

# RBI Monetary Policy Update



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## RBI Monetary Policy Update

**Repo rate slashed by 50 bps (basis points) with immediate effect; now stands at 5%.**

Through this measure RBI has clearly signaled that it wants the banks to reduce their interest rates and in order to enable them to do so, it has ensured that their borrowing cost in the form of REPO is reduced.

**Reverse Repo slashed by 50bps with immediate effect; now stands at 3.50%**

Slashing of Reverse Repo Rate clearly signals that the RBI is unhappy with the banks parking their surplus liquidity under reverse repo window. The banks will now find it really difficult to park their surplus funds under reverse repo window as their current cost of funds is quite high. The banks will be forced to lend the money to the credit starved corporate sector. The move will also induce banks to reduce deposit rates.

**CRR remains unchanged to 5.0%**

The CRR have been maintained at 5.0%.

**SLR kept unchanged; stands at 24%**

The SLR has been kept unchanged at 24%. The Banks which are wary of corporate lending in the current credit crisis have parked their surplus funds under reverse repo window and SLR investments.

### Key policy rates since mid Sep '08

Particulars	15 Sep'08	8 Dec'08	2 Jan '09	4 Mar' 09
SLR	25.00%	24.00%	24.00%	24.00%
CRR	9.00%	5.50%	5.00%	5.00%
Repo	9.00%	6.50%	5.50%	5.00%
Reverse Repo	6.00%	5.00%	4.00%	3.50%

Source: RBI

## **Impact**

It is expected that the reduction in the policy interest rates will further encourage banks to provide credit for productive purposes at viable interest rates. Due to the current policy measures the lending rates are expected to decline.