Liquidity deficit hits ₹2 trn again despite CRR cut

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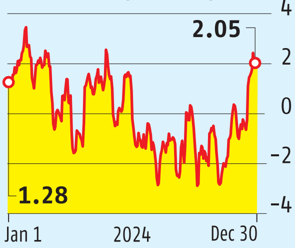
The liquidity deficit in the banking system crossed ₹2 trillion again on Monday, despite the second instalment of cash reserve ratio (CRR) reduction coming into effect from December 28.

According to the latest data, the Reserve Bank of India (RBI) infused ₹2.05 trillion in the system on Monday. Liquidity deficit crossed ₹2 trillion on two occasions last week. "The deficit is mainly because of three reasons — one, advance tax outflow, festive spending and probably intervention by the central bank in the foreign exchange market to curb volatility," said Gopal Tripathi, head — treasury and capital markets, Jana Small Finance Bank.

HOW MONEY MOVED

RBI net liquidity injected or absorbed (₹ trillion)



Source: RBI

In the December monetary policy review, the RBI cut CRR requirement for banks by 50 bps to 4 per cent of net demand and time liabilities in two equal tranches of 25 basis points each with effect from the fortnight starting December 14 and December 28. This reduction in the CRR released primary liquidity of about ₹1.16 trillion to the banking system.

Intervention in the foreign exchange market is one of the key reasons for tight liquidity as the central bank is said to sell dollars to stem the depreciation of the Indian unit. The rupee has hit new lows in many trading sessions in December, closing at a new low of 85.61 a dollar on Tuesday.