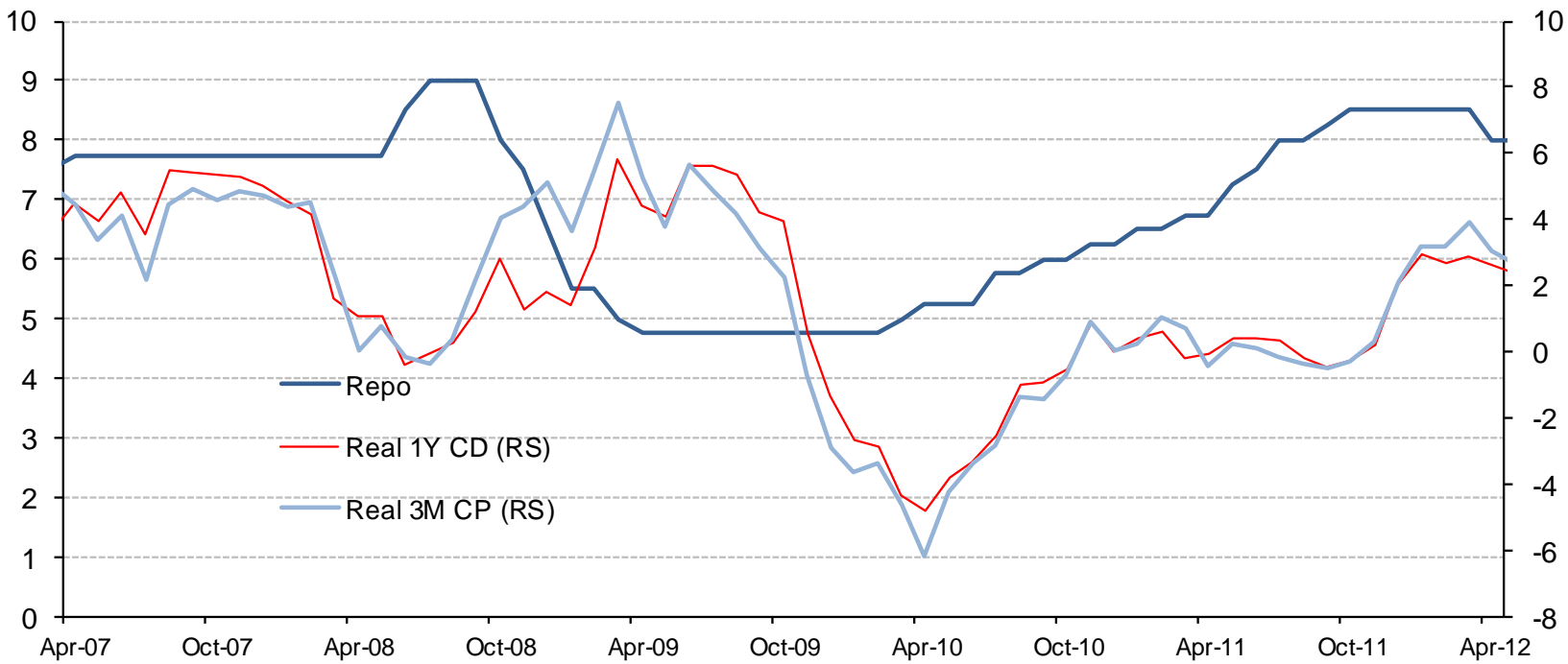


## Net sales and Interest costs



... and perception is that real interest rates still remain quite low, which is still expansionary

