

Weekly Liquidity Report: 12-16 July, 2021

July 19, 2021 | Economics

Banking System Liquidity

During the week of 12-16 July'21, the liquidity surplus in the banking system was sustained at around week ago levels. The outstanding liquidity surplus for the week ranged between Rs.5.5 – Rs. 6.1 lakh crores, in line with the surplus of Rs.5.5 – Rs.5.8 lakh crores in the preceding week. The near stable liquidity surplus in the last two week indicates the lower demand for bank funds and an increase in bank deposits.

The banking system has been sustaining a liquidity surplus for over two years i.e., since June'19. Higher deposit inflows amid subdued credit outflows from the banking system can be credited for the liquidity surplus. In absolute terms the outstanding bank deposits were Rs.155 lakh crores as of 2 July'21 while the outstanding bank credit was Rs.109 lakh crores. In terms of growth, so far in the financial year i.e., the incremental increase over Mar'21, the growth in bank deposits has been 2.2% as against the degrowth in bank credit (of -0.2%). The second wave of the pandemic since the start of the current financial year has once again impacted economic activity and further increased the uncertainty pertaining to the conduct of business activity. This has consequently impacted 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.1.70 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-May'21 has been Rs.0.76 lakh crores.

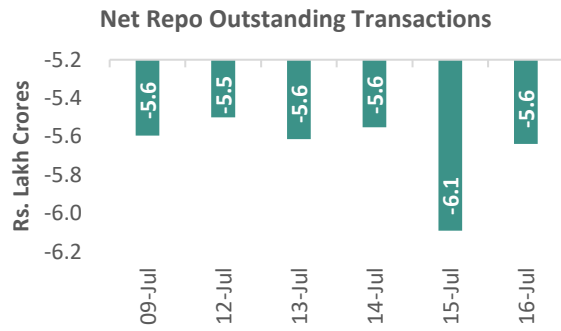
The daily net liquidity absorption by the RBI from the banking system, i.e., the daily repo and reverse repo operations (including the fresh term repo and reverse repo auction and excluding the outstanding term repo and reverse repo operations) as of 16 July'21 was Rs 6.7 lakh crores, Rs. 2.07 lakh crores higher than week ago (Rs 4.6 lakh crores on 9 July'21). It ranged between Rs.4.5 lakh crores to Rs.6.7 lakh crores during the week.

Call Money Market

The weighted average call money market rate was higher for the first four days of the week of 12-16 July'21 before declining sharply (by 25 bps) on the fifth day. The call market rate averaged 3.14% during the week, which was a 1 bp lower than week ago (3.15% 5-9 July) and ranged between 2.94% - 3.21%. 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 7,193 crores during the week ended 16 July'21, Rs.67 crores less than the previous week's average.

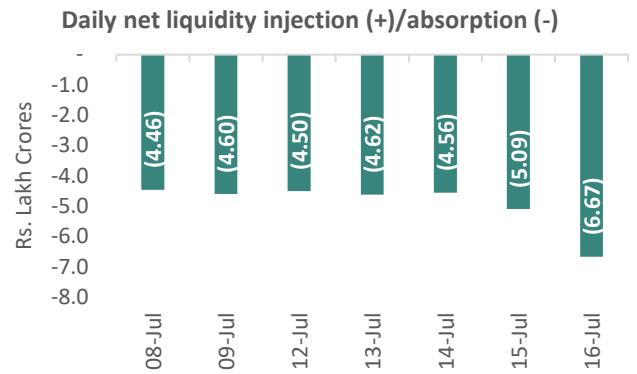
Outlook on banking system liquidity for the week of 19-23 July'21

The liquidity surplus in the banking system would be largely stable with no major outflows expected barring the weekly government borrowings.



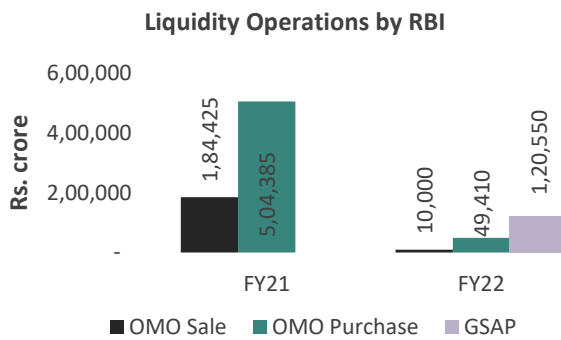
Source: RBI.

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

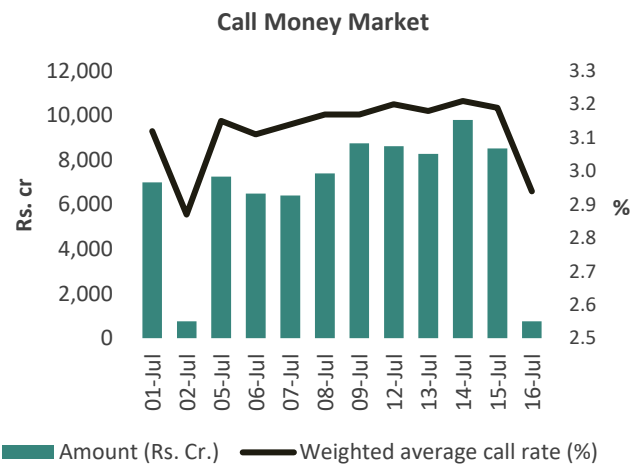


Source: RBI - * Based on CARE's calculation

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



Source: RBI. For FY22 up till 16 Jul'21



Source: RBI

Contact:

Madan Sabnavis
Author: Kavita Chacko
Mradul Mishra

Chief Economist
 Senior Economist
 (Media Contact)

madan.sabnavis@careratings.com
 kavita.chacko@careratings.com
 mradul.mishra@careratings.com

+91-22-6837 4433
 +91-22-6837 4426
 +91-22-6754 3573

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Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
 Tel. : +91-22-6754 3456 | CIN: L67190MH1993PLC071691

Connect :

