

To drain surplus liquidity, RBI orders additional CRR

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Mumbai, Nov 26:

The RBI has asked banks to temporarily maintain additional average daily balance with it in order to drain surplus liquidity with them. This follows the banking system being flooded with liquidity triggered by the demonetisation exercise.

The cash reserve ratio (CRR), or the slice of deposits that banks have to maintain with the central bank, continues at 4 per cent of deposits.

The surfeit of liquidity with banks is underscored by the fact that they collectively parked ₹2,27,242 crore in the three reverse repo auction conducted by the RBI on Friday.

In a circular to banks, the RBI said that on the increase in deposits between September 16 and November 11, scheduled banks will have to maintain incremental CRR of 100 per cent, effective the fortnight beginning November 26.

This measure is intended to absorb a part of the surplus liquidity arising from the return of the demonetised ₹500 and ₹1,000 bank notes, while leaving adequate liquidity with banks to meet the credit needs of various sectors.

Currently, all banks are required to maintain minimum CRR balances up to 95 per cent of the average daily required reserves for a reporting fortnight on all days of the fortnight.

Surge in deposits

The RBI observed that with the demonetisation decision, there has been a surge in deposits relative to the expansion in bank credit, leading to large excess liquidity in the system.

It assessed that the magnitude of surplus liquidity available with the banking system is expected to increase further in the fortnights ahead. In view of this, it has been decided to absorb a part of this surplus liquidity by applying an incremental CRR as a purely temporary measure.

As the incremental CRR is intended to be a temporary measure, it will be reviewed on December 9 or even earlier.

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