GOLD ₹38,985 | RUPEE ₹71.29 | OIL $61.90 | SILVER ₹46,310

*Indian basket as on December 3, 2019

SENSEX: 40,779.59 ▼ 70.70 NIFTY: 12,018.40 ▼ 24.80 NIKKEI: 23,300.09 ▲ 164.86 HANG SENG: 26,217.04 ▲ 154.48 FTSE: 7,183.52 ▼ 4.98 DAX: 13,160.77 ▲ 20.20

*International market data till 1900 IST

FIFTH BI-MONTHLY MONETARY POLICY

Rising inflation, need for clarity on fiscal policy prompt RBI to keep rates steady

GEORGE MATHEW
MUMBAI, DECEMBER 5

THE RBI'S Monetary Policy Committee (MPC) on Thursday unanimously decided to keep the key policy rate unchanged for the first time in 2019, as it worried about the rising inflation and felt that more time was needed for the impact of past rate cuts and more clarity on the fiscal policy and price fronts.

Unveiling the fifth bi-monthly monetary policy, the Reserve Bank of India's (RBI) policy panel also sharply slashed its gross domestic product (GDP) growth estimates for the fiscal 2019-20 to 5 per cent from 6.1 per cent earlier, citing a weak domestic demand, further slowdown in global economic activity and geo-political tensions. The government had last week said the GDP growth in September 2019 quarter had plunged to 4.5 per cent, the lowest since the three months ended March 2013.

While the decision to keep the repo rate at 5.15 per cent was unexpected, the MPC said it will "continue with the accommodative stance as long as it is necessary to revive growth, while ensuring that inflation remains within the target". An accommodative stance typically means that the MPC will cut rates whenever it finds the space available to do so.

Reserve Bank of India Governor Shaktikanta Das in Mumbai on Thursday. *Ganesh Shirsekar*

However, the RBI indicated there is monetary policy space for future action after considering the fiscal measures in the Budget and more clarity on inflation. "Given the evolving growth-inflation dynamics, the MPC felt it appropriate to take a pause at this juncture. We would like to have better clarity about counter cyclical fiscal measures. You should allow the measures taken by the RBI and the government to play out," RBI Governor Shaktikanta Das said.

"Timing is important rather than mechanically going about cutting rates," he said, adding that inflation targeting is the MPC's "primary mandate". While the RBI had cut repo rates by 135 basis points (bps) in five policy reviews in 2019, the one-year median marginal cost of funds-based lending rate (MCLR) has declined by only 49 bps. The weighted average lending rate (WALR) on fresh rupee loans sanctioned by banks declined by only 44 bps.

Das pointed to rising inflation expectations of households and said inflation "will be high". The MPC raised its inflation projection for the second half of the current financial year to 4.17-5.1 per cent from 3.5-3.7 per cent earlier. Under the RBI's inflation targeting mandate, the MPC is supposed to keep headline inflation within a 2-6 per cent range, but it has typically targeted the midpoint of 4 per cent.

The MPC's decision to pause surprised the markets and bankers, as they had expected a 25 bps cut thanks to GDP growth plunging to 4.5 per cent in September quarter. Other high frequency indicators such as core sector output for October, which contracted 5.8 per cent, and November auto sales point to sluggish demand.

In October, consumer price inflation rose to a 16-month high of 4.62 per cent. While most economists expected the MPC to look through this rise as transient, the MPC said that "the upsurge in prices of vegetables is likely to continue in immediate months." It also pointed to "incipient price pressures seen in other food items such as milk, pulses, and sugar are likely to be sustained, with implications for the trajectory of food inflation."

The RBI panel also indicated that various high frequency indicators suggest that domestic and external demand conditions have remained weak. "Based on the early results, the business expectations index of the Reserve Bank's industrial outlook survey indicates a marginal pickup in business sentiments in Q4 (January-March)," the MPC statement said.

