

### Monetary Measures

- CRR - unchanged at 5.00%
- Reverse Repo rate - cut by 25 bps to 3.25%
- Repo Rate - cut by 25 bps to 4.75%
- Bank Rate - unchanged at 6.0%

### Other Highlights

- GDP growth projection for FY10 is placed at around 6.0 %.
- M<sub>3</sub> growth placed at 17.0% for FY10 from 19% in FY09.
- Aggregate Deposits projected to rise by around 18.0 per cent during 2009-10.

### Stance of the Monetary Policy

Annual Monetary Policy Review (Current)	3 <sup>rd</sup> Quarter Monetary Policy Review (Previous)
To ensure a policy regime that will enable credit expansion at viable rates while preserving credit quality so as to support the return of the economy to a high growth path.	To provision comfortable liquidity to meet the required credit growth consistent with the overall projection of economic growth.
To continuously monitor the global and domestic conditions and respond swiftly and effectively through policy adjustments as warranted so as to minimise the impact of adverse developments and reinforce the impact of positive developments.	To respond swiftly and effectively with all possible measures as warranted by the evolving global and domestic situation impinging on growth and financial stability.
To maintain a monetary and interest rate regime supportive of price stability and financial stability taking into account the emerging lessons of the global financial crisis.	To ensure a monetary and interest rate environment consistent with price stability, well-anchored inflation expectations and orderly conditions in financial markets.

The RBI annual monetary policy statement for 2009-10 was a reconfirmation of the central banker's commitment on policy impetus to domestic growth. The policy document reemphasizes the fact that RBI continues to place high weightage on liquidity easing to: cushion and to accelerate domestic growth.

It is also evident that the RBI is convinced that the monetary easing programme undertaken since Oct-08, along with various packages announced by the central government, would amply address the slowdown issues. Though there is restiveness in the central bank at the lagged-effect in the banking system, which is delaying the full-pass through to the credit market, and is procrastinating the economic revival.

Actual/Potential Release of Primary Liquidity – since Mid-Sept 2008	
Measure	(Rs. crore)
1  CRR Reduction	1,60,000
2  Unwinding/Buyback/De-sequestering of MSS Securities	97,781
3  Term Repo Facility	60,000
4  Increase in Export Credit Refinance	25,512
5  Special Refinance Facility for SCBs (Non-RRBs)	38,500
6  Refinance Facility for SIDBI/NHB/EXIM Bank	16,000
7  Liquidity Facility for NBFCs through SPV	25,000*
<b>Total (1 to 7)</b>	<b>4,22,793</b>
<b>Memo:</b> Statutory Liquidity Ratio (SLR) Reduction	40,000
* Includes an option of Rs.5,000 crore.	

Source:RBI

It is worthy to mention that RBI may be nearing the floor-level for its assortment of rates, and further rate cuts, if any, may be nearing an end. It is discernable that RBI is of the view that OMO programme, along with the structural decline in credit-demand and credit-offtake, may lead to compression in high deposit cost and lending rates for banks.

### Outlook

Interest Rates - Monthly Average					
Segment/Instrument	Oct (1)	Jan (2)	Mar (3)	Apr 17th (4)	bps decline (1-4)
	2008	2009	2009	2009	
Call Money	9.9%	4.2%	4.2%	3.5%	643
CBLO	7.7%	3.8%	3.6%	2.6%	513
Market Repo	8.4%	4.3%	3.9%	2.9%	554
Commercial Paper	14.2%	9.5%	9.8%	7.0%	717
Certificates of Deposit	10.0%	7.3%	6.7%	4.0%	600
91-day Treasury Bills	7.4%	4.7%	4.8%	4.1%	335
10-year Government Security	7.8%	5.8%	6.6%	6.4%	139

In this backdrop, we believe that the RBI policy has been dovish and has placed high emphasis on ensuring low borrowing cost with the

intention of reviving credit offtake. Furthermore, the fact that despite a high gross borrowing programme, the net supply would be around Rs 85,364 crs; which may prove to be largely non-disruptive for the bond markets.

Consequently, there is an expectation that the presence of excess liquidity in the system, coupled with possibility of structural decline in borrowing cost in the credit market, may reflect as bullish sentiment in the gilt/bond market. Resultantly, the 10 year benchmark gilt yield is expected to remain in the 6.00%-6.50% before reacting to further cues.

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