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RBI's decision intends to drain out excess liquidity and bring overnight lending rates closer to the reverse repo levels (Mint)

Central bank looks to resume normal liquidity operations

1 min read . Updated: 08 Jan 2021, 11:26 PM IST

[Gopika Gopakumar](#)

As a first step, the central bank will conduct a 14-day variable rate reverse repo auction of ₹2 tn on 15 January

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MUMBAI : The Reserve Bank of India ([RBI](#)) on Friday said it will resume normal liquidity operations in view of the evolving liquidity and financial conditions, intending to drain out excess liquidity and bring overnight lending rates closer to the reverse repo levels.

“On a review of evolving liquidity and financial conditions, it has been decided to restore normal liquidity management operations in a phased manner,” the central bank said.

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As a first step, the central bank will conduct a 14-day variable rate reverse repo auction of ₹2 trillion on 15 January. Banks will get to park surplus funds with the RBI while



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“The announcement is tactically facilitating two objectives, signalling a careful and calibrated departure from the ultra-loose policy and pushing short-term rate to the upper tier of the corridor,” said Soumyajit Niyogi, associate director at India Ratings and Research.

RBI has allowed system liquidity to be in surplus since the announcement of the nationwide lockdown in March. [OPEN APP](#)

The daily liquidity surplus has been ₹6 trillion- ₹7 trillion over the last few months. This has led to a drop in short-term rates to below the reverse repo rate of 3.35%. At the latest auction, the 90-day T-bill was sold at 3.038%, much below the reverse repo rate, or the rate at which banks borrow from RBI. The short-term borrowing cost for both corporates and banks have fallen to below 3.35%.



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growth of 1.7%.

Additionally, the various liquidity infusion measures being taken by RBI, including the open market operations (OMO) purchases, the long term repo operations, and the targeted long term repo operations have been adding to liquidity surplus in the economy.

So far this fiscal, RBI has undertaken OMO purchases of government securities worth ₹3.57 trillion and OMO purchase of state development loans worth ₹300 billion.

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