The RBI Governor said the monetary policy easing since February 2019 and the government measures "are expected to revive sentiment and spur domestic demand." The RBI expects growth to pick up in the first half of fiscal 2020-21 at 5.9-6.3 per cent.

The MPC also said it was waiting for more insights from the forthcoming Union Budget.

Addressing a press conference, Das said the forthcoming union budget will provide better insight into further measures to be undertaken by the Government and their impact on growth. The RBI said most banks had linked their lending rates to the policy repo rate of the Reserve Bank.

UNANTICIPATED, SAY BANKERS

The RBI decision for a status quo though an unanticipated policy surprise is the most appropriate as monetary policy works with a lag. The lowering of the GDP growth for FY20 and FY21 reflects continued growth conundrums and a slow recovery

RAJNISH KUMAR
CHAIRMAN, SBI

The RBI's unchanged rate announcement signifies a wait and watch stance to understand the market and governments reaction to the rapidly unfolding market data

MRUTYUNJAY MAHAPATRA
MD & CEO, SYNDICATE BANK

This is contrary to what Ficci was expecting given the weakening growth scenario ... We note with concern that the transmission of the earlier policy rate cuts has not happened adequately, and are disappointed with the decision to not cut the repo rate ...

SANDIP SOMANY
PRESIDENT, FICCI

A temporary pause by the RBI to the policy interest rate reduction cycle while keeping its stance accommodative is understandable as long as it keeps nudging the banks to significantly pass the benefits of earlier rate combined repo rate cuts...

B K GOENKA
PRESIDENT, ASSOCHAM

RBI to continue with accommodative stance

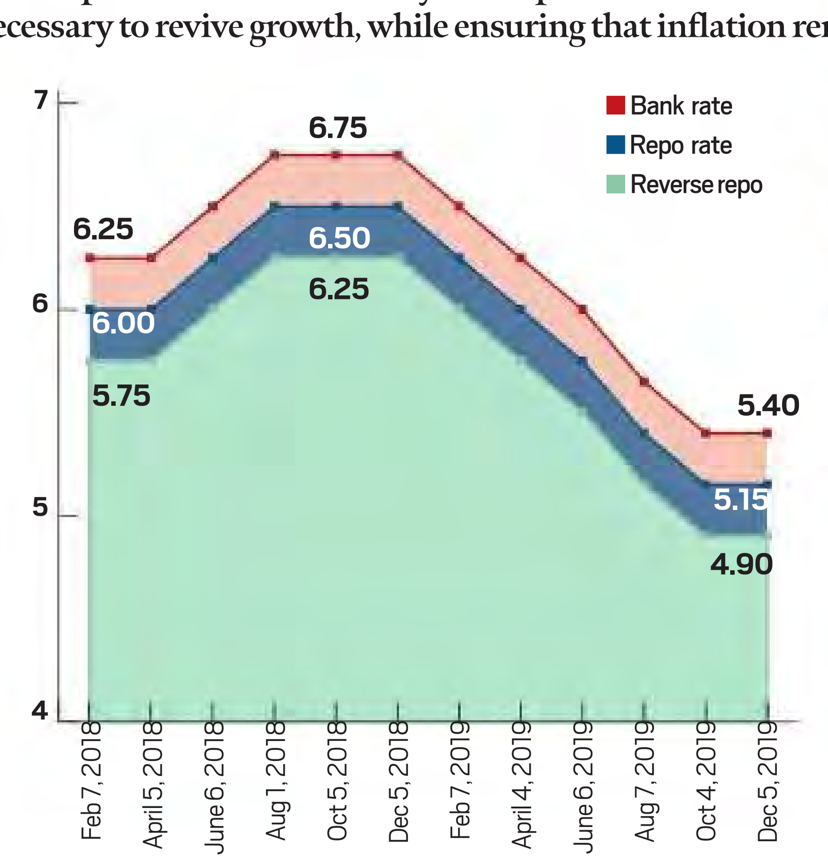
After slashing the repo rate five times in 2019, the RBI's Monetary Policy Committee, headed by Governor Shaktikanta Das, decided to keep the interest rate steady at 5.15 per cent and continue with the accommodative stance "as long as it is necessary to revive growth, while ensuring that inflation remains within the target"

