Outlook
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Analysts say missing risk appetite may cap gains from RBI liquidity boost

05 May 2021 Last Updated at 9:47 pm | Source: PTI

Mumbai, May 5 (PTI) Analysts welcomed the additional liquidity measures announced by the RBI on Wednesday, but cautioned that the impact of these steps will largely depend on the risk appetite of lenders.

Despite the massive liquidity boost last year, credit offtake had plunged to a 59-year-low of 5.6 per cent in FY21, they added.

Domestic ratings agency Care Ratings said the additional RBI measures are likely to be beneficial to alleviate the constraints faced by a number of stakeholders in the economy.

That the measured have been well-received is clear from the equity and bond markets where the bond yields declined.

However, there are two things to watch out for, it said.

Firstly, whether the bank lending is likely to be strong following these measures because despite a host of liquidity measures from RBI in FY21, bank credit off-take was only 5.6 per cent in FY21. Secondly, with COVID-19 cases mounting, it needs to be seen how significant will be RBI"s deviation on GDP growth and inflation outlook.

Echoing the views, Ramya Muraledharan, director at Brickwork Ratings, said while the overall measures taken by RBI are positive, especially aimed at the small finance banks, MFIs and MSMEs, the eventual utilisation of these liquidity windows will depend on the risk appetite of small finance banks as these advances are not guaranteed by the government, unlike the ECLGS scheme which was fully guaranteed.

Rahul Bajoria, chief economist at Barclays India, said these measures point to the fact that normalisation cycle is likely to be on hold, unless the outlook for growth improves. With the latest measures, the total liquidity support so far given since the emergence of the pandemic is over Rs 14.2 lakh crore, he added.

Warning of further risks to banks" asset quality, Srikanth Vadlamani, senior credit officer at Moody"s Investors Service, said the one-time restructuring of loans to individuals and small businesses for loans up to Rs 25 crore, is much milder than the blanket loan moratorium given last year and the proportion of restructured loans will be lower.

Nevertheless, this highlights the reemergence of downside risks to asset quality of banks.

Soumya Kanti Ghosh of SBI said the Rs 50,000 crore specially targeted liquidity is roughly 9 per cent of the national health expenditure of Rs 6 lakh crore under private final consumption expenditure in FY20. This direct support to the sector will generate total output demand of roughly Rs 80,000 crore.

The other sectors which will benefit from this include organic chemicals, rubber and plastics.

On the liquidity boost to MSMEs, he said if we go by ECLGS numbers, banks will be able to lend around Rs 30,000 crore fresh loans to MSMEs and will save CRR of Rs 1,000 crore from the fresh loans to these units.

Krishnan Sitaraman of Crisil said the steps to incentivise small finance banks to lend to microfinance institutions, which typically face higher borrower vulnerability, is salutary.

Extending priority-sector lending eligibility to MFIs with asset size up to Rs 500 crore will encourage flow of credit to smaller MFIs, which have been facing relatively bigger funding-access challenges. This move will cover around half of the NBFC-MFIs, he added.

He also noted that unlike the asset quality stress cycle of the past, which involved large corporates, this time smaller accounts, especially MSMEs and retail, are more vulnerable to the second wave of the pandemic and the RBI moves are targeted accordingly. PTI BEN ABM ABM