

Liquidity deficit in banking system widens to over ₹2 trn

Issuances of CD in Dec highest in FY24

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Funds raised by banks through certificates of deposit in December clocked the highest in the financial year 2023-24 as liquidity remained tight in the system with the Reserve Bank of India (RBI) infusing ₹2.01 trillion on Monday, the highest in the current financial year.

The liquidity deficit in the banking system widened to more than ₹2 trillion on Monday on the back of advance tax outflows, market participants said. Around ₹4 trillion worth of outflows are expected because of advanced tax and goods and services tax (GST) payments in December.

Liquidity has remained largely in deficit mode in the current quarter.

Tight liquidity led banks to rush for raising funds through certificates of deposit. December witnessed CD issuances worth ₹83,870 crore as of Monday, which is the highest in the current financial year, according to data from the Clearing Corporation of India Limited (CCIL). CD issuances in December were the highest in eight months after March.



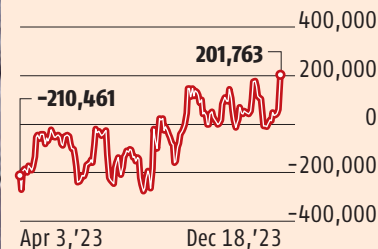
CDs are short-term debt instruments used by banks to raise funds.

Market participants expect the liquidity deficit to narrow by the end of the month.

“The liquidity should neutralise from here, and the market expects that the RBI might infuse liquidity through more variable rate repo (VRR) auctions,” said Ajay Manglunia, managing director and head (institutional fixed income) at JM Financial. On Friday, the RBI conducted a VRR auction after six months.

Against the notified amount of ₹1 trillion, the central bank received bids worth ₹2.7 trillion at the seven-day variable rate repo (VRR) auction. Banks borrowed the

NET LIQUIDITY INJECTED (₹ crore)



Source: RBI, Bloomberg

amount at a weighted average rate of 6.63 per cent. Before this, the last time the central bank conducted a VRR auction was on June 19. Significant demand was also fueled by elevated call rates and tri-party repo (Treps) rates in the market, dealers said.

Market participants anticipate a mitigation of liquidity strain through factors such as the reversal of variable rate reverse repo (VRRR) and government spending.

“We have GST outflow lined up, it might widen further before normalising on the back of government spending at the end of the month,” a dealer at a primary dealership said.