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RBI infuses short term liquidity as inter-bank rates rise on GST outflows

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The central bank announced a variable rate repo auction of ₹75,000 crore on Friday and ₹50,000 crore on Thursday, according to RBI's statement.

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The central bank announced a variable rate repo auction of ₹50,000 crore on Thursday and ₹75,000 crore on Friday.

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During Friday's auction, RBI received bids worth ₹1.22 trillion compared to the notified amount of ₹75,000 crore, a sign of liquidity shortfall in the system. This led to a sharp spike in the cut off rate during auction to 4.09% and weighted average rate to 4.11%.

The call money rate, which the banks use for interbank lending, touched 4.55% during trade on Friday. It had touched a high of 4.65% on Thursday.

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The system liquidity had tightened because of greater than expected collections under the goods and services tax (GST), according to RBI. This is reflected in the hardening of overnight money market rates and in amounts under the fixed rate reverse repo of the liquidity adjustment facility, it said.

The yield on 10-year G-sec closed at 6.63% on Friday compared to 6.61% a day ago. "Long end yields will not react to this frictional liquidity issue. RBI takes out liquidity through variable rate reverse repo (VRRR) auction. On top of that there are larger GST outflows. That is why RBI had to infuse liquidity through variable rate rep OPEN APP auction," said a dealer with a private sector bank.

"Liquidity of nearly ₹2.49 trillion is expected to come into the system after the 28-day and 7-day VRRRs mature on Tuesday and another ₹4.35 trillion will come into the system after the 14-day VRRR matures on Friday. This liquidity will help normalise call rate," said Gopal Tripathi, head of treasury, Jana Small Finance Bank.

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RBI has been continuously doing VRRR auctions to remove this excess liquidity from the banking system.

"The persistent liquidity surplus has been aided by the lower credit disbursement from banks versus the deposit inflows. Increased government spending and the liquidity injection by RBI (through open market purchases and its foreign currency purchases) have added to the surplus in the banking system over time," said Care Ratings in a report dated 3 January.

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