

The background is a deep blue gradient with abstract, wavy, light-colored lines that create a sense of motion and depth. A central, dark, stylized figure, possibly representing a person or a complex structure, is partially visible, adding a human or industrial element to the design.

# Managing the Liquidity Constraints In India

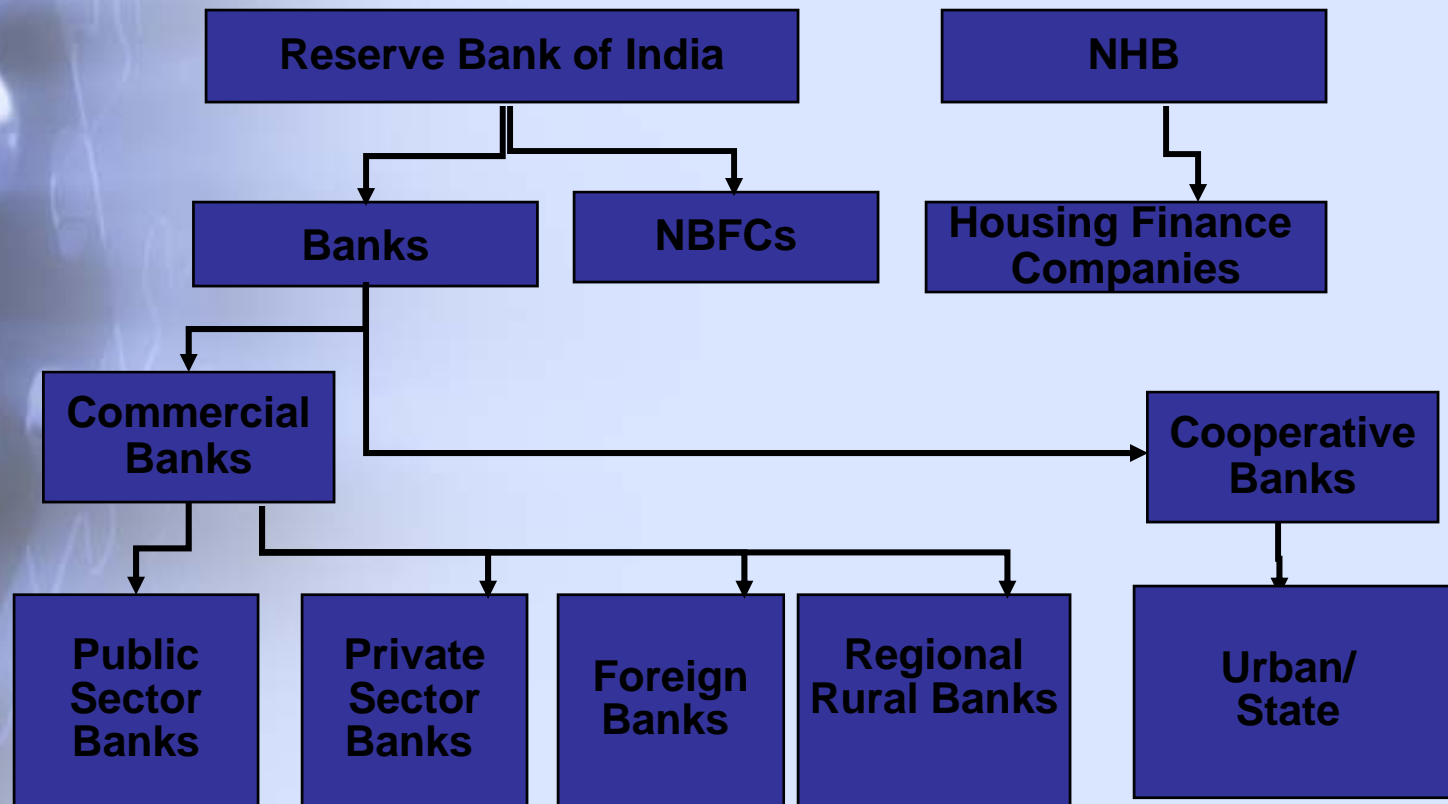
Krishnamurthy  
Reserve Bank of India  
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# An overview

- **Regulatory and Institutional Structure for Housing Finance.**
- **Sources of Funds for Housing finance**
- **Emergence of constraints in the market**
- **Measures taken by RBI**
- **Future Perspectives**


