RBI conducts 2 VRR auctions as liquidity deficit widens

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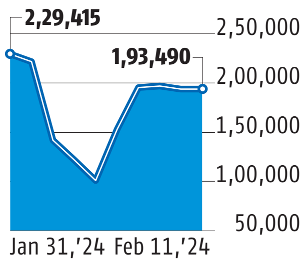
The Reserve Bank of India (RBI) on Monday conducted two four-day variable rate repo (VRR) auctions to infuse liquidity into the banking system. The liquidity deficit in the system widened to ₹1.93 trillion on Sunday.

The central bank conducted two VRR auctions in a day for the first time on Friday, following six fine-tuning variable rate reverse repo (VRRR) auctions between February 2 and 7. This included two one-day VRRR auctions on February 6 and 7.

"Because of the strong demand at the first auction, they might have come up with the second one," a dealer at a state-owned bank said. "We are not able to figure out the exact reason why they are conducting two auctions. They could have come up with a larger amount at a single auction," he added.

SYSTEM CHECK

Net liquidity injected* (₹ crore)



*Outstanding includes Monday's operation
Sources: Bloomberg, RBI
Compiled by BS Research Bureau

At the first four-day VRR auction, the RBI received bids worth ₹1.23 trillion, against a notified amount of ₹25,000 crore. The second auction received bids worth ₹97,280 crore.

Market participants expect the central bank to continue with VRR auctions, as the liquidity deficit is expected to widen further on the back of tax outflows.

"They should continue with the VRR at least for February," a dealer at a state-owned bank said. "From March onwards, government spending will take care of the liquidity," he said.

RBI Governor Shaktikanta Das had elaborated on liquidity conditions in his monetary policy statement, ascribing them to external factors, and they were expected to rectify in the foreseeable future, bolstered by market interventions by the central bank.

The RBI, he said, was agile and adaptable in its liquidity management, employing both repo and reverse repo operations. He said the RBI would utilise a judicious mix of instruments to regulate both short-term and long-term liquidity, ensuring that money market interest rates evolved systematically while upholding financial stability.