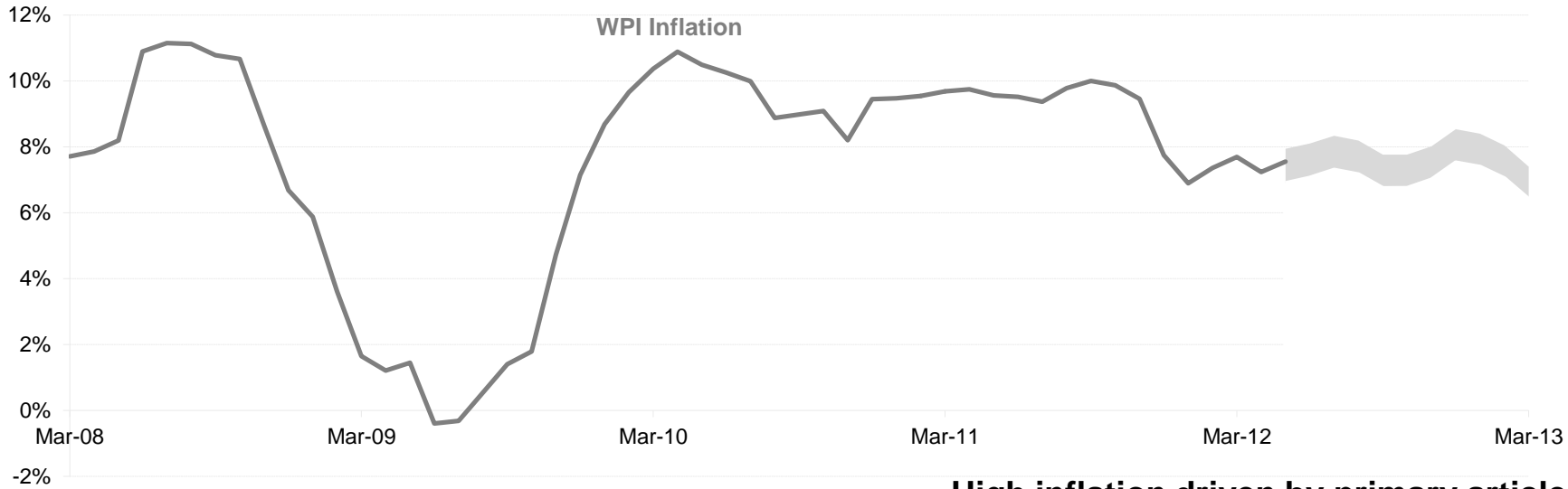
Nominal interest rates minus WPI inflation



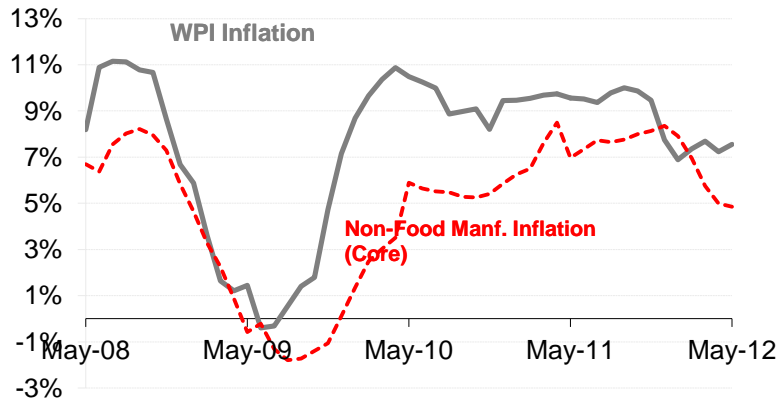


# Persisting high inflation is likely to restrict room for significant monetary easing, Despite core inflation coming down ...

