

Weekly Liquidity Report: 19-23 July, 2021

July 26, 2021 | Economics

Banking System Liquidity

During the holiday- truncated week of 19-23 July'21, the liquidity surplus in the banking system although lower than that in the preceding week continued to be substantial. The outstanding liquidity surplus for the week ranged between Rs.5.3 – Rs. 5.8 lakh crores, as against the surplus of Rs. 5.5 – Rs.6.1 lakh crores in the preceding week. The persistent large liquidity surplus in the banking system' notably since end June'21, is symptomatic of the low demand for bank credit by businesses due to economic uncertainties as well as the wariness of banks to lend on concerns of asset quality amid the prevailing second wave of the pandemic that has impeded the nascent pickup in the economic activity following the lockdown under the first wave of the pandemic.

The banking system has been sustaining a liquidity surplus since June'19, with the inflow of bank deposits outpacing credit outflows. 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%).

Furthermore, the various liquidity infusion measures being undertaken by the RBI (OMO purchases and the LTRO and TLTRO) coupled with the US dollar 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 crores. So far in the current financial year the RBI has purchase government securities to the tune of Rs.1.92 lakh crores from the secondary market. Of this Rs.1.41 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 23 July'21 was Rs 4.51 lakh crores, Rs. 2.15 lakh crores lower than week ago (Rs 6.67 lakh crores on 16 July'21). It ranged between Rs.4.26 lakh crores to Rs.4.81 lakh crores during the week.

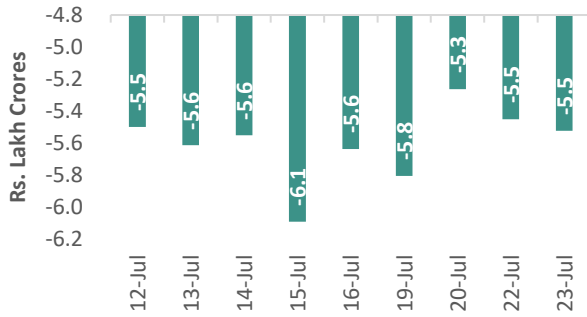
Call Money Market

The weighted average call money market rate rose during the week of 19-23 July'21 from week ago. The call market rate was stable at 3.20% during the week, which was a 7 bps increase from the average rate of week ago (3.14% for 12-16 July). Despite the increase, 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. 8,789 crores during the week ended 23 July'21, Rs.1,595 crores less than the previous week's average.

Outlook on banking system liquidity for the week of 26-30 July'21

The liquidity surplus in the banking system is likely to see an increase towards the end of the week on anticipated month-end inflows towards salaries and pensions.

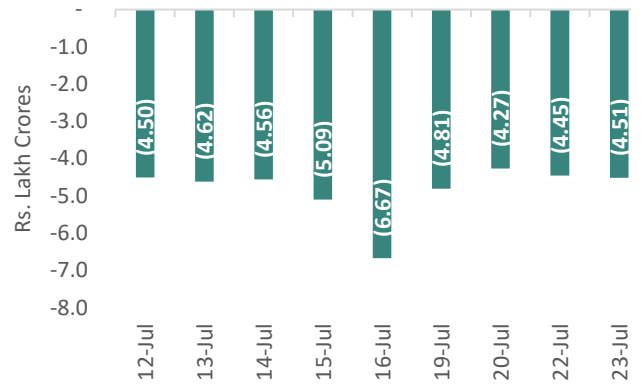
Net Repo Outstanding Transactions



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

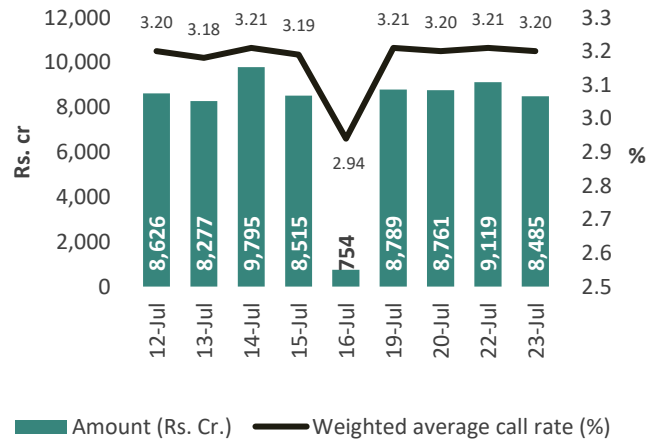
Daily Liquidity Injection (+) / Absorption = (Total repo + MSF + SLF + OMO purchase) – (Total reverse repo – OMO sales)

Liquidity Operations by RBI



Source: RBI. For FY22 up till 23 Jul'21

Call Money Market



Source: RBI

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