

RBI to open funds tap for banks this month

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To make available ₹1-lakh crore to ease rising credit demand

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The Reserve Bank of India has made provisions that will provide liquidity aggregating ₹1-lakh crore to the banking system in the current month.

This move comes in the backdrop of the gradual tightening of liquidity in the banking system with credit growth outpacing deposit accretion.

The approaching mid-March deadline for India Inc to make advance tax payments is also adding to the liquidity crunch.

On Monday, the RBI said it would conduct additional variable rate repo operations for longer tenors, of up to 31 days, every Tuesday this month, for ₹25,000 crore each, to provide additional liquidity support to banks.

Karthik Srinivasan, Group Head, Financial Sector Ratings, ICRA Ltd, said the proposed injection of liquidity should help cap short-term rates and also aid in lowering the rate volatilities for the rest of the month.

A repo operation entails provision of liquidity by the RBI to banks to overcome temporary liquidity mismatches.

Ready to act

In mid-February, the RBI had said that in order to address additional demand for liquidity and with a view to providing flexibility to the banking system in its liquidity management towards March-end, it is prepared to inject additional liquidity using a combination of instruments, while continuing with its usual Liquidity Adjustment Facility (LAF) operations.

At a post monetary policy review press conference on February 7, RBI Deputy Governor Viral Acharya said: “At present, the system remains by and large still in surplus liquidity mode... The system liquidity is, however, steadily moving towards the neutrality objective.

“For instance, in December and January, the system liquidity was in deficit mode on a few days and the RBI provided liquidity through its repo operations to manage the system’s frictional liquidity needs on these days.”