

Weekly Liquidity Report: March 22 – April 1, 2021

April 5, 2021 | Economics

Banking System Liquidity

The banking system liquidity surplus has widened in the holiday shortened week-ending April 1, 2021. The liquidity surplus in the banking system rose to Rs 4.56 lakh crs as on April 1, 2021 compared with Rs 3.78 lakh crs on March 26, 2021 and Rs 3.92 lakh crs on March 19, 2022. The increase in the liquidity surplus during the week can be ascribed to higher year-end deposits by individuals and corporate entities coupled with no central government GSec auctions during the week. However, phase-wise restoration of the CRR (from 3% to 3.5% from March 27, 2021 onwards) and the outflows towards year-end payment settlements have pressured the liquidity surplus to some extent.

During the financial year FY21, the banking system liquidity surplus has widened from Rs 2.52 lakh crs on March 31, 2020 to Rs 3.80 lakh crs on March 31, 2021 primarily on account of deposit growth outpacing credit growth and a number of liquidity injection measures like CRR reduction, OMO purchases undertaken by the RBI. The liquidity surplus peaked at Rs 6.72 lakh crs on February 2, 2021. The banking system remained in surplus throughout the fiscal FY21 and the surplus ranged between 2.13 lakh crs and Rs 6.72 lakh crs.

The liquidity surplus in the banking system continues to be sizeable. The banking system has witnessed a liquidity surplus since the past twenty-two months (from June'19). This can primarily be attributed to the inflow of bank deposits surpassing the outflow of bank credit. The incremental bank deposits (over Mar'20) have grown by 10.2% till 12 March'21 as against the bank credit growth of 4.1%. Additionally, increased US dollar purchases by the RBI along with the various liquidity infusion measures being undertaken by the central bank viz. OMO purchases, LTRO and TLTRO has been adding to the liquidity surplus.

- So far in this fiscal year, the RBI has undertaken OMO purchases of GSecs to the tune of Rs 5.04 lakh crores and OMO purchases of SDLs amounting to Rs.30,000 crores.
- The RBI conducted a special OMO operation (simultaneous purchase and sale) on March 25, 2021 where it purchased securities worth Rs.10,000 crores and sold Rs. 10,000 crores of securities.
- However, the RBI has been also undertaking operations to normalise the liquidity in the banking system. There have been unannounced OMO sales of Rs 3,880 crs during March 23 to 26, 2021.
- The US dollar purchases by the RBI during April'20-January'21 totalled Rs.5.60 lakh crores.
- The RBI has also undertaken on-tap repo operations aggregating Rs 5,000 crs on March 22, 2021.

The daily net liquidity absorption by the RBI from the banking system, i.e., the daily repo and reverse repo operations (including the fresh term repo and reverse repo auction and excluding the outstanding term repo and reverse repo operations) narrowed to Rs 2.46 lakh crs on April 1, 2021 compared with Rs 3 lakh crs on March 19, 2021.

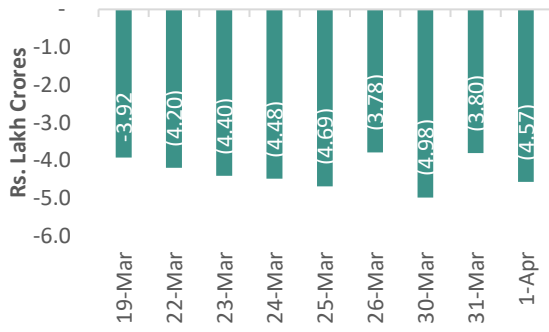
Call Money Market

The weighted average call money market rate rose during the period March 22 to March 31. The average yield rose to 3.28% during the period ended March 31, 2021 compared with week ended March 19, 2021 (3.15%). The call money market rate (weighted average) continued to be well below the RBI's reverse repo rates (3.35%) during March 22 to March 31, except for March 31 (3.47%). Owing to the persistent high liquidity surplus in the banking system, the weighted average call money rate has been ruling below the reverse repo rate since the third week of October'20 (21 Oct). During the fiscal FY21, the weighted average call rate was 3.37% and on 118 days the call rate remained below 3.35%. The average call market borrowings amounted to Rs 12,466 crores during this period, Rs.4,314 crores higher than that of the previous week.

Outlook on banking system liquidity for the week of April 5-9, 2021

The banking system liquidity surplus is expected to remain sizeable during the week but is likely to be pressured on account of government borrowing auctions (Central government: Rs 32,000 crs) and sustained impact of the phased restoration of the CRR (cash reserve ratio) from 3% to 3.5% from 27 March'21 onwards.

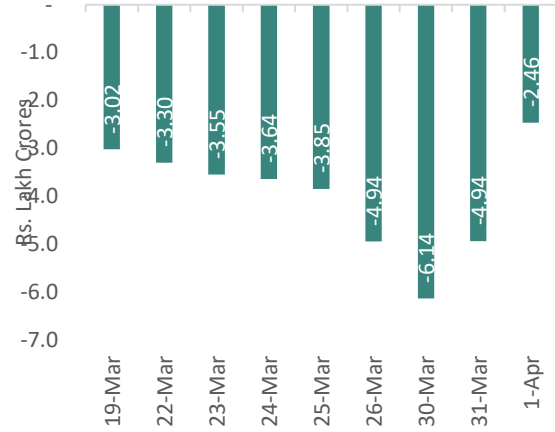
Net Repo Outstanding Transactions



Source: RBI.

Net Repo Outstanding Transactions = Total Repo + MSF + SLF – Total Reverse Repo

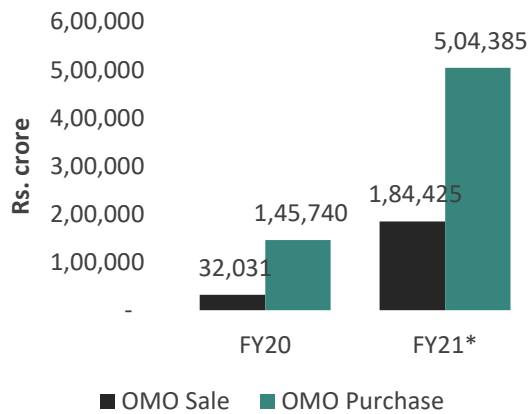
Daily net liquidity injection (+)/absorption (-)



Source: RBI - * Based on CARE's calculation

Daily Liquidity Injection (+) / Absorption = (Total repo + MSF + SLF + OMO purchase) – (Total reverse repo – OMO sales)

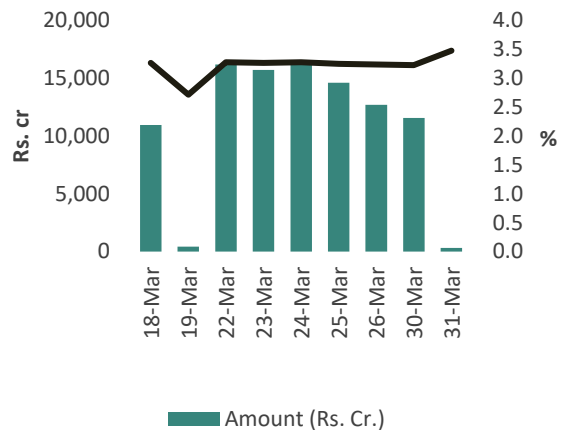
Liquidity Operations by RBI



Note: * Up to April 1, 2021

Source: RBI

Call Money Market



Source: RBI

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