5.15% is the current repo rate, the rate at which the RBI lends funds

4.90% is reverse repo rate, the rate at which RBI borrows from banks

5% GDP growth for 2019-20, down from 6.1% projected earlier

4.7-5.1% inflation projected for second half of 2019-20



UNANIMOUS DECISION: Unlike in the previous MPC meetings, all members of the MPC – Chetan Ghate, Pami Dua, Ravindra H Dholakia, Michael Debabrata Patra, Bibhu Prasad Kanungo and Shaktikanta Das – voted in favour of the decision

INFLATION OUTLOOK: Inflation is rising in the near-term, but it is likely to moderate below target by Q2 of 2020-21. It is prudent to carefully monitor incoming data to gain clarity on the inflation outlook

ECONOMIC OUTLOOK: The MPC noted that economic activity has weakened further and the output gap remains negative. Several measures initiated by the government and the monetary easing by the RBI since February 2019 are gradually expected to further feed into the real economy

RATE TRANSMISSION: While the repo rate was cut by 135 bps, the 1-year median marginal cost of funds-based lending rate (MCLR) has declined by 49 bps. The weighted average lending rate (WALR) on fresh rupee loans sanctioned by banks declined by 44 bps

SPREAD BETWEEN RBI POLICY & BANKS' LENDING RATE AT 7-YR HIGH

Despite RBI's temporary pause, borrowing cost may still fall as spread narrows

SUNNY VERMA
NEW DELHI, DECEMBER 5

THE RESERVE Bank of India's decision to not lower its repo rate, against the consensus forecast of a 25-bps cut, can be seen in the backdrop of significant scope for banks to pass on the past reductions in policy rates to customers.

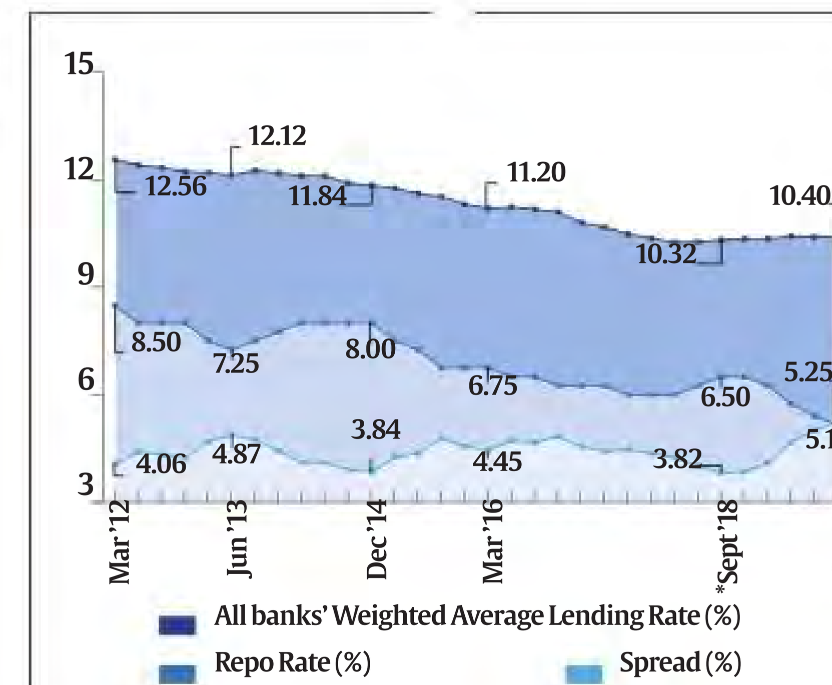
While interest rate transmission has been sharp in short-term money and wholesale loan markets, retail borrowers are yet to experience reduction in commercial lending rates of banks that is commensurate with the rate actions of the RBI. In fact, the weighted average lending rate (WALR) of scheduled commercial banks between December 2018 and October 2019 actually increased by 5 basis points (bps) against a cumulative policy rate cut to the tune of 135 bps, as per the latest available data with the RBI.

