

Weekly Liquidity Report: 5-9 July, 2021

July 12, 2021 | Economics

Banking System Liquidity

The liquidity surplus in the banking system during the week of 5-9 July'21 was sustained at high levels and can be attributed to the subdued credit outflows from the banking system amid the liquidity infusion by the RBI through the purchase of central government securities under the GSAP programme during the week. During the week of 9 July, the outstanding liquidity surplus ranged between Rs. 5.5 - 5.8 lakh crores as against the surplus of Rs. Rs. 4.8 - Rs. 6.0 lakh crores in the preceding week.

The banking system has been sustaining a liquidity surplus for over two years i.e., since June'19. This has primarily been on account of inflows of bank deposits surpassing bank credit offtake on a sustained basis. Incremental bank deposits growth (over Mar'21) during as of 18 June'21 has been 1.2% as against the growth in bank credit offtake of (-)1 %. In absolute terms the outstanding bank deposits were Rs.153 lakh crores while the outstanding bank credit was Rs.108 lakh crores. The restrictions across various regions in the country (since mid-March'21) following the second wave of the pandemic in the country has once again impacted economic activity and thereby the demand for credit. To add to this, risk aversion by bankers over concerns over asset quality has been inhibiting credit flows to certain segments.

Furthermore, US dollar purchases by the RBI along with the various liquidity infusion measures being undertaken by the central bank viz. OMO purchases and the LTRO and TLTRO has contributed significantly to the liquidity surplus in the banking system over time. 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 crores. So far in the current financial year the RBI has purchase government securities to the tune of Rs.1.65 lakh crores from the secondary market. Of this Rs.1.21 lakh crores has been purchased under the GSAP (GSec acquisition programme). The US dollar purchases by the RBI in FY21 totalled Rs.5.1 lakh crores and the incremental purchases during April'21 has been Rs.31,779 crores.

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 of 9 July'21 was Rs 4.60 lakh crores, Rs. 2.08 lakh crores lower than week ago (Rs 6.69 lakh crores on 2 July'21). It ranged between Rs.4.46 lakh crores to Rs.4.82 lakh crores during the week.

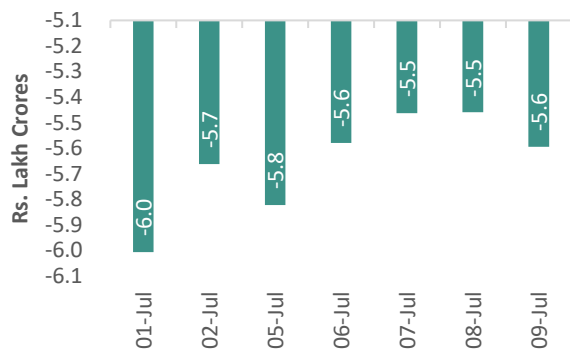
Call Money Market

The weighted average call money market rate rose in the week of 5-9 July'21 from that in the preceding week. The call market rate averaged 3.15% during the week, which was a 6 bps higher than week ago (3.08% during 2-5 July) and ranged between 3.11% - 3.17%. The call money market rate (weighted average) continued to be 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 on a near sustained basis since November'20. The average call market borrowings amounted to Rs 7,260 crores during the week ended 9 July'21, Rs.1,750 crores less than the previous week's average.

Outlook on banking system liquidity for the week of 12-16 July'21

The liquidity surplus in the banking system would see a slight moderation during the week with outflows towards statutory payments by businesses and the fortnightly reporting by banks.

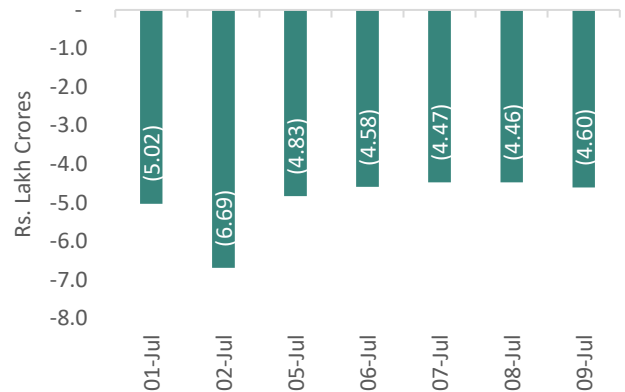
Net Repo Outstanding Transactions



Source: RBI.

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

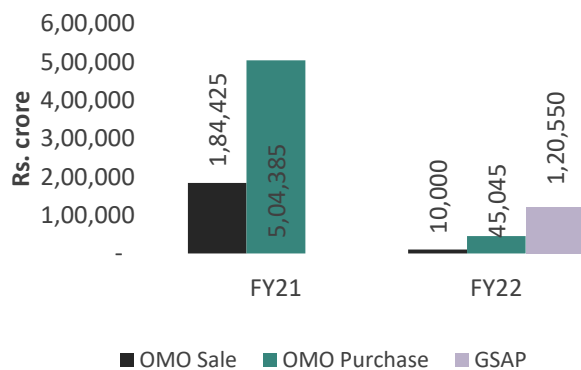
Daily net liquidity injection (+)/absorption (-)



Source: RBI - * Based on CARE's calculation

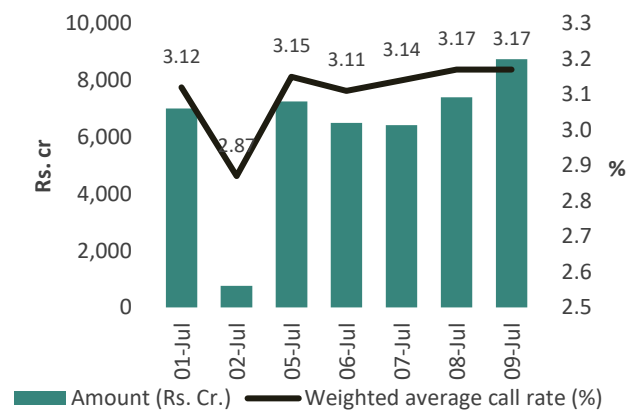
Daily Liquidity Injection (+) / Absorption (-) = (Total repo + MSF + SLF + OMO purchase) – (Total reverse repo – OMO sales)

Liquidity Operations by RBI



Source: RBI. For FY22 up till 27 Jun'21

Call Money Market



Source: RBI

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