# Regulatory and Institutional structure – housing finance





# Sources of Funds for HFCs

- Borrowing from Banks
- Debentures
- ICDs
- NCDs
- Refinance support
- Public deposits



## Emergence of constraints in the market

- Factors
- Liquidity position of large HFCs
- Liquidity position of scheduled commercial banks
- Resource availability




# Emergence of constraints in the market - Factors

## External Constraints

- Sub-prime crisis and the resultant liquidity squeeze affected inward flow of funds

## Internal Constraints

- The withdrawal of FII funds from Indian Capital Market affected the market;
- Mutual Funds felt redemption pressure from investors and resulting liquidity squeeze;
- Decline in availability of funds from Mutual Funds for other dependent financial institutions;
- Decline in credit flow from the banks to institutions.



# The emergence of constraints

## – Liquidity issues of HFCs

- The liquidity constraints emerged in the economy, though not HF focused, did impact the HFCs also.
- However, the balance sheet size of the HFCs did not shrink
- The growth had been moderate with a slight weakness only in the last quarter of 08
- The structure of resources underwent adjustments .
- No resource crunch has been felt by Large HFCs as on March 31, 2009;





## Liquidity position of large HFCs<sup>@</sup>

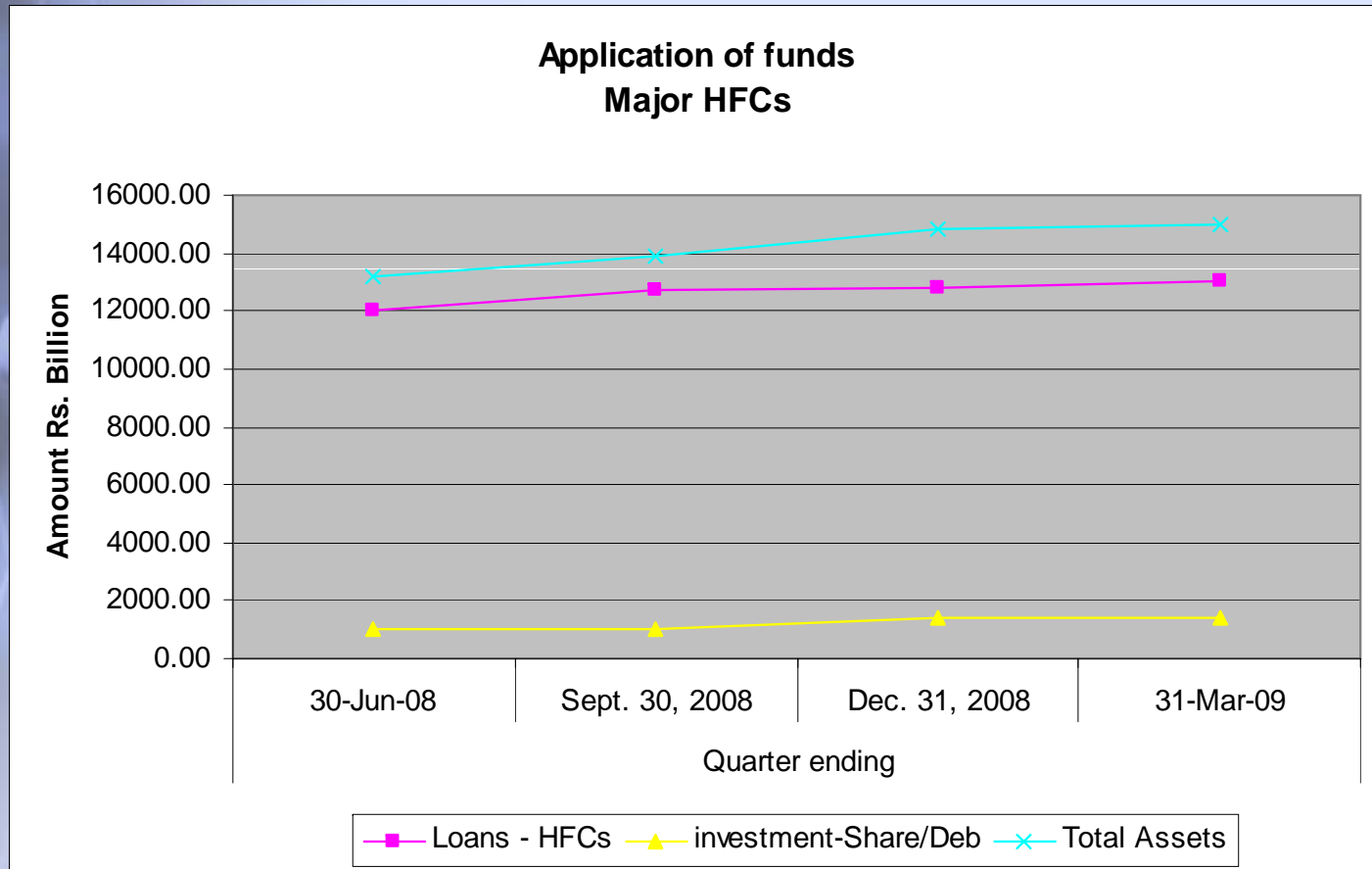
Sources underwent **slight restructuring.**