The spread between the repo rate and WALR of banks is at its peak since the RBI data is available from March 2012. As on October 2019, spread — or mark up of WALR over repo rate — was as high as 5.25 percentage points.

The spread was lowest in September 2018 at 3.82 per cent. In September 2018, which is also the month when IL&FS started defaulting on loans resulting in a spiral effect in the credit markets, the WALR of banks was 10.32 per cent while the repo rate was 6.50. In contrast, in October 2019, the WALR is 10.40 per cent even though repo rate has fallen to 5.15 per cent.

As uncertainties surround the financial system — especially in the backdrop of failure of large institutions like IL&FS, DHFL, PMC Bank and some smaller NBFCs — banks are yet to fully pass on the rate reductions to customers.

Analysts note that the pause in rate reductions is because RBI is hoping that transmission of rates will improve going forward.



*Source: RBI; Latest available data is for Oct 2019; *IL&FS starts defaulting*

EXPLAINED

RBI Governor Shaktikanta Das said the pause was temporary and the central bank wanted to assess the effect of its policy after rate reduction in five policies this year. He said "there is space available for further monetary policy action" and there is also a need to "maximise the impact of rate reductions". In its monetary policy statement, RBI said the transmission has been fastest in money markets and WALR on fresh rupee loans declined in recent months.

During February-October 2019, when RBI cut its repo rate by 135 bps, transmission to various money and corporate debt market segments ranged from 137 bps (overnight call money market) to 218 bps (three-month CPs of non-banking finance companies). Transmission to the government securities market, however, has been partial at 113 bps (five-year government securities) and 89 bps (10-year government securities), the RBI said. The one-year median marginal cost of funds-based lending rate (MCLR) has declined by 49 bps.

However, it is the WALR which remains sticky, indicating that rate reductions have been muted for bulk of retail borrowers. "The WALR on fresh rupee loans sanctioned by banks declined by 44 basis points, while the WALR on outstanding rupee loans increased by 2 basis points during this period," the RBI said.

"However, transmission is expected to improve going forward as (i) the share of base rate loans, interest rates on which have remained sticky, declines; and (ii) MCLR-based floating rate loans, which typically have annual resets, become due for renewal," it said. The median term deposit rates of banks have also declined by 47 bps during February-November 2019, which augurs well for transmission to lending rates, going forward.

We're making a deep-dive into books of top 50 NBFCs: RBI Guv

KHUSHBOO NARAYAN
MUMBAI, DECEMBER 5

RBI GOVERNOR Shaktikanta Das Thursday said the central bank is "regularly monitoring" the top 50 non-banking finance companies (NBFCs) and it "won't hesitate" to prevent the collapse of any NBFC.

Sanctions by NBFCs had fallen 34 per cent in the September quarter as the sector is yet overcome liquidity problems. "The top 50 NBFCs in India are being regularly monitored. We are making a deep-dive into the books of NBFCs wherever required and know where the vulnerabilities lie," Das said after the Monetary Policy Committee (MPC) meeting.

He said these 50 NBFCs represent about 75 per cent of the asset size of NBFC. "The management/promoters of vulnerable NBFCs are asked to come to the RBI on periodic intervals, discussions are held. We clearly tell them our expectations of measures that they should undertake to strengthen and get over the problems," Das said. He added that liquidity requirements of NBFCs for the next three months are being monitored and assured that the RBI "will not hesitate to act."

On credit flow to NBFCs, Das said it is slowly reviving and better performing NBFCs are being able to access funds at a pre-IL&FS rate.

