

Weekly Liquidity Report: April 5 – April 9, 2021

April 12, 2021 | Economics

Banking System Liquidity

The banking system liquidity surplus has widened sharply during the first week of the new financial year 2021-22. The liquidity surplus rose to Rs 6.18 lakh crs in the week ended April 9, 2021 compared with Rs 4.56 lakh crs on April 1, 2021. The liquidity surplus in the banking system on April 9 of Rs 6.18 lakh crs is the highest since March 4, 2021. The increase in the liquidity surplus during the week can be ascribed to deposit growth outpacing credit growth during the financial year end 2020-21 coupled with no statutory dues (like Income tax) to be paid by the corporates during the week ended April 9, 2021. Central government market borrowings (Rs 37,583 crs) and state government borrowings (Rs 4,000 crs) coupled with higher CRR requirement for the banks (from 3% to 3.5% from March 27, 2021 onwards) would have limited the surplus in the banking system. In order to normalise the liquidity surplus in the banking system, the RBI has undertaken 14-day variable reverse repo auction of Rs 2 lakh crs on April 9, 2021.

The liquidity surplus in the banking system continues to be sizeable. The banking system has been sustaining 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 bank deposits grew by 11.4% in FY21 compared with growth in bank credit at 5.6%. 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.

- In FY21, the RBI undertook OMO purchases of GSecs to the tune of Rs 5.04 lakh crores and OMO purchases of SDLs amounting to Rs.30,000 crores. There have been no OMO purchases in FY22 (so far). The total OMO sales during the year (including special OMOs) were Rs 1.84 lakh crs.
- The RBI has announced a new GSAP 1.0 program in which it has committed to purchase GSecs from the secondary market aggregating Rs 1 lakh crs during Q1-FY22 with the first tranche of Rs 25,000 crs to be purchased on April 15, 2021.
- The US dollar purchases by the RBI during April'20-January'21 totalled Rs.5.60 lakh crores.
- The RBI has extended the deadline of On-Tap LTROs for a period of 6 months till 30 September 2021. Since the announcement of the On-Tap TLTROs (in October 202), the total funds borrowed via this channel is Rs 5,000 crs as on April 9, 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 7.31 lakh crs on April 9, 2021 compared with Rs 2.46 lakh crs on April 1, 2021.

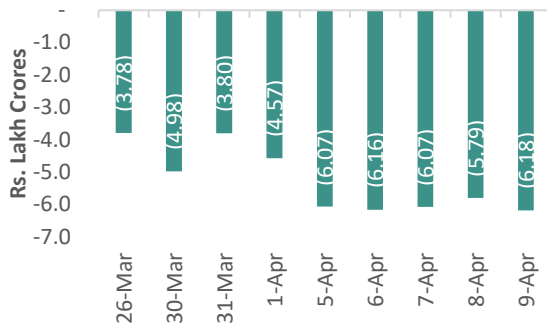
Call Money Market

The weighted average call money market rate fell to 3.13% for the week ended April 9, 2021 compared with 3.28% in the previous week. The call money market rate (weighted average) continued to be well below the RBI's reverse repo rates (3.35%) during the week. Owing to the persistent high liquidity surplus in the banking system, the weighted average call money rate has primarily been ruling below the reverse repo rate since November 2020 barring March 31. The average call market borrowings amounted to Rs 10,006 crores during this period, almost 20% lower than the previous week average.

Outlook on banking system liquidity for the week of April 12-16, 2021

The banking system liquidity surplus is expected to remain sizeable during the week supported by the first GSAP auction of Rs 25,000 crs which is scheduled on April 15 2021. Central government auction of Rs 26,000 crs, likely foreign portfolio outflows amidst rising corona virus cases and renewed lockdowns and higher CRR requirement is likely to limit to an extent the surplus in the banking system.

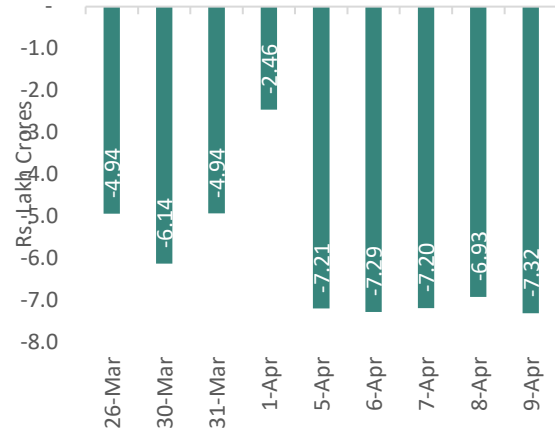
Net Repo Outstanding Transactions



Source: RBI.

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

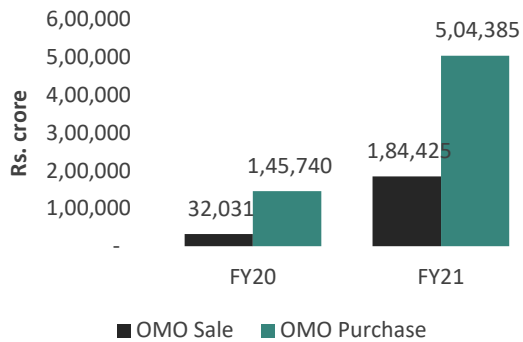
Daily net liquidity injection (+)/absorption (-)



Source: RBI - * Based on CARE's calculation

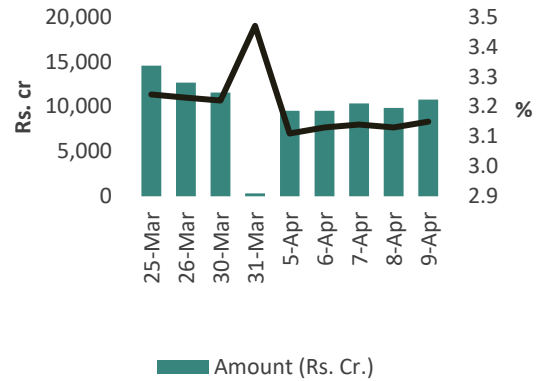
Daily Liquidity Injection (+) / Absorption = (Total repo + MSF + SLF + OMO purchase) – (Total reverse repo – OMO sales)

Liquidity Operations by RBI



Source: RBI

Call Money Market



Source: RBI

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