

The background is a deep blue gradient with a subtle, glowing globe on the left side. The globe is partially obscured by several white, wavy lines that resemble data or network connections. The overall aesthetic is modern and technological.

Managing the Liquidity Constraints In India

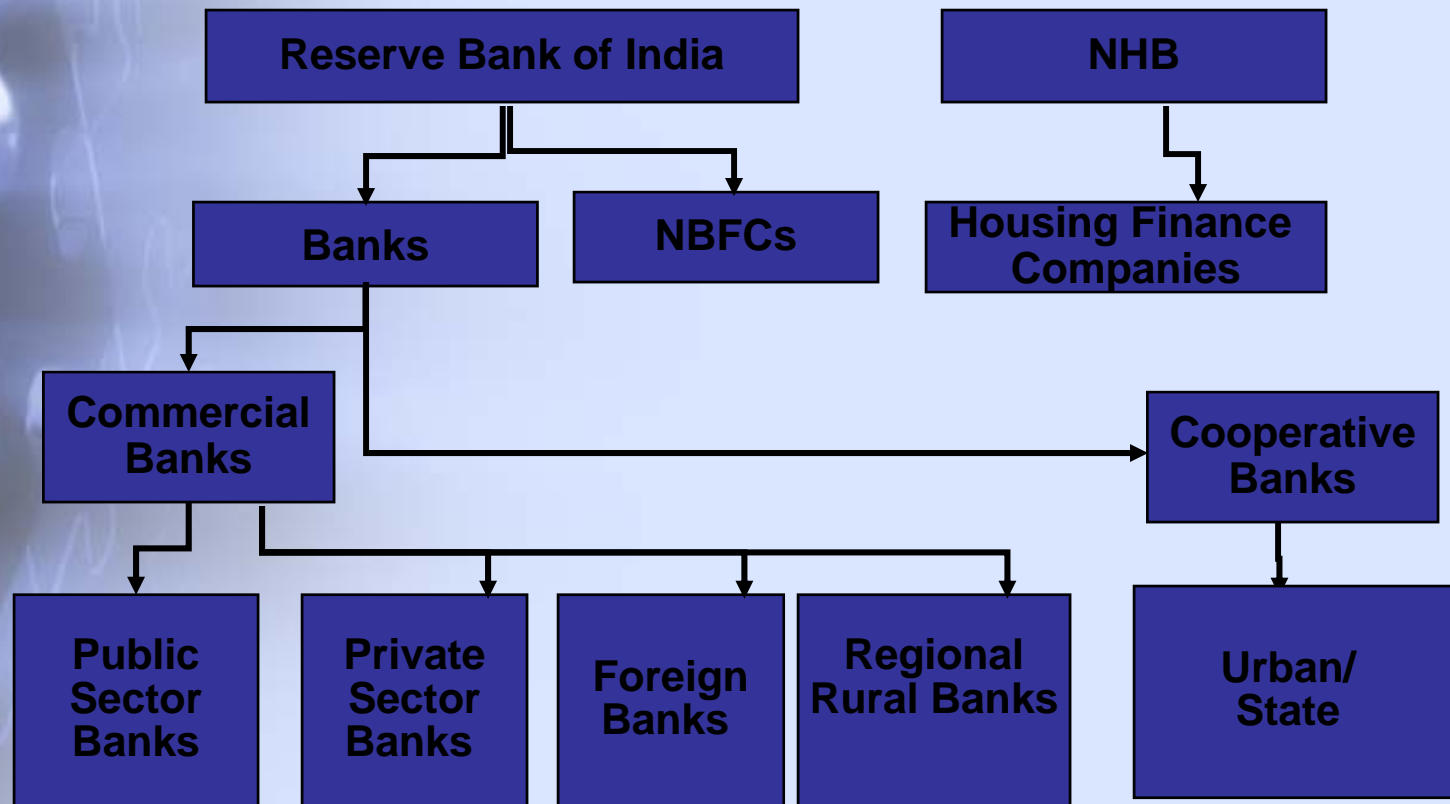
**Krishnamurthy
Reserve Bank of India
May 2009**



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;