He said the RBI will intervene as and when required and refer troubled NBFCs for resolution. Das, however, did not comment on the TARP-like initiative for NBFCs. Troubled Asset Relief Program (TARP) was a group of schemes conceptualised and run by the US Treasury Department to stabilise the country's financial system and counter foreclosures in the wake of the 2008 financial crisis.

With payment defaults and liquidity crunch hitting the financial sector, sanctions by NBFCs fell by Rs 98,752 crore, or 34 per cent, to Rs 195,205 crore during the September quarter of 2019-20 from Rs 293,957 crore in the same period of last year, according to the Finance Industry Development Council (FIDC).

On November 29, the RBI filed the insolvency process against Dewan Housing Finance Corporation (DHFL) at the National Company Law Tribunal (NCLT). DHFL is the first company from the financial sector to be referred to the NCLT.

Das: Steps to monetise Punjab & Maharashtra Cooperative Bank assets

Mumbai: RBI Governor Shaktikanta Das said the forensic audit report on the scam-hit Punjab and Maharashtra Cooperative (PMC) Bank is expected by the month-end, and efforts are also on to assess the realisable value of assets held by the cooperative bank that can be monetised.

He said the RBI has also given its suggestions on changes in regulations that are required for regulating the cooperative bank sector better.

"There is a forensic audit underway. We will get the report by the end of this month. Assessment of the realisable value of the assets of the bank is also on," Das said.

He said a coordination mechanism has been put in place consisting of the RBI-appointed administrator and the law enforcement authorities such as the Economic Offences Wing of the Mumbai Police, the Enforcement Directorate and RBI officials for asset valuation. **ENS**

Final norms for on-tap small finance banks unveiled

Capital requirement set at ₹200 crore; ₹100 cr for urban co-operative banks initially

ENS ECONOMIC BUREAU
MUMBAI, DECEMBER 5

THE RBI on Thursday opened the on-tap licensing window for small finance banks (SFBs), stating that the minimum paid-up voting equity capital/net worth requirement will be Rs 200 crore.

However, for primary urban co-operative banks (UCBs) desirous of voluntarily transiting into SFBs, the initial requirement of net worth will be at Rs 100 crore, which will have to be increased to Rs 200 crore within five years from the date of commencement of business, the RBI said while issuing the final guidelines for SFBs.

Incidentally, the net-worth of all SFBs currently in operation is in excess of Rs 200 crore. "SFBs will be given scheduled bank status immediately upon commencement of operations. SFBs will have general permission to open banking outlets from the date of commencement of operations," the RBI said. Payments banks can apply for conversion into SFB after five years of operations, if they are otherwise eligible as per these guidelines, the central bank said.

The promoters should hold a minimum of 40 per cent of the paid-up voting equity of the bank at all times during the first five years from the date of commencement of business of the bank. "If the initial shareholding by promoters in the bank is in excess of 40 per cent of paid-up voting equity capital, it should be brought down to 40 per cent within a period of five years. Whether a promoter ceases to be a promoter or could exit from the bank, after completing the lock-in period of five years, would depend on the RBI's regulatory and supervisory comfort and discomfort and SEBI regulations," the RBI said.

Further, the promoters' stake should be brought down to a maximum of 30 per cent within a period of 10 years, and to a maximum of 15 per cent within 15 years from the date of commencement of business of the bank, the banking regulator said.

Resident individuals and professionals (Indian citizens), singly or jointly, each having at least 10 years of experience in banking and finance at a senior level and companies and societies in the private sector, that are owned and controlled by residents and having successful track record of running their businesses for at least a period of five years, will be eligible as promoters to set up SFBs.

Existing NBFCs, micro finance institutions and local area banks in private sector, controlled by residents and having successful track record of running businesses for at least a period of five years, can also opt for conversion into SFBs.

