

Industry Flash

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Indian Banks

SLR Flexibility – Structural Kicker

- **Cabinet gives RBI flexibility to lower 25% SLR floor** — The cabinet has okayed legislative changes which will give RBI the flexibility to lower the SLR level currently set at 25%. The President still needs to promulgate the order; that is a formality. This decision, to remove the SLR floor, is however not new; had been taken earlier by the Government, but necessary legislation had not got enacted
- **Structural Kicker, with possible immediate gains**— Lower SLR (mandated Bank investments in Government bonds) is a structural positive for banks as they a) can lend more, instead of invest in Government securities – usually at higher yields and returns b) get more flexibility in managing their asset books. Near term gains will depend on the extent and timing of any SLR reduction
- **RBI has the flexibility – But will it cut now, and if so, how much** — Will the RBI actually reduce the SLR near term, given it recently reduced liquidity by raising the CRR (Cash Reserve Ratio) by 50bp. We think so – though we would expect it to be probably 1-2% at a time, and staggered. Impact on lending – every 1% SLR reduction (about Rs230b) should support about 1.3% loan growth
- **SLR cut in the face of a recent CRR hike?** — We believe there is a difference. CRR addresses absolute liquidity in the system; which directly impacts inflation - RBI has sought to rein it in. SLR addresses the allocation of this liquidity; between credit and Government. While RBI is also seeking to temper loan growth; we expect it to be more accommodative of loan growth, than inflation
- **Private vs Government Banks? This time, both gain** — Until recently, private Banks would have been relative beneficiaries, given Government Banks carried surplus SLR bonds. That has changed – neither have liquidity on their bonds, and as long as loan demand stays ahead of deposit generation, we expect both segments to be relative beneficiaries

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Analyst Certification Appendix A-1

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