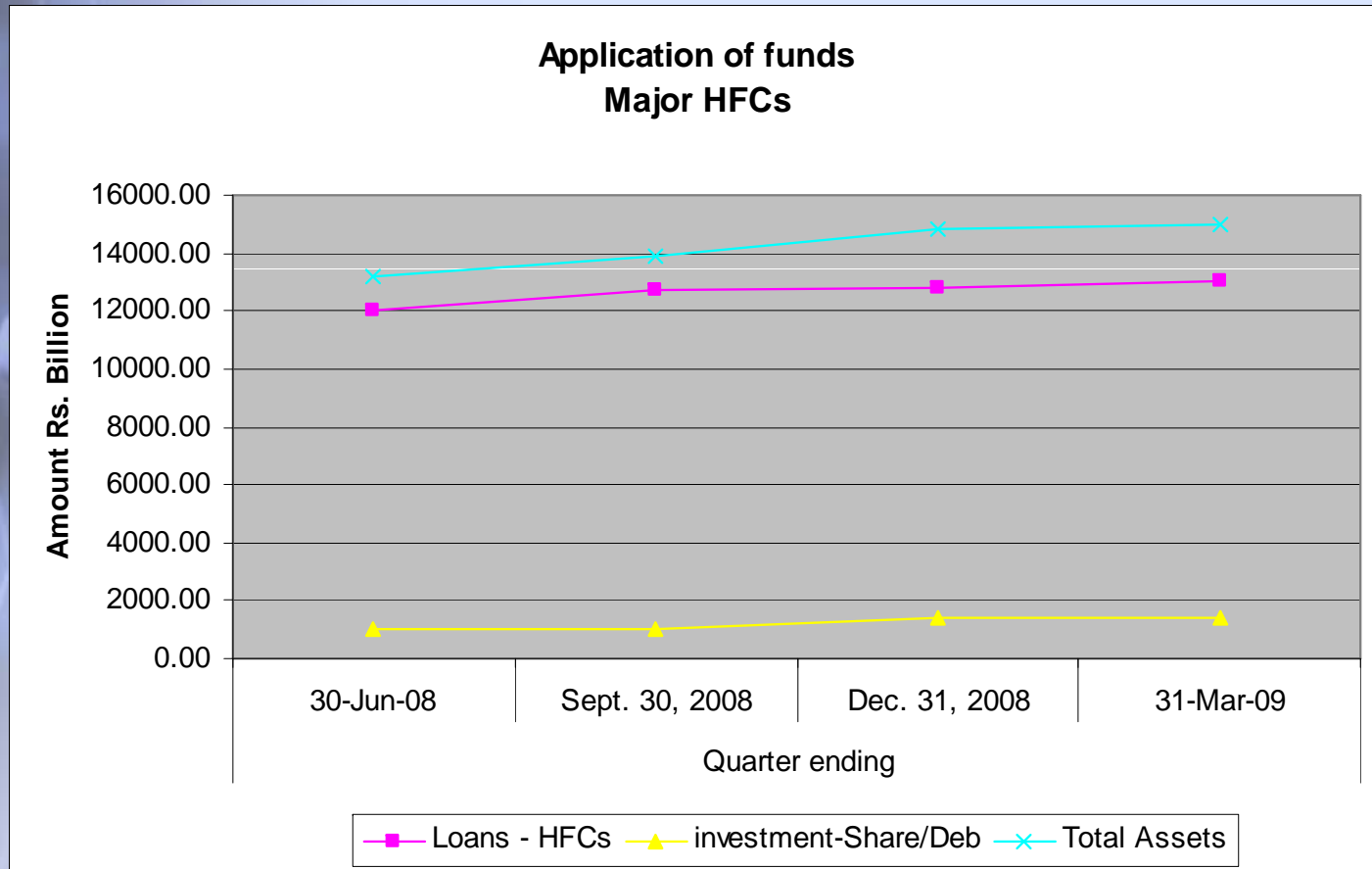
Liquidity position of large HFCs[@]

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.**

[@]Data from some major HFCs

Application of funds – HFCs (Selected Study)