- **Debentures as a source of funds decreased.**
- **ICDs Increased**
- **Deposits continued to remain steady**
- **The data from selected HFCs reveal, currently there are no liquidity constraints**
- **No resource crunch has been felt by major HFCs at the end of I Qtr of 09.**

<sup>@</sup>Data from some major HFCs



# Application of funds – HFCs (Selected Study)



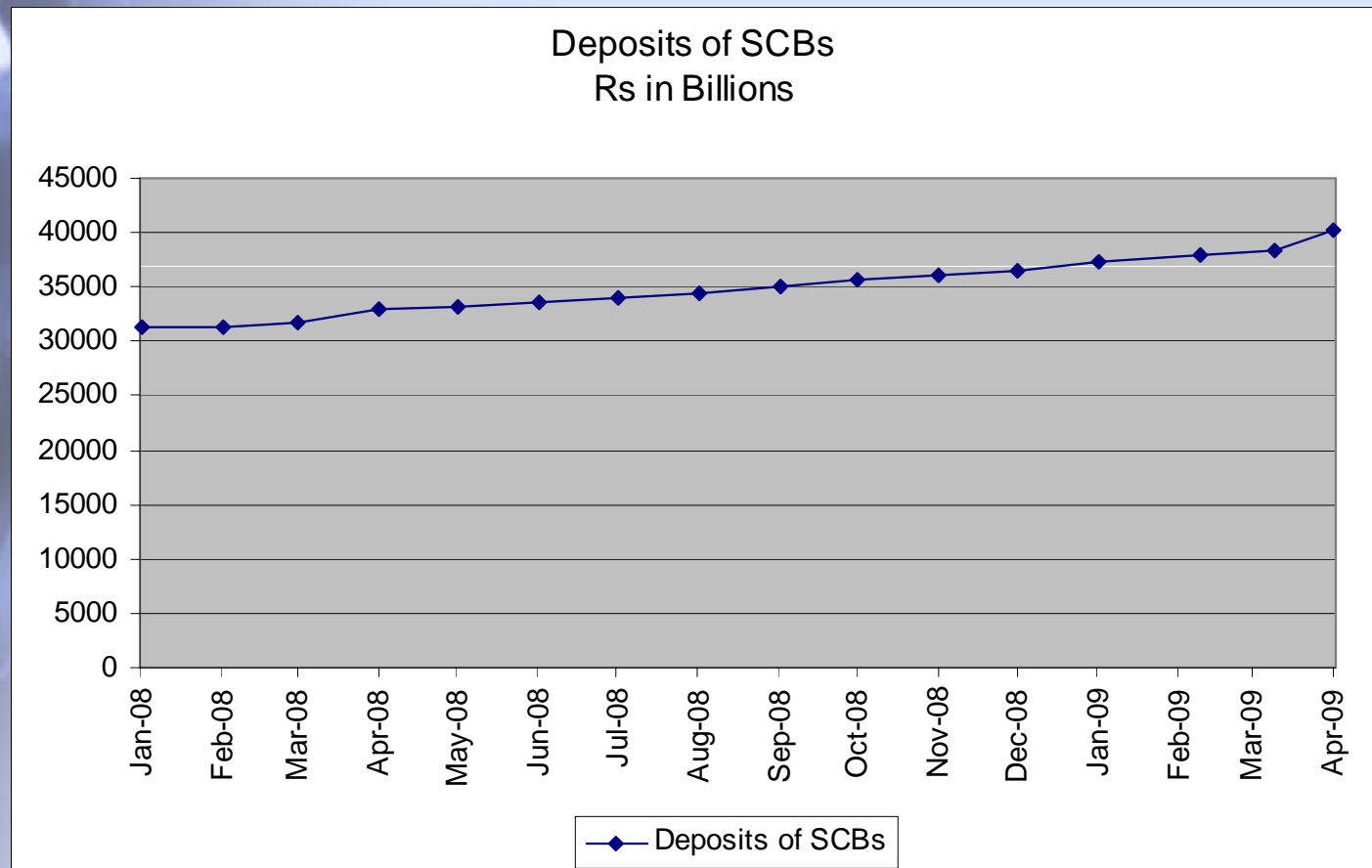



## Liquidity position of large HFCs

### Application of funds

- **Loans and advances of Large HFCs have indicated growth, However quarter to quarter growth in December 2008 was somewhat subdued;**

# Deposits growth of the scheduled Commercial banks





## Emergence of constraints

### Liquidity position of banks

(a) Pre-September 2008

Liquidity influenced by Focus on  
Containing Inflation

(a) Post September 2008

Liquidity influenced by Focus on  
providing adequate liquidity




# Macro Picture

- The demand for housing loan is reportedly less robust due to expectations of decline in real estate prices.
