

Highlights of RBI's Second Quarter Review of the Monetary Policy for 2009-10 (As summarized by Business Standard)

Monetary measures:

- The bank rate, repo rate, reverse repo rate and CRR unchanged at 6% 4.75%, 3.25% and 5%, respectively*
- SLR raised to 25% of NDTL
- GDP growth target for FY10 unchanged at 6% with an upside bias; RBI warns agricultural output is likely to be lower than in the previous financial year

Key objectives:

- RBI projection of inflation by the end of March 2010 revised to 6.5%, with an upside bias, from the earlier target of 5%*
- Medium-term inflation target 3%*
- Price stability

Stance for the review:

- Keep a vigil on trends in inflation and be prepared to respond swiftly and effectively through policy adjustments to stabilise inflation expectations
- Monitor the liquidity situation and manage it actively to ensure credit demands of productive sectors are adequately met; also securing price stability and financial stability
- Maintain a monetary and interest rate regime consistent with price and financial stability, the one which is supportive of the growth process
- RBI to monitor the price situation in its entirety and take measures as warranted by the evolving macroeconomic conditions swiftly and effectively

Key overall assessment:

- WPI inflation has turned positive. On a financial year basis, WPI has already risen by 5.95%. Inasmuch as monetary policy acts with a lag, there is a need to act now
- The LAF window has been absorbing over Rs 1 lakh crore on a daily basis since May 2009, save for a few days on account of temporary increases in government balances
- Current level of liquidity should allow the borrowings programme for this financial year to be completed smoothly

- RBI will exit from monetary accommodation in a calibrated manner, so that the recovery process is not hampered and inflation expectations stay anchored
- Begins calibrated exit from accommodative monetary policy by closure of some of the special liquidity supporting measures
- The limit for export credit refinance facility, which was raised to 50% of eligible outstanding export credit, revised to the pre-crisis level of 15%
- The two non-standard refinance facilities: (a) special refinance facility for scheduled commercial banks and (b) special term repo facility for scheduled commercial banks have been discontinued with immediate effect
- The liabilities of scheduled commercial banks arising from transactions in CBLO with Clearing Corporation of India will be subject to maintenance of CRR from the fortnight beginning November 21, 2009

Developmental and regulatory policies:

- Domestic scheduled commercial banks (other than RRBs) will now be free to open branches in Tier-III to Tier-VI centres
- Opening of branches by domestic scheduled commercial banks (other than RRBs) in Tier-I and Tier-II centres will continue to require authorization
- RBI has proposed to increase the provisioning requirement for advances to the commercial real estate sector classified as 'standard assets'