

## RBI Monetary Policy Update

### *First Cut Report*

**Repo rate slashed by 100 bps with immediate effect; now stands at 5.50%**

Through this measure, RBI has clearly signaled that it wants the banks to reduce their interest rates and in order to enable them to do so, it has ensured that their borrowing cost in the form of REPO is reduced.

**Reverse Repo slashed by 100bps with immediate effect; now stands at 4.00%**

Slashing of Reverse Repo Rate clearly signals that the RBI is unhappy with the banks parking their surplus liquidity under reverse repo window.

The banks will now find it really difficult to park their surplus funds under reverse repo window as their current cost of funds is quite high. The banks will be forced to lend the money to the credit starved corporate sector. The move will also induce banks to reduce deposit rates.

**CRR reduced by 50 bps w.e.f. 17<sup>th</sup> January 09; now at 5.0%**

The CRR balances as on 5<sup>th</sup> December 2008 were Rs 2,06,185 crore. The move will release close to Rs. 18000-20000 Crore in the banking system. The 50 bps cut in the CRR improves the margins of the banks by 4-5bps.

**SLR kept unchanged; stands at 24%**

The SLR balance stands at Rs 10,88,292 crore as on 5<sup>th</sup> December, 2008. The Banks which are wary of corporate lending in the current credit crisis have parked their surplus funds under reverse repo window and SLR investments.

#### **Our View**

We expect a fall in deposit rates by 100-150bps immediately and similar fall in lending rates. We also anticipate further cuts in CRR by 100bps by March 2009.

#### **Top Picks**

SBI, Bank of India in PSU Banking Space and HDFC Bank and Axis Bank in Private Banking Space



Date: 2<sup>nd</sup> January, 2009

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## Key policy rates since 15TH Sept. 2008

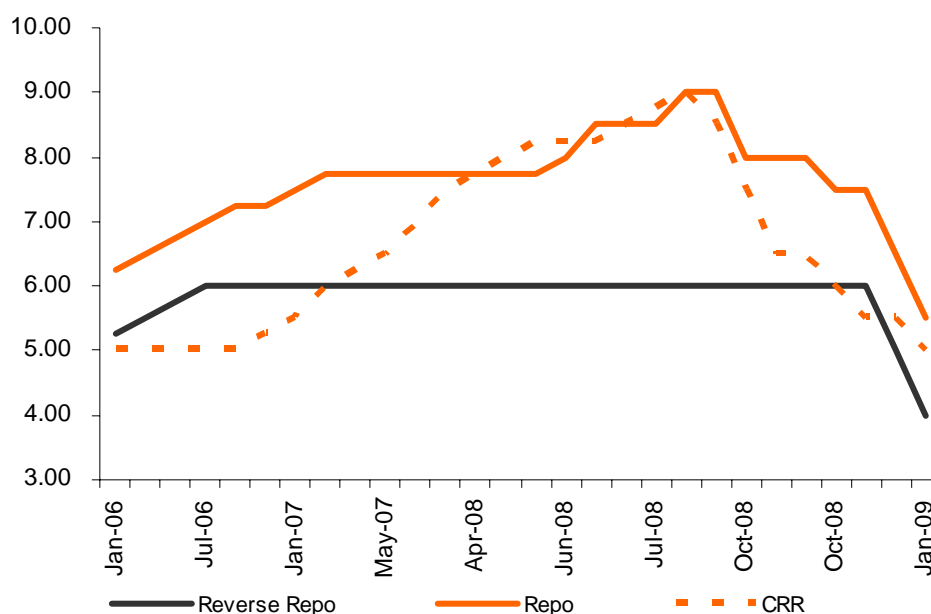
Particulars	15/09/2008	5/12/2008
SLR	25.00%	24.00%
CRR	9.00%	5.00%
Bank Rate	6.00%	6.00%
Repo	9.00%	5.50%
Reverse Repo	6.00%	4.00%

## Key data regarding Deposits and Advances of SCBs

Particulars	05/12/2008
Total Deposits (Rs. In crores)	35,54,888
CRR Balances (Rs. In crores)	2,06,185
Non food credit (Rs. In crores)	25,90,869
Credit disbursements last yr (Dec. 08)	5,39,850

(The above figures are taken from WSS released on 26.12.2008 by RBI)

## TRENDS IN KEY POLICY RATES



Source: RBI

## Our View

The current high cost of funds for the banks in view of higher deposits signal a mismatch between demand for credit and deposit mobilization. The demand for credit has outpaced the growth in deposits.

In view of the above, due to current policy measures we expect a fall in deposit rates by 100-150bps immediately and similar fall in lending rates. However, the full adjustment of interest rates with an aim to efficiently manage assets and liabilities may take some time. We believe, borrowers will still find credit costlier in the current economic scenario.

We expect a further cut in CRR by 100bps in the next 2-3 months.

## Top Picks

Our top picks in the banking sector remain SBI, Bank of India in PSU Banking Space and HDFC Bank and Axis Bank in Private Banking Space

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