- Though Liquidity stress had been faced enough liquidity was available as part of Central bank efforts.



## RBI's Approach

- Providing ample rupee liquidity
- Ensuring comfortable dollar liquidity
- Maintaining market environment conducive to flow of credit to productive sector



## Impact of measures to ease constraints

- What were the measures taken ?
- How conventional or unconventional the measures were?
- How effective were the unconventional measures?





## Policy Measures taken by RBI

- CRR reduced by 400 basis points
- SLR reduced by 100 basis points
- Export Credit refinance eligibility enhanced to 50% of Outstanding export
- Special 14 day term repo introduced
- Special Refinance facility for banks



## Measures taken by RBI (contd...)

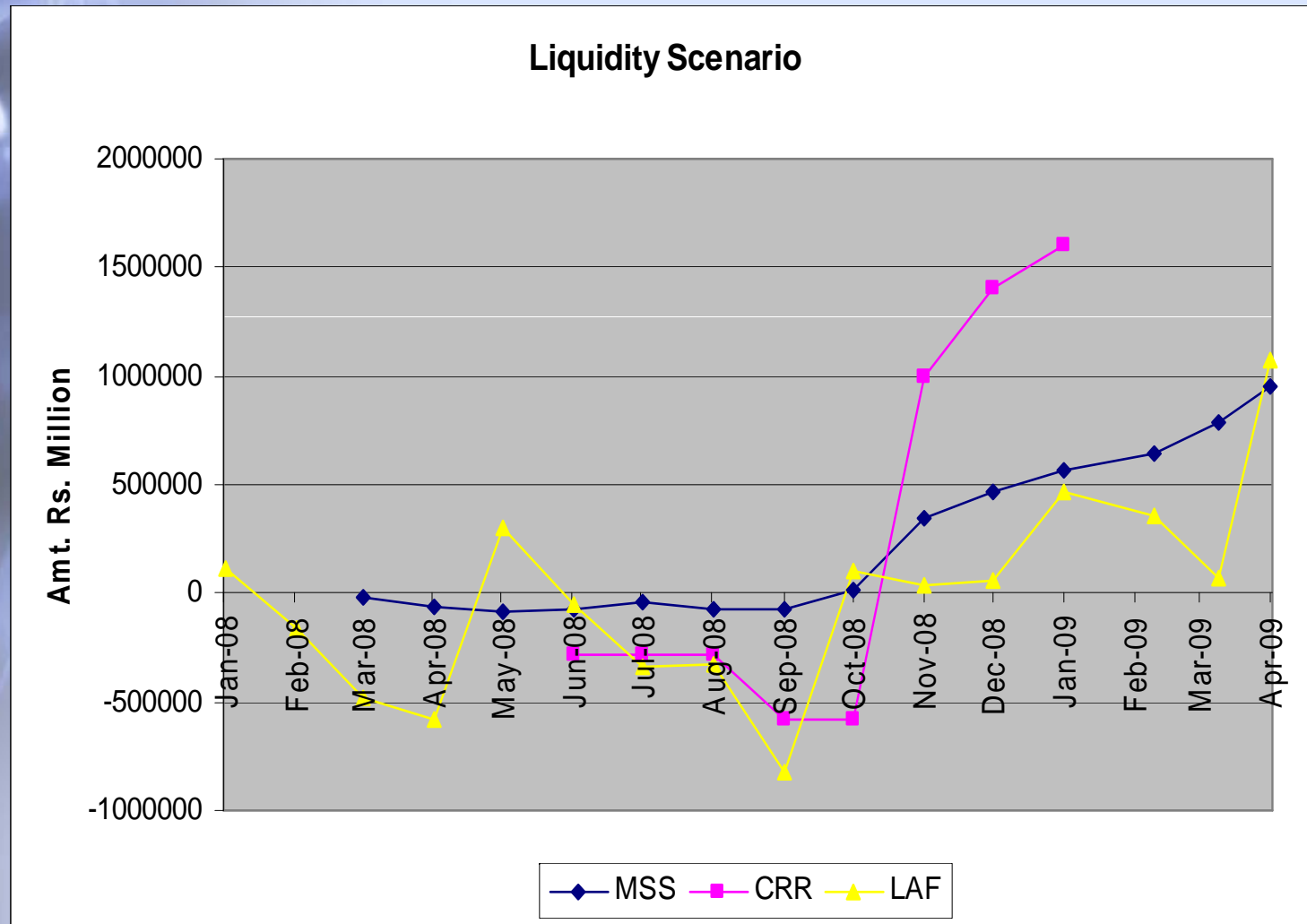
- Special refinance facilities for SIDBI, NHB and EXIM Bank
- Forex swap facility made available to banks
- All in costs ceiling for ECBs raised.
- NBFC-ND-SI permitted to raise short term foreign currency borrowings
- Provision for liquidity to NBFC-ND-SI by SPV
- Non Resident Deposits allowed higher interest rates



