

Weekly Liquidity Report: 5-8 October, 2021

October 11, 2021 | Economics

Banking System Liquidity

The banking system liquidity surplus further widened in the week ended 8 October. The average outstanding (net) liquidity surplus for the week of 5- 8 October'21 at Rs.8.11 lakh crore was Rs.0.45 lakh crore higher than the previous week. While the liquidity surplus rose during the first two days of the week to average Rs. 8.56 lakh crore, it moderated during the remainder of the week and was Rs.7.51 lakh crore at the end of the week. The higher surplus at the beginning of the week can be attributed to inflows towards salaries and pensions (for Sept), while the outflows towards statutory payments led to the moderation of the surplus in the latter half of the week.

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) as 8 October'21 was Rs. 6.61 lakh crore as against Rs. 8.33 lakh crore a week ago (24 Sept'21). The daily net liquidity absorption ranged between Rs. 3.39 lakh crore to Rs. 6.61 lakh crore during the week.

The liquidity surplus in the banking system, which has been prevalent since June'19, has widened significantly since end June'21. The weekly average (net) liquidity surplus has increased by over Rs. 3 lakhs crore in the last 3 months (from a weekly average of Rs. 4.5 lakh crore as of end June'21 to over Rs. 7.5 lakh crore as of 5 October'21). The increase in surplus can primarily be put down to the sustained lower credit disbursement from banks due to weak demand for credit as well as wariness of banks to lend. Increased government spending and the liquidity injection by the RBI (through GSec purchases liquidity measures, and its foreign currency purchases) have added to the surplus in the banking system.

In terms of quantum

- The outstanding bank deposits as of 24 September'21 stood at Rs.155.9 lakh crore as against the outstanding bank credit of Rs. 109.5 lakh crore. The inflow of bank deposits has been surpassing the credit outflows on a sustained basis. The incremental bank deposits during Apr-24 September'21 (i.e., the increase over Mar'21) is Rs. 4.81 lakh crore (incremental growth of 3.2%), while the incremental bank credit is Rs. 0.07 lakh crore (incremental growth of 0.1%).
- In FY21, the RBI has undertaken OMO purchases of G-Secs to the tune of Rs 5.04 lakh crores and OMO purchases of SDLs amounting to Rs.30,000 crore. So far in the current financial year the RBI has purchased central government securities to the tune of Rs.2.73 lakh crores from the secondary market. Of this Rs.2.21 lakh crores have been purchased under the GSAP (GSec acquisition programme). Also, SDLs worth Rs.5,425 crore have been purchased thus far in FY22.
- The foreign currency purchases by the RBI in FY21 totalled Rs.5.1 lakh crores and the incremental purchases during April-July'21 has been Rs.2.68 lakh crore.

Call Money Market

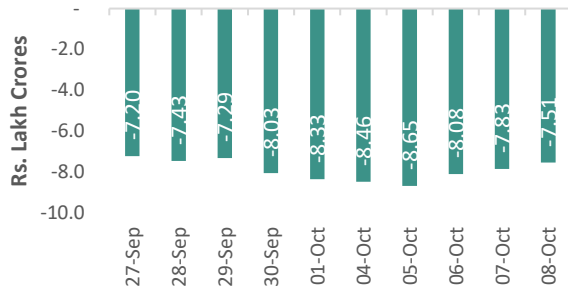
The weighted average call money market rate witnessed a sharp increase on Friday (to 3.28%) after averaging 3.19% in the first four days of the week. The call market borrowings were notably higher on Friday – at Rs. 11,547 crore it was the highest since the third week of May'21. The average call market borrowings amounted to Rs.7,509 crore during the week ended 8 October'21. Rs.995 crore less than the previous week.

The call money market rate (weighted average) during the week was sustained well below the RBI's reverse repo rates (3.35%). Owing to the persistent sizeable liquidity surplus in the banking system, the weighted average call money rate has been ruling below the reverse repo rate (3.35%) on a near sustained basis since November'20.

Outlook on banking system liquidity for the week of 11 – 15 October'21

With no significant outflows expected, the banking system liquidity surplus (outstanding) would continue to be sizeable at over Rs. 7 lakh crore during the week.

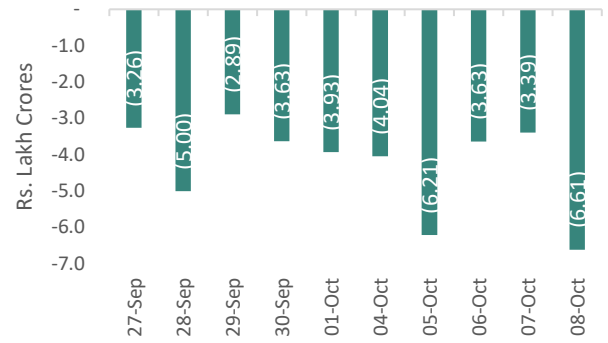
Net Repo Outstanding Transactions



Source: RBI.

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

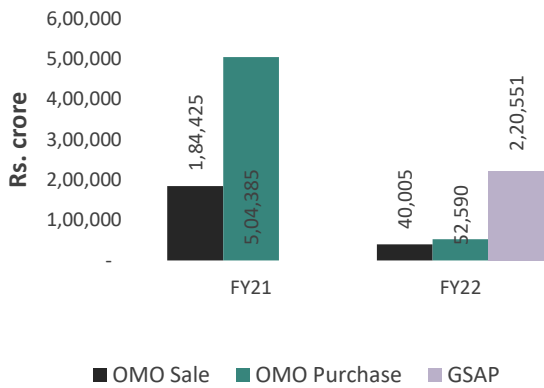
Daily net liquidity injection (+)/absorption (-)



Source: RBI - * Based on CARE's calculation

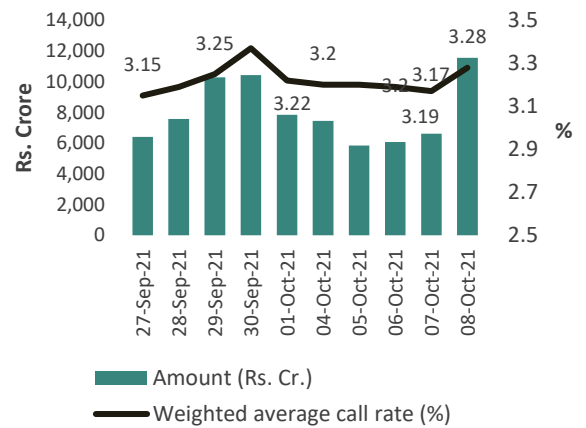
Daily Liquidity Injection (+) / Absorption = (Total repo + MSF + SLF + OMO purchase) – (Total reverse repo – OMO sales)

Liquidity Operations by RBI



Source: RBI. For FY22 up till 8 Oct'21

Call Money Market



Source: RBI

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