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IBA Chairman's comment on third bi-monthly policy 2019-20



Indian Banks' Association

Third Bi-monthly Monetary Policy Statement 2019-20

By

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For the fourth straight time in a row, the Reserve Bank of India (RBI) cut its benchmark repo rate by 35 basis points to 5.40% in the Third Bi-Monthly Monetary Policy. Evidently, this would go to reduce the lending rate offered by banks. Overall banks have reduced the interest rate on fresh rupee loans by 29bps. With improvement in liquidity position and reduction in deposit rates offered by banks, further reduction in lending rate are expected. Since inflation is still benign and is in the expected trajectory of the RBI, more focus is given to propel growth and private investment which are lagging behind for a long period of time.

To give further impetus to the retail segment, reduction in the risk weight for consumer credit from 125% to 100% would encourage banks to take more exposure to this sector. Upto June, 2019, year on year retail credit growth of 16.6 per cent is far higher than the overall credit growth of 11.1 per cent. By the time the festive season sets in, the lower lending rate would help to boost the domestic demand.


RBI and Government have taken several measures to increase the flow of credit to NBFCs. Permission to banks to take exposure to single NBFCs to 20% of Tier-I capital from 15% and further relaxation in priority sector lending by banks through NBFCs to agriculture, housing and MSMEs could further increase the flow of these specific and important sectors which are also job creators. Further, RBI has also announced various measures to boost payment systems i.e., round-the-clock availability of National Electronic Funds Transfer System, expands biller categories for Bharat Bill Payment System and creation of Central Payments Fraud Information Registry.


On the whole, reduction in repo rates along with continued accommodative stance on liquidity is a clear direction to spur growth and increase the credit flow to the needy and productive sectors.



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