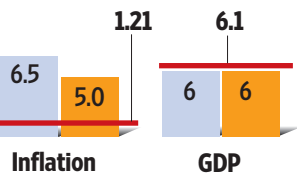
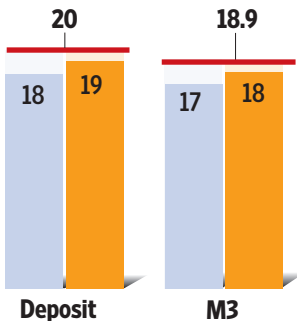
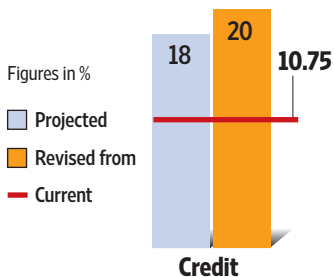


MEASURED MOVES

RBI has refrained from tinkering with key policy rates.



Revised from means original projection in April
Current inflation and GDP estimates are with upward bias
Current GDP refers to June quarter GDP

Source: RBI policy document

ACTION & IMPACT

- **SLR hiked to 25% from 24%.** Theoretically, this will drain liquidity and leave less money with banks for loans as they would need to buy more government bonds. But, at this juncture, it's an academic exercise as banks' holding of SLR securities is around **27.5%**
- **NPA coverage ratio made mandatory at 70%.** This will dent some banks' profitability as the industry average of provision coverage ratio is at around **50%** of their NPAs. These banks "including State Bank of India and ICICI Bank Ltd, India's two biggest banks" will have to set aside more funds and this will affect profitability. Those which already have **70%** coverage, will not be affected. The deadline for this is September
- **Provision for standard assets for loans given to commercial real estate firms increased to 1% from 0.40%.** This will make money more expensive for real estate firms and property prices will go up if they decide to pass this on to the consumers
- **Branch licensing made free in tier III and IV centres.** This will increase footprints of banks in semi-urban India and spread banking services across the country
- **Forex swap facility abolished.** Theoretically it may affect some banks which have foreign operations but so far no bank has availed this facility to a great extent. Hence, it is of academic interest
- **Export credit financing dropped to 15% from 50% earlier.** It may affect small and medium enterprises availing export loans from banks at a cheaper rate
- **Refinance window for mutual funds and non-banks closed.** Again an academic exercise, signalling exit from accommodative policy but won't have any impact as not too many entities have availed this facility
- **Collateralized borrowing and lending obligation included for CRR calculation.** It is de facto a hike in CRR. Banks will have to consider this popular instrument, which has a daily volume of Rs**60,000** crore, for calculating CRR at **5%**. This will reduce the volume of this instrument in the market. Also, banks used to borrow money through this instrument at **2.70-3.00%** and park it with RBI at **3.25%**. This arbitrage opportunity will vanish.

SLR: statutory liquidity ratio; NPA: non-performing assets; GDP: gross domestic product; M3: broadest measure of money supply; CRR: cash reserve ratio