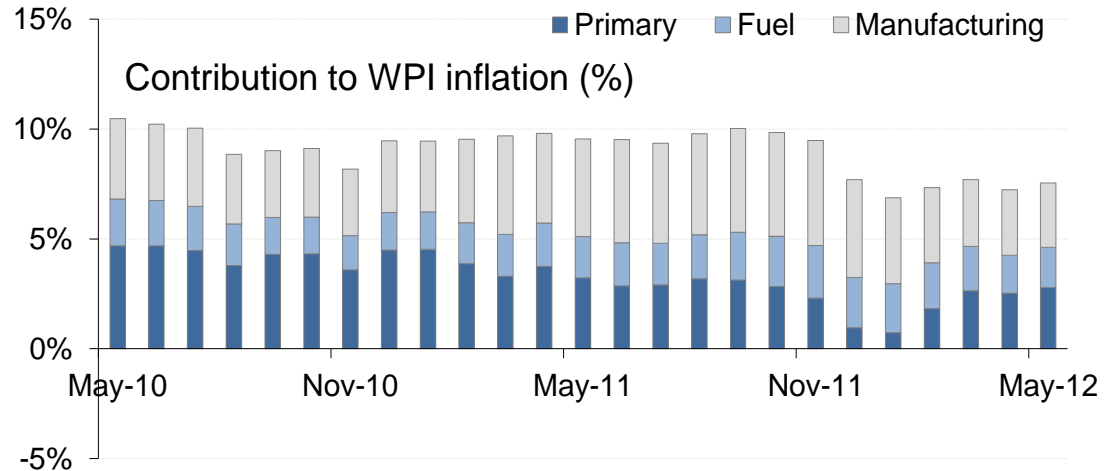
### Inflation forecast for 2012-13



### Weakening Core inflation headline steady

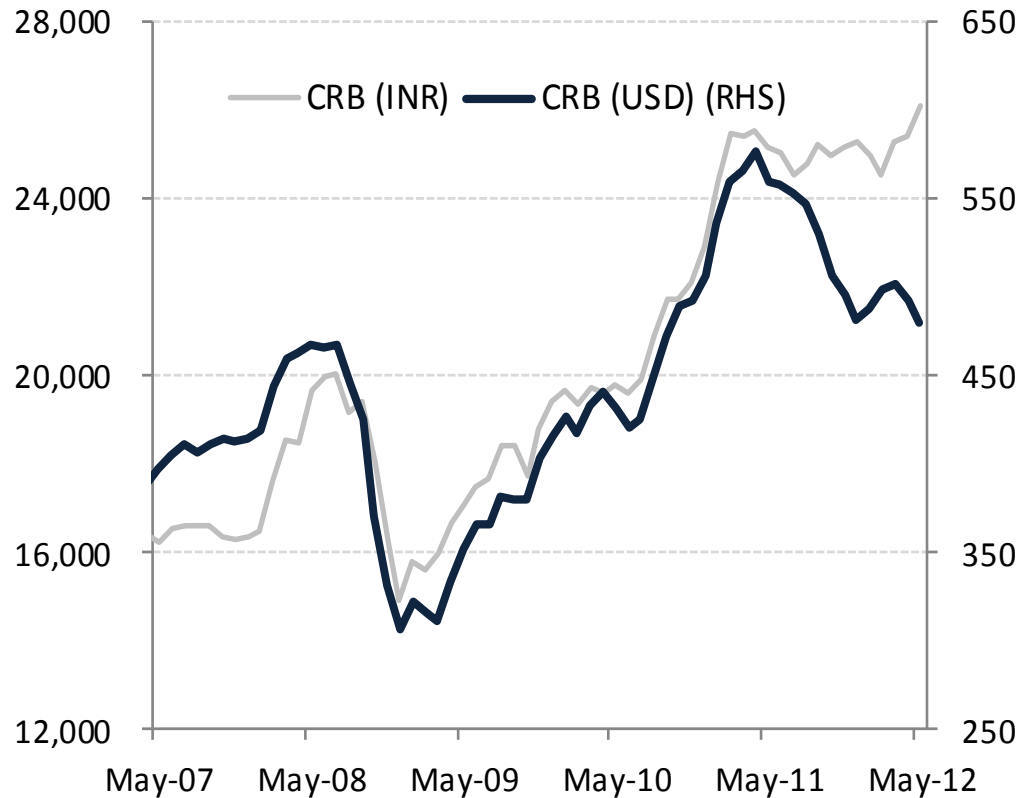


