

As liquidity tightens, call rate jumps to 7%, then eases

Advance tax, GST payments leading to tight liquidity; RBI may do more repo hikes

BHASKAR DUTTA
Mumbai, 20 March

The interbank call money rate, which represents the overnight cost of funds for banks, rose to a high of 7 per cent on Monday as tax outflows exerted significant pressure on liquidity in the banking system.

The rate eased after touching that mark, with the weighted average call rate (WACR) — the operating target of the Reserve Bank of India's (RBI's) monetary policy — ending at 6.69 per cent on Monday, Clearing Corporation of India data showed.

At Monday's closing level, the WACR was much above the repo rate of 6.5 per cent and not far from the marginal standing facility (MSF) rate of 6.75 per cent. The MSF is the higher band of the RBI's interest rate corridor.

Analysts said while the prevailing phase of higher money market rates was driven by tax outflows, liquidity in the banking system had tightened significantly over the last few months and is likely tighten further in the coming months. This implies higher cost of funds for banks.

While corporate advance tax

payments started last week, payments for goods and services tax (GST) commenced on Monday, analysts said. Over the last few months, the GST outflow per month has been worth about ₹1.7 trillion, analysts said.

"The jump in call rate is a temporary phenomenon because of the advance tax payments but at the same time, the liquidity surplus is gradually coming off, if you compare it month over month. Trend-wise, liquidity is coming off," Vivek

said.

Analysts said as on February 24, the government's cash balance was around ₹1.8 trillion.

Analysts said while the prevailing phase of higher money market rates was driven by tax outflows, liquidity in the banking system had tightened and was likely to tighten further in the coming months

Kumar, economist, QuantEco Research, said.

"Ideally, there could be a short-term VRR (variable rate repo) announcement by the RBI — maybe an overnight repo or a three-day or a five-day repo. Normally, government spending takes about a week to hit the system, so for the temporary mismatch, the RBI could provide a VRR," he

According to the latest RBI data, as on March 19, the central bank injected ₹94,082.47 crore into the banking system. The day before the central bank injected ₹1 trillion into the banking system. The liquidity injections by the RBI over the last few days have been the highest since April 2019, reflecting the tighter liquidity conditions.

The RBI's aim is to keep the WACR in close alignment with the repo rate through liquidity operations.

Last month, the RBI resumed variable rate repo operations after a hiatus of five months, with the latest such operation being held on March 10. Banks had borrowed ₹82,650 crore through the 14-day VRR held on March 10.