**‘UPA has to deliver before the next elections… There were issues where decisions should have been taken two years ago’ | The Indian Express**

Related. In this Idea Exchange,Aditya Puri,Managing Director of HDFC Bank,speaks about governance issues affecting growth and why banks cant be the engine of growth. This session was moderated by Editor (Mumbai) P Vaidyanathan Iyer. Sandeep Singh: Is the current climate in the country proving stressful? Aditya Puri: India is an extremely diverse country in terms of religion,politics,wealth. This dichotomy not only makes it difficult to manage but also very noisy. Its important that we do not mix the noise of a democracy and the vibrancy of India. So there is bound to be noise because you cant get anything right technically. Its a tough one to manage but we must not forget that in the short-term you can be noisy but in the medium to long-term,the prospects of India remain bright. We have natural advantages and we should come out of the present situation in the medium to long term. I think the UPA pretty much has to deliver before the next elections and I remain cautiously optimistic. George Mathew: What is pulling the growth down? Aditya Puri: There are two to three things and we have to get our act together. If you have coal and a power plant ready,then it is disastrous not to have the two functioning. Similarly,you have most of the plants ready but cant get the final environmental clearance. It is not too difficult and it is not dependent on coalition politics. You can give it any nomenclature you wantadministrative action,policy,etcbut its about getting the end result. I thought this Cabinet Committee (on Investment) will be able to do that. And I still hope it will. The second thing is investment and the delta between 5.5 and 6.5-7 per cent growth is the investment. When there is uncertainty,money wont come in and so we have to get the investment going. One major issue is fiscal deficit. It has to be a function of reduction of subsidies and increase in the tax net. We all know what needs to be done. We have to get the execution going and we are pretty close,so the worst is probably behind us. If we can get GST and DTC and the subsidies can be reduced,if diesel prices go up by Rs 5 a litre by the end of the year and Brent crude oil prices should also fall,it should help. Similarly,on imports,I dont think anybody has a clue as to why imports are jumping so much. There is a natural affinity to gold and people buy,but I am not quite sure that its because the interest rates are high. It could be an avenue for black money but I cant comment on that. So,we know what is required,investment,cut in fiscal deficit and all this gets linked. If you reduce the fiscal deficit you reduce the inflation and to reduce fiscal deficit you have to reduce subsidies and to reduce the subsidies you will also have to solve the problem of current account deficit. P Vaidyanathan Iyer: How much of this is due to the current environment and governance issues. That seems to be the one sticky point that all CEOs talk about. Aditya Puri: I dont think I can dispute that. The fact of the matter is that there were issues where decisions were not taken and should have been taken two years ago. There was some amount of paralysis. If you are kind,you would say it was induced partly by coalition politics. Today,its very difficult to get everybody together but coalitions are here to stay. I think everyone realises that our decision-making has been less than optimal. We should not have let our fiscal deficit go to this level and we should not have let investments come down to this level. P Vaidyanathan Iyer: While the economy has slowed down,there are companies and banks like yours that have grown continuously. What goes behind that? Aditya Puri: In India,the demand for financial services exceeds supply and when demand exceeds supply,it becomes more of an execution issue. So,I dont see any problems in the bank growing despite what is happening to the economy. If you look at semi-urban to rural India,there is shortage of services and thats why you see money lenders and all kinds of financial companies. Even in urban India,the average Indian is underleveraged,so demand is growing there. At 6 per cent GDP growth,at a multiplier of 2.5 times,the system will grow at 15 per cent. We gain a market share because we think we have the widest range of products and a very large distribution system in semi-urban and rural India. So we grow between 3-5 per cent faster than the market and we dont see any reason for the change in any of the parameters. Shobhana Subramanian: The deposit growth does not seem to be getting better and it is at 13 per cent. So how do you read the situation? Aditya Puri: The money supply is 13.2 per cent so the deposit growth will be 13-odd per cent. Also,periodically,we have to participate in supporting the rupee so net-net you cant have deposit growth more than the supply of money. Also,money supply is constrained because of inflation,so I actually dont see deposits growing faster unless the money supply grows. Shobhana Subramanian: How much loan growth can you support on this deposit growth and how much GDP growth will that give? Aditya Puri: Normally,since the base of the loan is lower than the base of deposit growth,I think we will support 15-16 per cent. The fact is that when the GDP grows and investment comes in,then tax revenues go up,fiscal deficit goes down. So I dont think you can have a direct linkage between growth in money supply and GDP. I think there are other functions which are drivers of GDP. Sunil Jain: So what is going to break the cycle? As of now,there is no money supply growth,you have low deposits,there are banks who are increasing rates on deposits in order to beat gold,etc. So you cant lend beyond a point. If the GDP has to grow at a certain rate,then lending needs to grow at a certain rate? Aditya Puri: The bank is just a bridge,it is not a car. If you get the investment growing and you reduce the fiscal deficit,inflation will go down,RBI will reduce the interest rate and increase money supply. Today,the issue is credit demand and not shortage of money. If anyone wants a loan today,he will get it and the rates on loans have been going down. Yes,the banking system is borrowing from LAF (liquidity adjustment facility),but if there was a genuine demand for assets today,there is money. All I am saying is that the engine of growth cannot be the bank,it has to be the industry and the government and the consumer. Again and again,people ask,what is RBI doing for growth? I am on the side of the RBI governor on this: RBI can assist in growth but it cant be the vehicle of growth unless you want to end up with a lot of inflation and imbalance in the economy. As things stand today,the financial sector should follow the real economy. Subhomoy Bhattacharjee: There are various sectors like