RBI to inject ₹1.9 trn in banking system

ANJALI KUMARI
Mumbai, 5 March

Anticipating tight liquidity conditions by the end of the current financial year (FY25) amid tax outflows and banks rushing to meet targets, the Reserve Bank of India (RBI) on Wednesday announced fresh measures that would infuse close to ₹1.9 trillion of liquidity in the banking system.

The RBI said it would go for open market operation (OMO) auctions to purchase government securities worth ₹1 trillion in two tranches of ₹50,000 crore each on March 12 and March 18. Additionally, a USD/INR buy-sell swap auction for $10 billion with a tenor of 36 months is scheduled for March 24.

The RBI has announced ₹1 trn bond buy and $10 bn $–₹ swap to infuse liquidity in the system

These steps, according to bankers, are expected to inject about ₹1.87 trillion into the system, keeping the liquidity stable amid tax outflows and cash leakage during the month. The net liquidity in the banking system has remained in deficit mode for the past 11 consecutive weeks, though the latest figures showed the deficit coming down to just ₹20,000 crore on Tuesday.

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RBI announces more liquidity infusion measures

"Mid-March outflows and then GST (goods and services tax) outflows need to be dealt with before the end of March. With that in perspective, we are not necessarily going to be in surplus, but we will definitely be in balance more than anything else," said the treasury head at a private bank.

Earlier, the RBI had announced OMO auctions to purchase government securities worth ₹60,000 crore in three tranches of ₹20,000 crore each, and conducted a $5 billion and $10 billion USD/INR buy-sell swap in January and February, respectively.

"Banks are seeking liquidity measures from the RBI due to the current market conditions. Overnight rates are below the repo rate, while longer-term money market rates, such as 3-month, 6-month, and 1-year CDs (certificates of deposit), remain elevated," said V R C Reddy, head of treasury at Karur Vysya Bank. "For instance, the 3-month CD is around 7.55 per cent, creating a 150 basis points (bps) spread between overnight and 3-month CD rates. This elevated spread needs to narrow for interest rate softening to transmit smoothly across the economy. I believe the RBI has responded positively to this situation," Reddy said.

Apart from tax outflows and year-end rush by banks, the central bank has been actively intervening in the foreign exchange market to curb volatility arising out of uncertainties over US President Donald Trump's tariff threats.

On Wednesday, the rupee posted its highest single-day gain since February 11 because of the weakening dollar, and dollar sales by state-owned banks on behalf of the RBI, said dealers.

The local currency appreciated 0.36 per cent to settle at 86.96 against the dollar. The previous close was 87.27 per dollar. In FY25, the rupee has depreciated by 4.09 per cent, and 1.55 per cent in the current calendar year (CY25) so far. "The rupee appreciated because dollar index was down in the morning, and Asian currencies were also gained because of global cues. We see rupee trading with appreciation bias from here, but in the long term, we see it trading at 88-89 per dollar because we also have one rate cut coming in April," said a dealer at a state-owned bank.

The dollar index dropped 0.6 per cent to 104.9, its lowest level since November 2024, amid concerns over the US growth outlook and uncertainty about the impact of trade tariffs on growth and inflation.

The US has implemented 25 per cent tariffs on imports from Mexico and Canada, while doubling duties on Chinese imports to 20 per cent.