

04:05 PM 18 APR CLOSED MARKET STATS ▼	SENSEX 39,140 ▼ -135.36	NIFTY 50 11,752 ▼ -34.35	GOLD (MCX) (Rs/10g.) 31,467.0 ▼ -13	USD/INR 69.34 ▼ -0.25	CREATE PORTFOLIO	Download ET MARKETS APP	CHOOSE LANGUAGE ENG
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Banking system faces Rs 70,000 crore liquidity deficit

BY [SAIKAT DAS](#), ET BUREAU | APR 20, 2019, 07:49 AM IST

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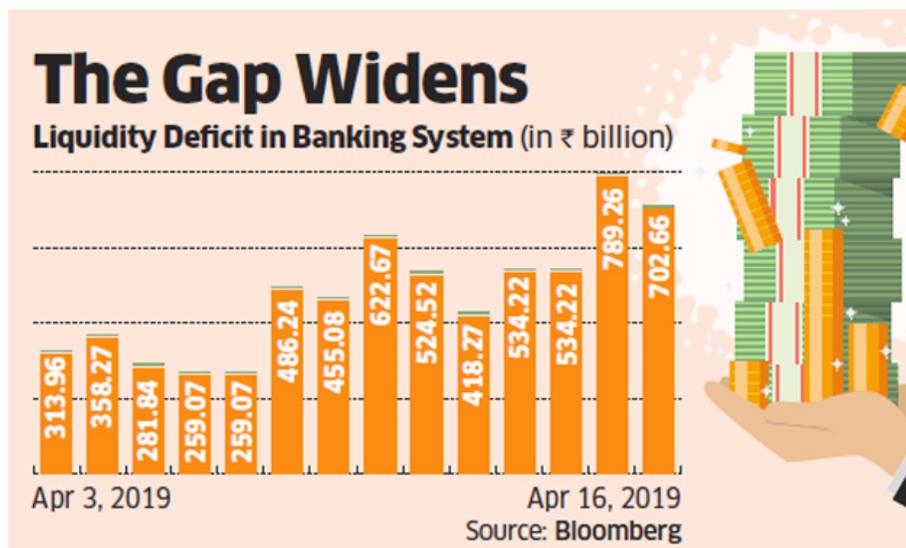
MUMBAI: Muted government spending and high election-related spending have created a **liquidity deficit** of Rs 70,000 crore in the **banking** system, stymieing the Reserve Bank of India's record liquidity infusion via bond purchases and the innovative dollar-rupee swap, blunting the recent rate cut and clogging the efficacy of policy transmission.

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"System liquidity seems to be slightly more in deficit that is normal at this time of the year," said Saugata Bhattacharya, chief economist at Axis Bank. "The proximate reason seems to be relatively high government balances with **RBI**, which might be due to lower spends. Other contributing factors might be higher cash withdrawal, weaker foreign exchange inflows and higher **CRR** (cash reserve ratio) balances of banks," he said.

The deficit is at Rs 70,266 crore on April 16 compared to Rs 31,396 crore on April 3, data from the Bloomberg India Banking Liquidity gauge showed.

During the same period, the system was running in surplus cash in the range of Rs 33,400 and Rs 84,600 crore although New Delhi's currency swap programme (DeMon) increased cash in the banking system around that period.



"Extended deficit liquidity could become detrimental to smoother monetary policy transmission," said Upasna Bhardwaj, senior economist at Kotak Mahindra Bank. "One of the primary reasons for tighter liquidity conditions in April has been the unexpected muted spending by the government."

The surplus cash balance with the government is now at about Rs 47,333 crore as on April 16 compared to nil balance in the corresponding period last year.

"GST collections towards the end of the week are expected to have further increased the cash balance and worsened liquidity deficit given the absence of aggressive spending," she said.

The liquidity deficit may cross Rs 1 lakh crore by the end of last week in April, experts said.

While RBI has injected Rs 2.98 lakh crore in liquidity into the banking system in 2018-19, it also conducted a dollar swap auction for \$5 billion or Rs 34,500 crore in March. Similar dollar auction will also be carried out on Tuesday to infuse similar quantum.

“RBI might have to infuse liquidity through term repo for the time being,” said Soumyajit Niyogi, associate director, India Ratings. “Post elections, the scenario is likely to change with the spending spree ebbing and possible reduction in cash in circulation.”

Factors like ongoing weekly high central and state government bond auctions too added to the deficit problem, Niyogi said. On an average the central bank has sold about Rs 20,000-30,000 crore state and central government debt in the first two weeks in April.

Liquidity conditions, however, should improve in the coming days amidst the FX swap and a pick-up in government spending.

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