Liquidity deficit at over 2-mth low, eases below ₹1 trillion

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Mumbai, 1 March

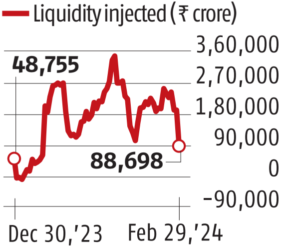
The liquidity deficit in the banking system narrowed to more than a two-month low on the back of government spending, said market participants. Liquidity improved to ₹88,698 crore on Thursday, according to the data provided by the central bank.

The last time the deficit fell below ₹1 trillion was on December 15, 2023. A market participant said the liquidity may not improve immediately as tax outflows of around ₹1.25 trillion are scheduled in March. "The liquidity improved because of government spending, which was expected to kick in from March," said a dealer at a state-owned bank. "It should remain at these levels until the tax outflows which are expected to be around ₹1.25 trillion," he said. Money market dealers said the Reserve Bank of India (RBI) could continue refining operations with short-tenure variable rate repo auctions and variable rate reverse repo auctions.

Money market rates have averaged close to the repo rate of 6.50 per cent, hovering around the Marginal Standing Facility (MSF) rate. The RBI could drain liquidity from the system if money market rates dip below the repo rate, said market participants.

Weighted average money market rates stood at 6.54 per cent on Friday. "The RBI should continue with the auctions, but in small amounts and shorter tenures," said a money market dealer at a state-owned bank.

FALLING SHORT



Source: Bloomberg, RBI
Compiled by BS Research Bureau