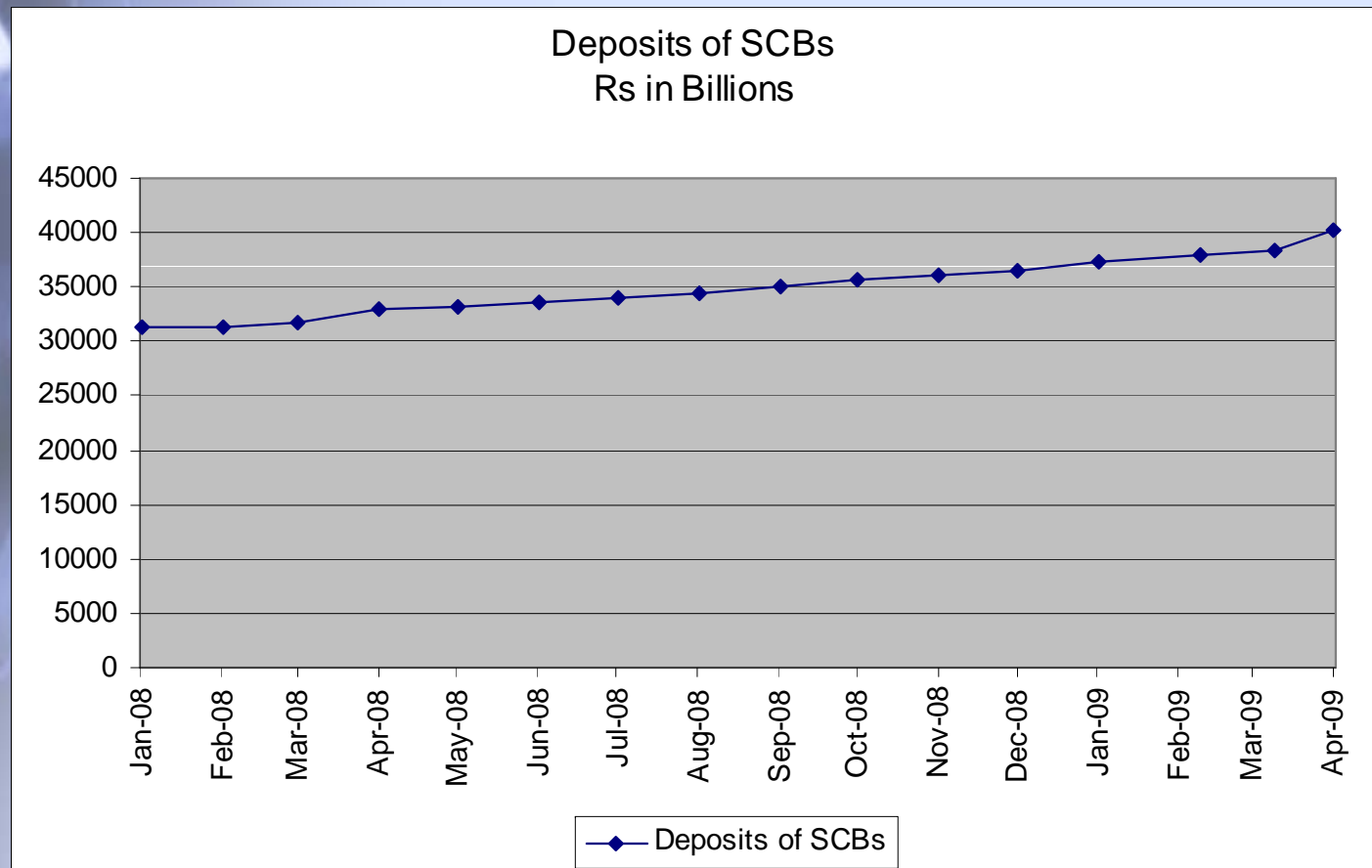



Liquidity position of large HFCs

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...)

