RBI Announces Measures to Foster Orderly Market Conditions

While announcing special open market operations on August 25, 2020 the Reserve Bank stated that it would continue to monitor evolving liquidity and market conditions and take measures as appropriate to ensure orderly functioning of financial markets.

2. Recently, market sentiment has been impacted by concerns relating to the inflation outlook and the fiscal situation amidst global developments that have firmed up yields abroad.

3. On the outlook for inflation, the resolution of the Monetary Policy Committee (MPC) on August 6, 2020 identified the sources of inflation pressures and expected that although headline inflation may remain elevated in Q2:2020-21, it would moderate in H2:2020-21. Accordingly, the MPC decided to pause and remain watchful and use the available space judiciously to support the revival of the economy. There are indications that food and fuel prices are stabilising and cost push factors are moderating. In addition, the recent appreciation of the rupee is working towards containing imported inflationary pressures. The RBI remains vigilant about these developments. In support of the accommodative stance of monetary policy, the RBI is committed to ensuring comfortable liquidity and financing conditions in the economy.

4. Notwithstanding an augmented market borrowing programme for 2020-21, the RBI has managed the borrowing calendar for the first half of the year seamlessly, completing more than 90 per cent of scheduled borrowings of the Centre and States in H1:2020-21. The RBI has assured that the borrowing programme of the Centre and States for the year 2020-21 will be completed in a non-disruptive manner.

5. In order to continue to ensure orderly market conditions and congenial financial conditions, the following measures are being announced:

(i) The Reserve Bank will conduct additional special open market operation involving the simultaneous purchase and sale of Government securities for an aggregate amount of ₹20,000 crore in two tranches of ₹10,000 crore each. The auctions would be conducted on September 10, 2020 and September 17, 2020. The RBI remains committed to conduct further such operations as warranted by market conditions.

(ii) The Reserve Bank will conduct term repo operations for an aggregate amount of ₹100,000 crore at floating rates (i.e., at the prevailing repo rate) in the middle of September to assuage pressures on the market on account of advance tax outflows. In order to reduce the cost of funds, banks that had availed of funds under long-term repo operations (LTROs) may exercise an option of reversing
these transactions before maturity. Thus, the banks may reduce their interest liability by returning funds taken at the repo rate prevailing at that time (5.15 per cent) and availing funds at the current repo rate of 4 per cent. Details are being notified separately.

(iii) Currently, banks are required to maintain 18 per cent of their net demand and time liabilities (NDTL) in SLR securities. The extant limit for investments that can be held in HTM category is 25 per cent of total investment. Banks are allowed to exceed this limit provided the excess is invested in SLR securities within an overall limit of 19.5 per cent of NDTL. SLR securities held in HTM category by major banks amount to around 17.3 per cent of NDTL at present. However, there are inter-bank variations with some banks close to the 19.5 per cent of NDTL limit. Accordingly, it has been decided to allow banks to hold fresh acquisitions of SLR securities acquired from September 1, 2020 under HTM up to an overall limit of 22 per cent of NDTL up to March 31, 2021 which shall be reviewed thereafter. Details are being notified separately.

(iv) The RBI stands ready to conduct market operations as required through a variety of instruments so as to ensure orderly market functioning.

6. The RBI remains committed to use all instruments at its command to revive the economy by maintaining congenial financial conditions, mitigate the impact of COVID-19 and restore the economy to a path of sustainable growth while preserving macroeconomic and financial stability.

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