

HomeIndustryBanking financeRBI introduces incremental cash reserve ratio of 100 per cent

RBI introduces incremental cash reserve ratio of 100 per cent

In an attempt to absorb some of the surplus liquidity available in the banking system, the Reserve Bank of India on Saturday asked banks to maintain an incremental cash reserve ratio of 100%, effective the fortnight ended November 26.

By: **FE Bureau** | Mumbai | Published: November 27, 2016 6:17 AM

479
SHARES

Facebook

Twitter

Google+

LinkedIn

Email

RBI said the incremental CRR is intended to be a temporary measure within its liquidity management framework to drain excess liquidity in the system and shall be reviewed on December 9 or even earlier. (Reuters)

In an attempt to absorb some of the surplus liquidity available in the banking system, the Reserve Bank of India ([RBI](#)) on Saturday asked banks to maintain an incremental cash reserve ratio (CRR) of 100%, effective the fortnight ended November 26, reports [FE Bureau](#) in Mumbai. The move is estimated to suck out around Rs 3.24 lakh crore excess liquidity from the system and will be applicable on deposits between September 16 and November 11 fortnights.

RBI said the incremental CRR is intended to be a temporary measure within its liquidity management framework to drain excess liquidity in the system and shall be reviewed on December 9 or even earlier.

unchanged at 4% of NDTL.

“With the withdrawal of the legal tender status of Rs 500 and Rs 1,000 denomination bank notes beginning November 9, there has been a surge in deposits relative to the expansion in bank credit, leading to large excess liquidity in the system,” it said, adding that the magnitude of surplus liquidity available with the banking system is expected to increase further in the fortnights ahead. Banks have already parked a record Rs 4.3 lakh crore with RBI in return of bonds as of November 22. “This is intended to absorb a part of the surplus liquidity arising from the return of specified bank notes to the banking system, while leaving adequate liquidity with banks to meet the credit needs of the productive sectors of the economy,” RBI said. Part of RBI’s liquidity management tools, CRR ensures that banks do not run out of cash when depositors demand money and it is also used by the central bank to check inflation.