RBI’s LTRO moves tangos with credit growth, says Brickwork Ratings

Brickwork Ratings, Mumbai, 3 March 2020: The long-term repo operations (LTRO) conducted so far, in batches of INR 250 billion each aggregating to INR 750 billion by Reserve Bank of India (RBI), has turned out to be a giant step among the strategic smart moves taken by the Central Bank for achieving multiple objectives. The measure has been successful in boosting credit growth and marginal yet smooth transmission of rates by the banks. Improving liquidity, reduction in banks’ cost of funds and easing interest rates, are all in line with BWR expectations, opined on 5 February, 2020 (post policy view).

Also, a similar softening trend is reflected in bond yields and lower term lending base rate in large PSBs. It has also ushered a wave towards establishing Repo rate as a benchmark for floating rate debt which was nearly absent so far.

The 1-year government bonds as well as corporate bonds of similar maturity have softened by 19 bps and 24 bps respectively. Similarly, the 3-year government bonds and corporate bonds have eased by 41 bps and 39 bps respectively after the announcement of these auctions (Feb 5-28), according to data obtained from FIMMDA.

The major PSU banks’ MCLR rates for the maturity buckets of 1-3 years have also eased by 5-15 bps after the announcement of these LTRO auctions, data obtained from bank websites.

Meanwhile, the RBI’s move has also tactically supported banks’ asset liability management (ALM) as they can source 3-year cheaper money through LTRO so as to cover their negative gaps in 1 to 3 years’ time buckets. These gaps are nothing but the discrepancy amongst the longer maturity of term loans and shorter maturities of deposits, typically averaging at about 1.5 years.

The move was so befitting that the first two auctions saw humongous response as auctions of 3 and 1 year fetched whopping bids leading to subscription of 8 and 5 times respectively. Reflecting a similar hunger, the third auction worth Rs 250 billion for 3 years (on 2nd March 2020) has fetched Rs 1.71 trillion, with a bid to cover ratio about 7 times.

In a bid to achieve price stability and growth objectives, the Central Bank has undertaken various innovative steps such as maturity swaps of G-Sec in buy sell Open Market Operations (OMOs) and foreign currency derivative swaps and now the LTRO. BWR expects more such LTRO post completion of earlier announcement in view of the success of the auctions.

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