RBI ups HTM limit, creating headroom for banks to buy G-Secs

This will help banks buy G-Secs without having to make investment depreciation provision

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The Reserve Bank of India (RBI) has enhanced the limit for banks to park Statutory Liquidity Ratio (SLR) securities such as Government Securities (G-Secs) in the so-called Held to Maturity (HTM) category in the backdrop of the huge ₹14.31-lakh crore government borrowing programme in FY23.

The limit has been upped from 22 percent to 23 per cent of banks' deposits till March 31, 2023, thereby allowing banks to buy G-Secs aggregating up to ₹1.70-lakh crore without worrying about investment depreciation provision in the current rising yield scenario.

The central bank also allowed banks to include eligible SLR securities acquired between April 1, 2022, and March 31, 2023, under this enhanced limit.

This move, coming as it does in the wake of the huge government borrowing programme, will encourage banks to participate in G-Sec auctions as they can park incremental purchases within the enhanced limit.

The RBI said the HTM limits would be restored from 23 per cent to 19.5 per cent in a phased manner starting from the quarter ending June 30, 2023.

RK Gurumurthy, Head-Treasury, Dhanlaxmi Bank, observed that the increase in HTM percentage with a sunset date is primarily to help absorb a part of the new bond supply from weekly auctions.

“This should be seen as a signal as further increases can happen if yields remain durably elevated. Maybe, this can be accompanied with staggered provisioning of depreciation over the year,” he said.

Anil Gupta, Vice-President & Co-Group Head, ICRA, emphasised that increase in HTM limits by 1 per cent could create an additional headroom of ₹1.6-1.7-lakh crore for banks to hold the government securities without marking them to market in a rising bond yield scenario and thereby preventing any losses.

“This could improve the appetite of banks for government securities and facilitate the large borrowing programme of central and state governments while moderating the rising in yields.

“However given the overall size of the government borrowings, the absorption of the large supply could remain a challenge,” he said.

Marzban Irani, CIO-Fixed Income, LIC Mutual Fund, said the increase in HTM (Held to Maturity) limit is positive as it will lead to comfort of around ₹1.50-lakh crore, allowing banks to buy equivalent amount of SLR securities.

These purchases will be insulated from market-to-market provisioning in a rising interest rate scenario, he added.
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