

DeMo effect: Govt plans to drain extra cash with banks

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New arrangement will reward banks parking funds with RBI



New Delhi, March 24:

Call this the post-demonetisation effect. The Finance Ministry on Friday discussed with select bankers the contours of a new facility that would help absorb the surplus liquidity in the banking system.

This new framework — likely to be called standing deposit facility — would facilitate banks to park their surplus cash with the Reserve Bank of India at a rate lower than the repo rate, sources in the banking industry said.

Policymakers are working towards a new instrument that may be a variant to the cash reserve ratio (CRR). A strong reason why the CRR may not be a preferred instrument for draining surplus cash is that banks are not entitled to any interest on such deposits.

The idea is to see how banks can be persuaded to park their surplus cash with the RBI and at the same time be

compensated for such deposits, they added.

By offering lower interest rates, the banks may also be nudged to lower their lending rates.

Over the last two months, cash deposits in the banking system have surged to an estimated Rs. 4 lakh crore from a level of Rs. 2 lakh crore.

NPA resolution

The Centre along with the RBI may modify its non-performing assets resolution schemes involving the restructuring of loans.

Indications are that an NPA resolution package will be brought up before the Cabinet in the coming days.

There was frenzied activity in banking stocks in the bourses on Friday after Finance Minister Arun Jaitley was reportedly quoted as saying that a solution to the growing NPA problem was being worked out with the RBI and that this will be announced in the next few days. Jaitley had said this would put enough pressure on the defaulting borrowers to settle dues.

INTERESTING MOVE

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Over the last two months, cash deposits in the banking system have surged to Rs. 4 lakh crore

The Centre along with the RBI may bring modifications to its existing NPA resolution schemes

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