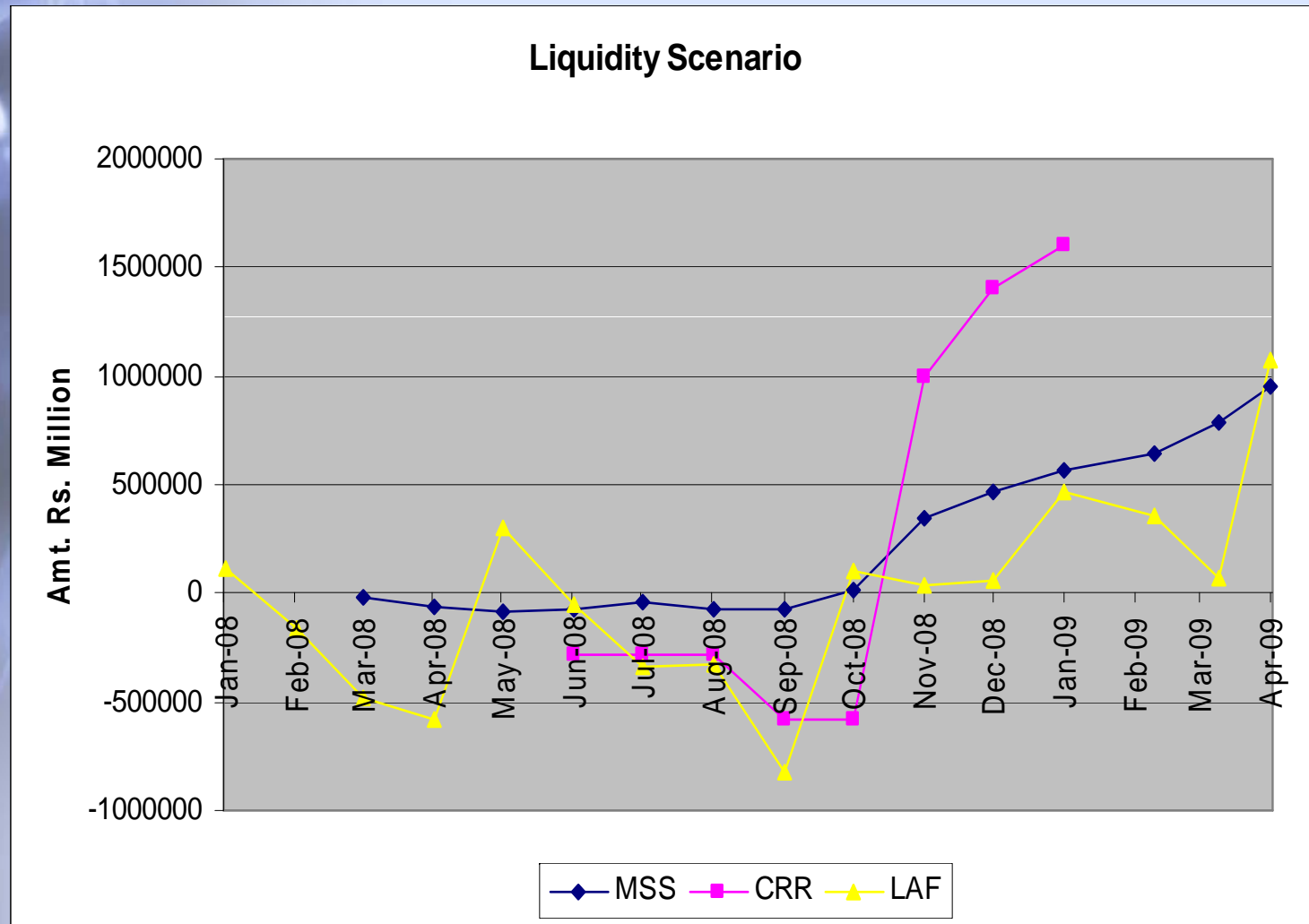
- Special refinance facilities for SIDBI, NHB and EXIM Bank
- Forex swap facility made available to banks
- All in costs ceiling for ECBs raised.
- NBFC-ND-SI permitted to raise short term foreign currency borrowings
- Provision for liquidity to NBFC-ND-SI by SPV
- Non Resident Deposits allowed higher 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
	Total	42279.30
8.	SLR Reduction	4000.00
9.	Open market Operations	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.