

Status quo maintained on policy rates, CRR increased by 10% for short term

Equity Research Desk

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RBI's monetary policy committee (MPC) kept the policy rates unchanged at 6.5% levels. However, RBI has increased incremental cash reserve ratio by 10% (i.e. from 4.5% to 4.95%) for short term that will absorb ~INR 850 bn worth of funds from the banks. I-CRR will be reviewed again in next one month before Diwali to revise to previous levels in order to infuse liquidity into the system. Also, extant regulatory framework for the NBFCs – Infrastructure Debt Fund (IDF) has been revised so that they are raise funds via ECBs and allowing them to finance toll-operate,transfer projects as direct lenders. This move to benefit NBFCs like PFS, PFC, REC.

Near-term spike in the inflation due to rise in the vegetable prices is a short phenomenon, which also be key monitorable to determine policy trajectory going forward. This has indirectly pushed the easing of policy to Q4FY24 or early next year. In line with this, we expect headline g-sec yield to remain the narrow band of 7-7.3% levels.

Key Highlights of policy

- Policy rates have been kept unchanged at 6.5%. SDF rate remain unchanged at 6.25% and marginal standing facility & bank rate at 6.75%
- GDP projection for FY24 stays unchanged at 6.5%
- **Inflation projection for FY24 has been raised from 5.1% earlier to 5.4% amid the rise in the food prices with Q2 expected to be at 6.2%, Q3 at 5.7% and Q4 at 5.2%.**
- In order to absorb the excess liquidity from the system, **banks will have to maintain incremental CRR of (I-CRR) 10% of NDTL between May 19 to Jul 28, 2023. This will absorb ~INR 850 bn worth of funds of the banks. I-CRR will be reviewed again on Sep 8, 2023 in order to infuse funds back into the system, implying increase in the CRR is the short term measure**
- **Review of regulatory framework for Infrastructure Debt Fund – NBFCs (IDF – NBFCs) – These NBFCs provided financing in the infrastructure space. The extant regulatory framework has been revised and the key changes are – 1) withdrawal of requirement to have a sponsor for the IDFs 2) allowing IDFs to finance toll-operate-transfer projects as direct lenders iii) permitting IDFs to raise funds through ECBs iv) making tri-partite agreements optional for PPP projects. Positive for PTC India Financial Services, PFC, REC.**

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Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021.

Tel: 91-22- 2282 2992 | E-mail: equity.research@dalal-broacha.com