RBI's interest rate cut augurs well for ad spends

By [Synjini Nandi] ***Courtesy: exchange4media.com***

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The Reserve Bank of India on Tuesday announced that it would be slashing its key interest rates by 0.25 per cent. It has also released Rs 18,000 crore additional liquidity in the system to perk up growth through reduced cost of borrowing.

The interest rate cut comes after a period of nine months, with the last changes done on April 17, 2012.

RBI Governor D Subbarao, in the third quarter monetary policy review, cut the repo rate, which is also referred to as the key short-term lending rate, by 0.25 per cent; hence, the rate earlier which was 8 per cent has been cut to 7.75 per cent and Cash Reserve Ratio (CRR) by similar margin to four per cent.

While repo rate cut will reduce the cost of borrowing for individuals and corporates, the reduction in CRR, which is the portion of deposits that banks have to park with RBI, would improve the availability of funds.

Implications

2012 was a slow year in terms of economic growth, owing to poor economic conditions as well as high interest rates that were levied. The last year had observed the real estate developers heavily indebted due to the slowdown of the economy. With the proposed slash in the interest rate, the year 2013 has certainly started on a comparatively positive note.

According to the industry sources, there are certain significant changes that might be observed in certain sectors of the industry. The first and foremost is the effect on home loans and car loans which are expected to get cheaper in the coming months. With the decrease in the interest rates, more number of individuals would be interested in applying for the loans since there would be a reduction in the cost of borrowing. This will in turn lead to an increased buying of homes and cars altogether giving a push to the real estate and the automobile sector.

According to Kamal Khetan, CMD, Sunteck Realty, the repo rate cut and reverse repo rate cut from RBI, each at 25 basis points, is an early indicator for a softening stance in the coming months and this shall definitely boost the sentiment of all stakeholders in the economy. The rate cut will also bring in the required liquidity in the markets and this is expected to boost the real estate sector.

Commenting on the projections, Rajeeb Dash, Senior Manager, Marketing services, Tata Housing stated, “This would indeed be a positive move for the realty sector in a large way. There would a definite increase in the sentiments which would bring up the performance of real estate. Owing to various uncertainties in the market, sentiments were cautious but this would hopefully change a lot of things.”

Khetan also believes that if the banks reduce the home loan rates by 25 to 50 bps, it will provide further impetus to customer confidence and incentivise fence sitters in decision-making.

What would it mean for the advertising industry?

With the reduced costs of borrowing and the increase in the number of individuals buying property, cars, etc., both the realty and the automobile sector is bound to see an increase in their revenue. This in turn will affect the advertising industry, which was also witnessing a slow year. The projected revenue for the realty sector will imply a growth in ad spends on various media platforms.

Elaborating on the same, Khetan stated, “From a developer’s perspective, there would be savings on interest expenditure on the loans and debt in the balance sheet. Furthermore, if home loan rates witness reduction, it can lead to higher sales of the inventory. This in turn shall encourage developers to plan new launches and sustenance campaigns via innovative marketing for the existing projects to ensure inventory liquidation.”

According to Dash, the current move would certainly result in a lot on new innovations on the marketing and advertising front as well in terms of different promotional activities.

Khetan believes that apart from real estate, the allied industries – infrastructure and automobile are likely to benefit the most. Capital markets and equity investments too would benefit as there would be reduction in the FD/ savings rate, which would attract investors towards equity investments.