### High inflation driven by primary articles

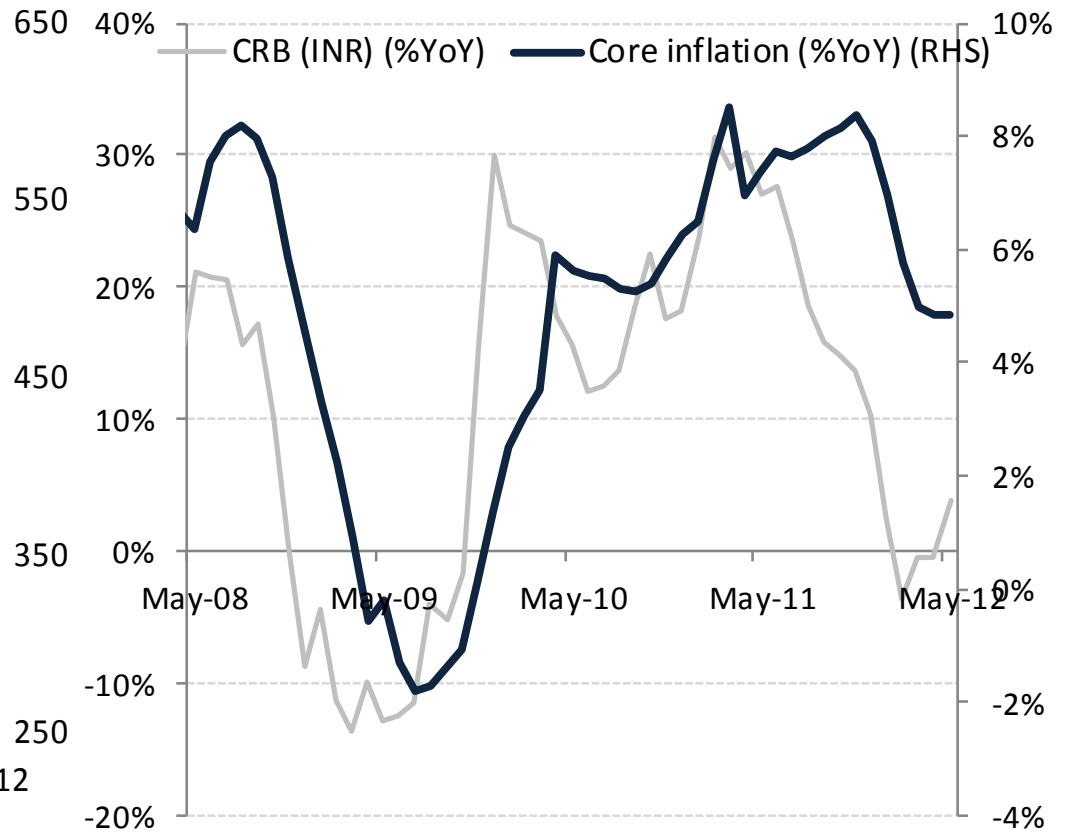


... and is likely to remain high due to food costs, a weak Rupee and increasing perceptions of rising oil prices