Rate-sensitive stocks fall

ENS ECONOMIC BUREAU
MUMBAI, DECEMBER 5

RATE-SENSITIVE BANK and auto shares declined on Thursday after the Reserve Bank surprised with its decision to hold key policy rates. Among bank stocks, IndusInd Bank fell 2.21 per cent, RBL Bank 1.95 per cent, SBI 1.65 per cent, Yes Bank 1.51 per cent, Axis Bank 1.39 per cent, Federal Bank 1.25 per cent, HDFC Bank 0.50 per cent, Kotak Mahindra Bank 0.46 per cent and ICICI Bank 0.27 per cent on the BSE.

The BSE Bank index closed at 36,147.31, down 0.76 per cent.

Among auto companies, Tata Motors skidded 1.95 per cent, Hero MotoCorp 1.76 per cent, Ashok Leyland 1.42 per cent, Motherson Sumi Systems 1.17 per cent, Maruti Suzuki India 0.99 per cent, Bajaj Auto 0.71 per cent, M&M 0.37 per cent and TVS Motor Company 0.08 per cent.

The BSE auto index settled 0.64 per cent lower at 17,810.17.

The realty index closed at 2,198.50, up 0.20 per cent. BSE Sensex ended 70.70 points or 0.17 per cent lower at 40,779.59, while the 50-scrip NSE Nifty settled with a loss of 24.80 points at 12,018.40.

Meanwhile, the rupee rose sharply in the last hour of trade to settle 24 paise higher at 71.29 to the US dollar. **WITH PTI**

Exposure norms of urban co-operative banks to be tightened

ENS ECONOMIC BUREAU
MUMBAI, DECEMBER 5

The RBI has decided to tighten exposure norms for single and group/interconnected borrowers of primary urban co-operative banks (UCBs), in order to reduce concentration risk in exposures and strengthen the role of UCBs in promoting financial inclusion.

"These measures are expected to strengthen the resilience and sustainability of UCBs and protect the interest of depositors," the RBI said Thursday. The move follows the surfacing of the PMC Bank scam, where almost 70 per cent of the bank's funds were lent to the HDIL Group of the Wadhawans.

"An appropriate timeframe will be provided for compliance with the revised norms. A draft circular proposing the above changes for eliciting stakeholder comments will be issued shortly," the central bank said. It has also decided to bring UCBs with assets of Rs 500 crore and above under the Central Repository of Information on Large Credits (CRILC) reporting framework.

The RBI has also decided to prescribe a comprehensive cyber security framework for UCBs, as a graded approach, based on their digital depth and interconnectedness with the payment systems landscape, digital products offered by them and assessment of cyber security risk. The framework would mandate implementation of progressively stronger security measures based on the nature, variety and scale of digital product offerings of banks.

"Such measures would, among others, include implementation of bank specific email domain; periodic security assessment of public facing websites/applications; strengthening the cyber security incident reporting mechanism; strengthening of governance framework; and setting up of Security Operations Center (SOC)," the RBI said. This would bolster cyber security preparedness and ensure that the UCBs offering a range of payment services and higher information technology penetration are brought at par with commercial banks in addressing cyber security threats, the RBI said.

Self-regulatory body for corporate loans

MUMBAI: The Reserve Bank will facilitate the setting up of a self-regulatory body as a first step towards the development of the secondary market for corporate loans. "The SRB will be responsible for standardising documents, covenants and practices related to secondary market transactions in corporate loans ...," it said.

NBFC-peer to peer lending cap hiked

MUMBAI: The RBI has increased the aggregate exposure cap of non-banking financial company-peer to peer lending platform (NBFC-P2P) to all borrowers at any point of time, across all P2P platforms, to Rs 50 lakh. At present, the aggregate limit for both borrowers and lenders across all P2P platforms stand at Rs 10 lakh.

New prepaid payment modes

MUMBAI: The RBI has proposed to introduce a new type of prepaid payment instruments which can be used only for purchase of goods and services up to Rs 10,000. The loading/reloading of such PPI will be only from a bank account and used for making only digital payments such as bill payments, merchant payments, etc. **ENS**