## Measures taken by RBI (contd...)

- Repo rate reduced by 400 basis points
- Risk weight and provisioning requirements relaxed.

# Emergence of Constraints - Absolute inflows into the system on account of MSS, CRR and LAF



# Impact of Measures - Potential Liquidity

Sr. No.	Measure/Facility	Amount (Rs. Billion)
1.	CRR Reduction	16000.00
2.	Unwinding/Buyback/De-sequestering of MSS Securities	9778.10
3.	Term Repo Facility	6000.00
4.	Increase in Export Refinance	2551.20
5.	Special Refinance Facility for SCBs (Non-RRBs)	3850.00
6.	Refinance Facility for SIDBI/NHB/EXIM	1600.00
7.	Liquidity Facility for NBFCs – SPV (Including option of Rs 50000 Million)	2500.00
	<b>Total</b>	<b>42279.30</b>
8.	<b>SLR Reduction</b>	4000.00
9.	<b>Open market Operations</b>	688.35

Against the above limits(1-7) Outstanding Amt. as on April 16, 2009 – Rs 1464.90



# Measures

## Conventional And Unconventional

### Conventional Measures

- Reduction in CRR
- Reduction in SLR
- Unwinding buy back/de-sequestering of MSS Securities
- Special refinance facility

### Unconventional Measures

- Term Repo Facility
- Refinance facility for SIDBI/NHB/EXIM
- Liquidity facility for NBFCs – SPV
- Foreign exchange Swap facility to banks



## Some Key Aspects of Regulation & Supervision

- Calibrated approach for opening the Capital Account.
- External debt flows subject to ceilings and end use restrictions.
- Participation in the overnight unsecured money market restricted to banks and PD
- Ceilings on lendings and borrowings in this market.
- Prudential limits on inter bank liabilities in relation to net worth






## Some Key Aspects of Regulation & Supervision

- Complex structures like synthetic securitisation have not yet been permitted.
- Dynamic provisioning for selected sectors like real estate, housing loans, consumer credit
- Non-Banking finance institutions have been subject to tightened regulation.



# Future perspective

- As Indian Economy increasingly integrates with Global Financial System, contagion effect in case of financial turmoil overseas can be intensive.
- Regulation of systemically important institutions would attract more attention.
- Liability management would acquire priority in the management of balance sheet.
- An active domestic debt market would be an important focus area.
- Well regulated Mortgage guarantee companies can provide for credit risk mitigation for housing finance



Monitoring would continue to continuously evaluate the market needs.

Thank You.