**Global Commodities prices**  
[in USD and INR terms]



**Global and India inflation**

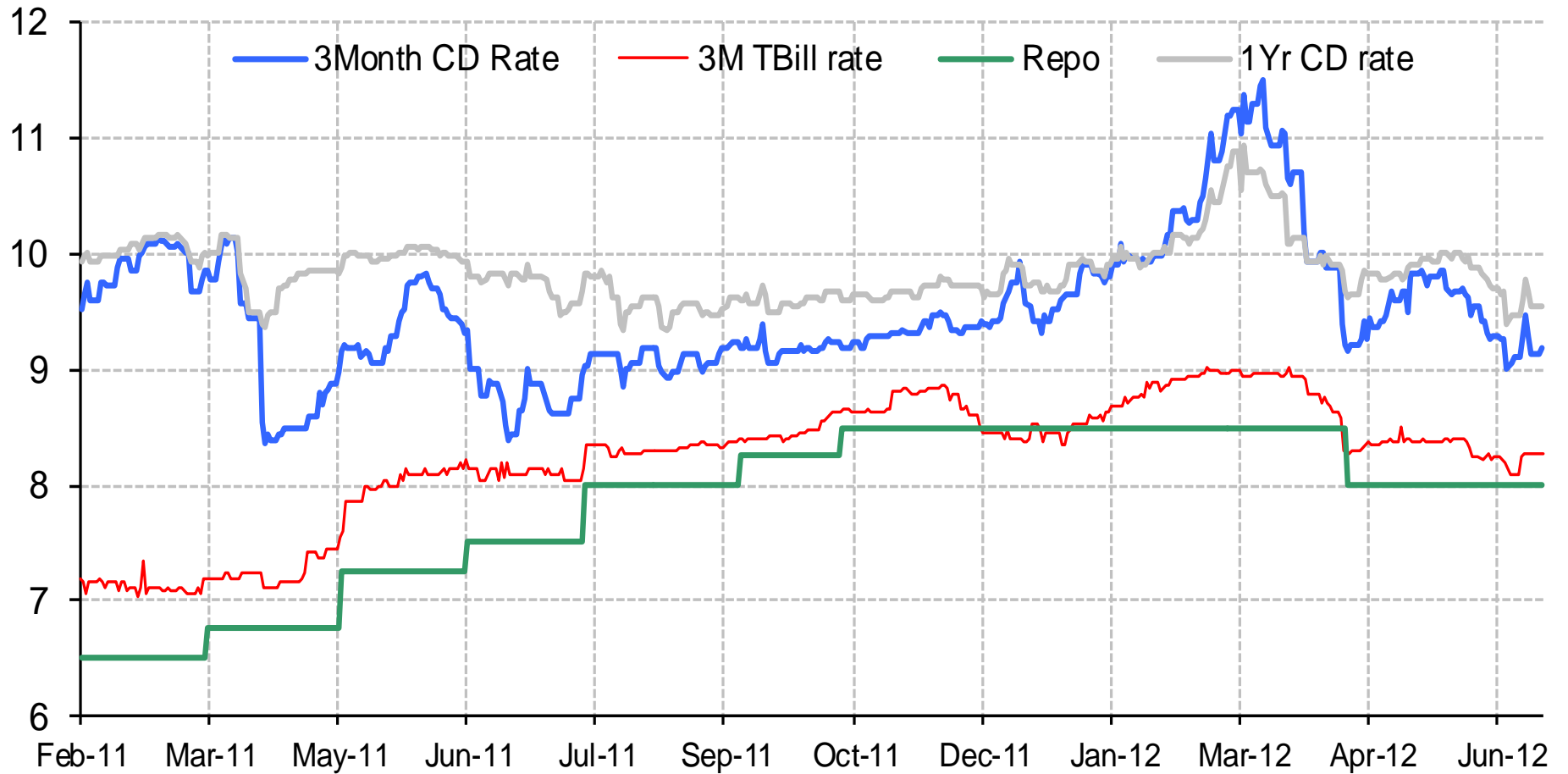


## Foreign capital flows are unlikely to add to domestic liquidity, so the deficit is likely to remain high

(US\$ bn)	FY08	FY09	FY10	FY11	FY12E	FY13F
<b>Current Account</b>	<b>-16</b>	<b>-28</b>	<b>-39</b>	<b>-44</b>	<b>-72</b>	<b>-71</b>
<b>% of GDP</b>	<b>-1.3%</b>	<b>-2.3%</b>	<b>-2.8%</b>	<b>-2.6%</b>	<b>-3.9%</b>	<b>-3.8%</b>
<i>Merchandise Exports</i>	156	182	182	250	301	337
<i>Merchandise Imports</i>	250	301	300	381	486	528
Net Invisibles	76	92	79	86	114	121
o/w, software	37	44	48	56	65	72
remittances	42	45	52	53	68	68
<b>Capital account</b>	<b>107</b>	<b>7</b>	<b>54</b>	<b>68</b>	<b>66</b>	<b>75</b>
FDI	16	20	20	11	20	15
Portfolio capital	27	-14	32	43	14	17
Commercial Borrowings	23	8	3	12	13	20
Banking capital	12	-3	2	-3	10	17
<b>Overall Balance</b>	<b>92</b>	<b>-20</b>	<b>13</b>	<b>19</b>	<b>-6</b>	<b>4</b>

To sum up:

Cost of funds are unlikely to come down significantly in the near term



Thank You

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