

Price stability is now prime mandate for RBI: HDFC Standard Life

Reserve Bank of India (RBI) left key rates unchanged in its second quarter monetary policy review. However, it raised the statutory liquidity ratio of commercial banks to 25% from 24% effective November 7.

Prasun Gajri, chief investment officer (CIO), HDFC Standard Life Insurance commenting on RBI's credit policy said that though RBI has refrained from any overt rate hikes or liquidity tightening measures, there is ample warning that the days of the accommodative monetary stance are numbered.

He further added that the broad thrust of the policy has been on the following lines -

1) Price stability is now the prime mandate for the RBI. Hence it's quite likely that any spurt in inflation above the current forecast levels will invite a swift and decisive reaction from the central bank. RBI has upped its forecast for the March 2010 inflation level to 6.5% from the earlier 5% level, while maintaining its growth forecast intact at 6% for the current year.

2) Tightening credit risk provisions for banks exposures to select sectors like real estate and NBFCs, to head off any possibility of asset price bubbles fuelled by the surplus liquidity in banking system.

3) Increasing provisioning for NPAs to put banks' financial health on a stronger footing.

4) Withdrawing the unconventional monetary support measures (Liquidity support to MFs / NBFCs, forex swap lines and term repo facilities to banks) as a first step to an eventual exit from the easy monetary stance. The inclusion of CBLO borrowing for CRR calculations is a minor indirect hike in CRR. The SLR hike again, though unexpected, will have a minor impact on liquidity as most banks currently have SLR holdings higher than the revised requirements.

``We can, possibly, conclude that RBI has been able to walk the tight-rope in balancing the growth concerns from any early withdrawal of the stimulus measures and the inflation concerns due to a delay in withdrawing the accommodative policy,`` he added