

# Banks expect repo auction as liquidity stays in deficit

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The banking system's liquidity deficit persisted on Wednesday as the Reserve Bank of India (RBI) decided to withhold a significant portion of banks' surplus funds to curb inflationary pressures exacerbated by the outflow of taxes.

Liquidity in the banking system went into deficit mode on Tuesday for the first time in the current financial year. According to RBI data, the central bank had injected ₹15,552 crore on Tuesday and ₹23,644 crore on Monday.

Consequently, the weighted average call rate, and tri-party repo rate have largely remained above the repo rate after August 11. They settled at 6.76 per cent, and 6.75 per cent, respectively.

During the monetary policy review announcement on August 10, the RBI mandated all scheduled banks to maintain an incremental cash reserve ratio (I-CRR) of 10 per cent on the increase in their net demand and time liabilities (NDTL) between May 19, 2023 and July 28, 2023, with effect from August 12.

The imposition of incremental cash reserve ratio (I-CRR) by the RBI, coupled with outflows on account of goods and services tax (GST) payments starting this week weighed on the liquidity in the banking system.

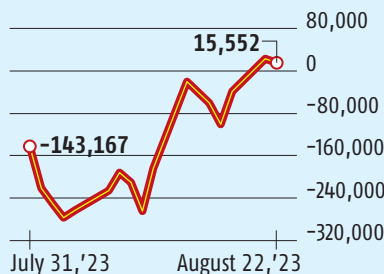
Moreover, the RBI has been intervening in the foreign exchange market to protect the rupee from depreciating further.

Market participants estimate a total outflow worth ₹1.5 trillion due to GST payments. Additionally, imposition of I-CRR is expected to result in the RBI impounding more than ₹1 trillion.

"The neutral level of liquidity is around

## AT WORK

Net liquidity injected by RBI (in ₹ cr)



Compiled by BS Research Bureau  
Source: RBI, Bloomberg

₹65,000-70,000 crore. Only to maintain real-time gross settlement (RTGS) or any funds transfer, a bank has to maintain at least ₹75,000 crore excess liquidity, more than the CRR requirement. So, a bank cannot fund it by borrowing at 6.75 - 6.77 per cent continuously. So, ₹1.5 trillion of banking liquidity is a must," a dealer at a state-owned bank said.

"We thought the RBI will come out with a notification regarding repo auction, but it hasn't till now," he added.

Market participants expect the RBI to conduct variable rate repo (VRR) auctions as a measure to inject liquidity into the system.

In response to surplus liquidity exceeding ₹2 trillion, the central bank had previously conducted a series of variable rate reverse repo (VRRR) auctions to withdraw excess funds.

Notably, the most recent VRRR auction was a 14-day one worth ₹1 trillion, on August 11.