power etc that are already receding. Going ahead,which are the sectors that you think banks would invest in? Aditya Puri: The headroom for banks is not full even for power. If it is a good project,we are lending even today. Secondly,I think if you look forward,there will be tremendous demand for funds. Fundamentally,at this point of time,major intermediation is through banks,so if we continue to grow,some people estimate that you will need trillion dollars in infrastructure expenditure and another trillion dollar in working capital needs and also you have retail. As of now,the glass is half full. We are probably at the bottom and it should go up. We see at the moment a large proportion of loan growth has come from consumption and that will continue if the economy picks and on top of that,you will have additional investment demand. If you let these two things happen,you will see in the second or third quarter of this year,a growth rate of about 6 per cent. If we get things right further,then next year our actual growth rate should be between 7.5-8 per cent. It depends on how many things you get right. The problems are solvable. It is taking a little more time than I anticipated but they will get solved and we have probably seen the bottom. Subhomoy Bhattacharjee: In the past,the finance minister and the RBI governor have had differences of opinion on interest rate cuts publicly. Has this impacted the banking sector? Aditya Puri: I did not get such a feeling. I think there are two partsone fiscal and one monetaryand when both work together we get the best result. However,each one has constraints. We still have issues in food inflation and high FD would be a little too much because the governor has to balance both growth and inflation. I think he has been stating that the tilt is towards growth and even in this environment,he has reduced rates. What I understood from the FMs statement was that we are moving along fiscal consolidation and monetary policy will follow and I dont think it has to be exactly at the same time. Shobhana Subramanian: How soon do you see the rates coming down? Aditya Puri: Rates will come down when there is more money supply because at this time,banks are borrowing and the fixed deposit rates have not come down. I believe that starting first quarter,there will be some reduction in interest rates as the government starts spending. So we are looking at some reduction in interest rates around April-May. But overall,I dont think you should expect major changes in interest rates and it is not an issue in growth. This could aid growth but cant propel it. Shobhana Subramanian: How much of a fall do you see in the calendar 2013? Aditya Puri: By December,you could get between 50-75 basis points cut. Shubhangi Khapre: How honestly is the private sector committed to social responsibility? The private sector has often blamed the political system for a lot of ills despite getting many concessions. Aditya Puri: I dont believe in dumping on politicians or on anybody else. Even when you talk of corruption,somebody has to give for someone to receive. I can talk for HDFC Bank: we have never paid a penny to anybody and we have not felt the need and we have not substantially suffered. On CSR,we are proud of being a good corporate citizen. Over the last three years we have made 1.5 million families self-sustainable. These are largely women who are under-privileged and we identify a business for them,train them,provide financial literacy,tell them who to sell to,give them a loan and get our money back. A board resolution says we will have 11 million families who will be brought under sustainable livelihood in the next four years. We have also taken it upon ourselves to substitute money lenders and thats why we are providing loans against jewellery in rural areas at a very reasonable cost. George Mathew: Companies are sitting on cash but they are not investing. What is worrying them? Aditya Puri: There is worry as they want clarity and consistency in policy. If the promoters get clarity,money will come. I also believe that the government is looking for a push from the public sector: if they start to invest,that is enough to start growth. They are sitting on large amounts of cash and the FM can make them invest. Aditya Puri: The demand for housing loans is robust. A bit of both will help it further and it should happen by the end of the year. If interest rates come down,all consumption will grow. Shubhangi Khapre: While input prices for construction have gone up,has the demand for housing gone up in the last three-four years? Aditya Puri: Demand for housing has gone up despite the increase in the cost of housing. It is above 20 per cent. We cant influence demand. Demand will be from the fact that we have a growing population and demographically,a large section of the population coming in wants a house. George Mathew: How do you manage 30 per cent growth quarter after quarter? Aditya Puri: Its between 25-30 per cent. Sandeep Singh: Is it sustainable for another 10 years? Aditya Puri: Our topline growth has been at 20-22 per cent and the bottomline grows faster than that. Over the next 10 years,I am confident of Indias GDP growth,the equation of banking sector growing 2.5 times the GDP and we growing 3-5 per cent above the sectors growth. Subhomoy Bhattacharjee: Do you see mergers in the banking sector? Aditya Puri: I dont think so. For our growth,merger or acquisition is not a necessity,we get this growth organically. However,if we get anything at a very good price,then we will look at it. Any major consolidation is dependent upon the government. As long as 70 per cent of the sector is with the government and the major banks are not merging with each other,one bank merging with another small bank does not make much of a difference. Manasi Phadke: As a lender,how comfortable are you giving money for PPP projects,especially in the road and mass transit segment? Aditya Puri: If they get all the approvals,we are very comfortable. Sharvari Patwa: In the period after the financial crisis in 2008,banks were cautious on credit cards and personal loans. While the non-performing assets of banks have risen now,banks are aggressively offering credit cards and personal loans. Do you think banks are taking unnecessary risk? Aditya Puri: If they make money,it is not an unnecessary risk. Only time will tell. If you choose the segment of your customer properly,then by and large,we have not found people wanting to be dishonest. The problem comes when you start going to subprime and give people loans beyond their capacity and then he finds it difficult to pay. If you start distributing it like biscuits,you will have a problem. Aftab Ahmed: Are you identifying a successor at HDFC Bank and is the bank in the process of grooming one? Aditya Puri: Not right now. Yes,we have enough of a pipeline. Am I retiring in the near future? The answer is no.