

Indian Banks Slump in Mumbai as RBI Tightens Access to Cash (1)  
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(Updates with Yes Bank comment in sixth paragraph.)

By Anto Antony

July 24 (Bloomberg) -- Indian lenders slumped in Mumbai trading after the Reserve Bank of India tightened access to cash in an attempt to support the rupee, which fell to a record low earlier this month.

State Bank of India, the nation's largest, fell 3.2 percent to 1,801.25 rupees after the central bank capped banks' access to funds under the liquidity adjustment facility to 0.5 percent of their own net demand and time liabilities starting today. The S&P BSE Bankex index, a gauge of 13 local lenders, slid 4.6 percent.

"The measures announced yesterday have the impact of a hike in reserve ratios," said Jisha Nair, a Mumbai-based banking analyst at BOB Capital Markets Ltd. said by phone.

"Lending margins will be under pressure as the lenders are not in a position to pass on the higher cost of funds due to weak credit growth."

The central bank also raised the daily balance requirement for the cash reserve ratio to 99 percent from 70 percent, effective July 27 and separately announced an auction of cash management bills totaling 60 billion rupees (\$1 billion) on July 25.

ICICI Bank Ltd., India's second-largest lender, fell 3.8 percent to 951.8 rupees, while Yes Bank Ltd., the worst performer on the Bankex index, plunged 12.6 percent to 383.35 rupees. Canara Bank Ltd. dropped 8.5 percent and Punjab National Bank lost 4.5 percent.

"RBI's measures to drain liquidity will be reversed as the rupee stabilizes," Rana Kapoor, chief executive officer at Yes Bank Ltd. told reporters in Mumbai. "We expect that the monetary policy easing will start again after September."

The central bank on July 15 raised two interest rates, capped its daily fund infusions through repo contracts and moved to drain money from the economy through bond sales.

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