

To absorb excess liquidity, RBI ups ceiling under MSS to ₹ 6 lakh crore

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Unlike CRR, banks earn interest on funds parked under Market Stabilisation Scheme



Mumbai, December 2:

Banks just got a breather as the requirement to maintain excess cash reserve ratio (CRR) may soon be withdrawn in the backdrop of the ceiling for issue of securities under the Market Stabilisation Scheme (MSS) being bumped up to ₹ 6 lakh crore from ₹ 30,000 crore earlier.

The short-term instruments issued under the MSS will suck out surplus liquidity, arising from the surge in deposits with the banking system on account of the ongoing demonetisation drive.

MSS was introduced in April 2004 under which Government of India dated securities/treasury bills could be issued to absorb surplus structural/durable liquidity created by the RBI's foreign exchange operations. To sterilise the excess liquidity with banks, the RBI had, on November 26, asked them to maintain an incremental CRR of 100 per cent on the increase in deposits between September 16 and November 11. It said as the incremental CRR is a temporary measure, it will be reviewed on December 9 or even earlier.

According to NS Venkatesh, Executive Director, Lakshmi Vilas Bank, "Now, there is every possibility the additional CRR will get dropped in the December 7 bi-monthly monetary policy review and they (RBI) will use the MSS to suck out that additional liquidity. This will be beneficial for the banking system for the simple reason that the additional CRR was not bearing any interest, whereas the MSS will ensure that banks will get at least some yield on the short-term instruments.

"It is a good initiative of the government and the RBI to have come out with this tool. It will enable banks at least earn a rate of interest which will be much higher than the savings bank interest which they are paying for absorbing the demonetisation flows."

He underlined that instruments issued under MSS such as cash management bills (CMBs) and Treasury Bills are short-term in nature. So, whatever liquidity is getting sucked out will come back into the system after a short period of time. This will enable the banking system to actually lend these funds for the productive credit growth needs of the economy.

Karthik Srinivasan, Senior Vice President, Head-Financial Sector Ratings, ICRA, said, "**...the hike in the ceiling for the MSS to ₹ 6 lakh crore will supplement the excess inter-bank liquidity that can be absorbed by the RBI through overnight/term reverse repos by offering its stock of government securities in excess of ₹ 7 lakh crore, as collateral.**

"This....suggests that the RBI may no longer need the temporary CRR hike to absorb excess liquidity. Therefore, we expect the temporary CRR hike to be reversed with effect from the next reporting Friday."

Meanwhile, in the auction of the 28-days CMBs conducted under the newly-announced MSS ceiling, the RBI received 47 bids aggregating ₹ 40,765 crore as against a notified amount of ₹ 20,000 crore. The central bank accepted 36 bids for the notified amount at a cut-off price of ₹ 99.53 (yield to maturity: 6.1557 per cent).

As the instruments issued under MSS are short-term, banks can lend these funds for the credit growth needs of the economy, says Lakshmi Vilas Bank ED

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