

Weekly Liquidity Report: 13-17 September, 2021

September 20, 2021 | Economics

Banking System Liquidity

The banking system liquidity surplus moderated in the week gone by on account of the outflows towards advance tax payments for Q2 FY22. The liquidity surplus nevertheless was sustained at elevated levels. The average outstanding (net) liquidity surplus for the week of 13-17 September'21 at Rs.7.75 lakh crore was Rs.0.68 lakh crore lower than the previous week. It ranged between Rs.6.67 lakh crore to Rs.8.46 lakh crore as against the surplus of Rs. 7.79 lakh crore to Rs. 8.79 lakh crore in the week of 9 September'21.

Even though the banking system has been witnessing a liquidity surplus since June'19, there has been a notable increase in the surplus since end June'21. The weekly average (net) liquidity surplus of the banking system has increased from a weekly average of Rs. 4.5 lakh crore in end June'21 to Rs. 7.8 lakh crore in the third week of September'21. This widening of liquidity surplus by over Rs.3 lakh crore in the last 12 weeks is suggestive of the continued low demand for bank credit by businesses owing to economic uncertainties as well as the wariness of banks to lend on concerns over asset quality.

Bank credit offtake has been restrained despite the easing of the lockdown restrictions across regions. The inflow of bank deposits continues to surpass the credit outflows. The outstanding bank deposits as of 27 August'21 stood at 155.2 lakh crore as against the outstanding bank credit of Rs. 108.9 lakh crore. In term of the incremental growth during Apr-27 August'21 i.e., the increase over Mar'21, the growth in bank deposits has been 2.7% v/s the 0.5% degrowth in bank credit. Although, incremental bank credit growth continues to be negative, it has improved when compared with year ago (-1.5% in the corresponding period of FY21). At the same time incremental bank deposit growth has softened from year ago (4.5% growth in end-August'20). The credit deposit ratio improved marginally to 70.2% as of end August'21 from 69.9% in mid-August'21. It however was lower than the ratio of 71.6% at the start of FY22 (9 April'21).

In addition to the low credit demand, the various liquidity infusion measures being undertaken by the RBI (OMO purchases and the LTRO and TLTRO) coupled with their foreign currency purchases 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 crore. So far in the current financial year the RBI has purchased central government securities to the tune of Rs.2.43 lakh crores from the secondary market. Of this Rs.1.91 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.

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 17 Sept'21 was Rs. 3.20 lakh crore as against the Rs.8.41 lakh crore a week ago (9 Sept'21). The daily net liquidity absorption ranged between Rs. 3.20 lakh crore to Rs. 5.98 lakh crore during the week.

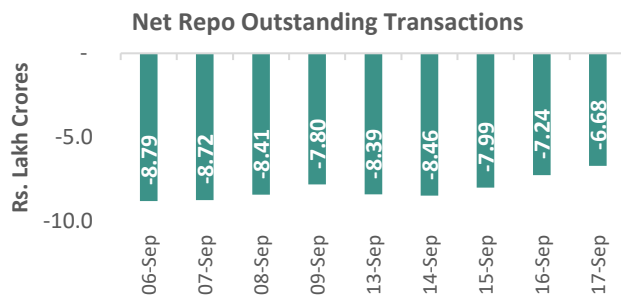
Call Money Market

The weighted average call money market rate moderated during the week ended 17 September'21 from the preceding week. The weighted average call rate was 3.08%, 6 bps lower than that a week ago. It fluctuated between 3.15% to 3.18% during the first four days of the week and ended the week at 2.80% (3.14% to 3.15% in the week of 9 Sept'21).

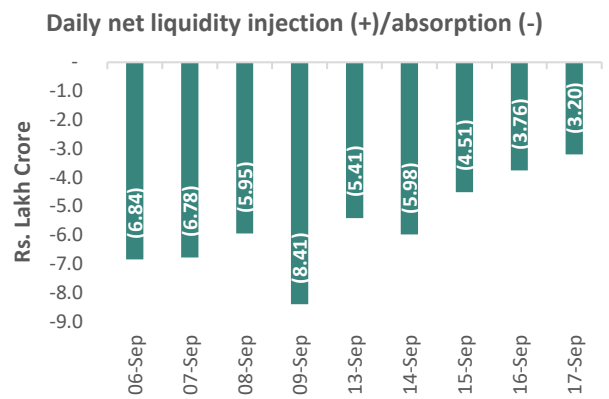
The call money market rate (weighted average) continued to be well below the RBI's reverse repo rates (3.35%). Owing to the persistent sizeable liquidity surplus in the banking system, the weighted average call money rate has been ruling below the reverse repo rate (3.35%) on a near sustained basis since November'20. The average call market borrowings amounted to Rs.5,572 crore during the week ended 17 September'21, Rs.1,575 crore less than the previous week's average.

Outlook on banking system liquidity for the week of 20 - 24 September'21

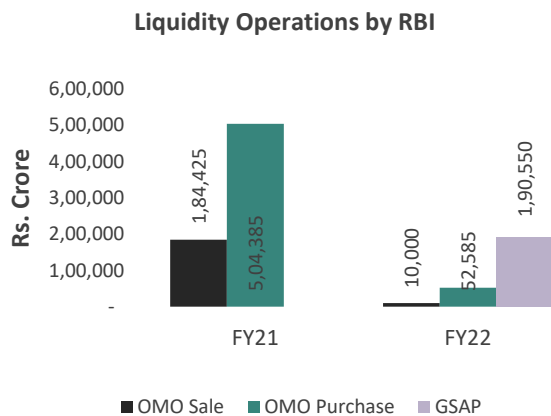
With no major outflows expected during the week, the liquidity surplus (outstanding) in the banking system is expected to average Rs. 7 lakh crore.



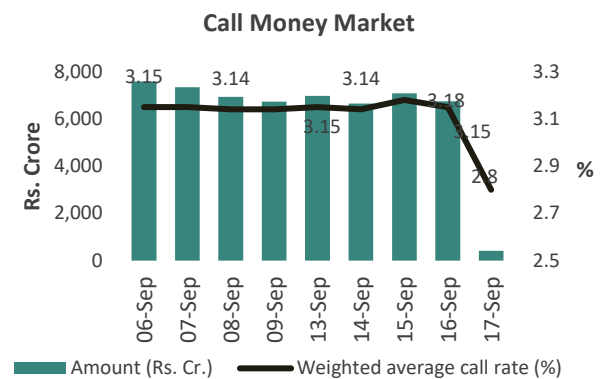
Source: RBI.
 Net Repo Outstanding Transactions = Total Repo + MSF + SLF – Total Reverse Repo



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 17 Sep'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 :

