RBI to infuse ₹3 trn liquidity after ₹ defence

Will carry out ₹2 trillion OMOs, $10 billion USD-INR swap

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The Reserve Bank of India (RBI) on Tuesday announced a fresh round of liquidity measures through open-market operations (OMOs) and a foreign exchange buy-sell swap, under which it will inject close to ₹3 trillion into the banking system.

The central bank said it would purchase Government of India securities worth ₹2 trillion through OMOs, spread across four tranches of ₹50,000 crore each to be conducted on December 29, January 5, January 12 and January 22. In addition, it will undertake a three-year USD-INR buy-sell swap of $10 billion on January 13.

The latest data shows that net liquidity in the banking system was in deficit to the tune of ₹54,852 crore as of Monday.

Money market participants said they had been expecting a liquidity injection of at least ₹2 trillion even before the central bank's intervention in the foreign exchange market through dollar sales last week. They said the RBI's decision to inject nearly ₹3 trillion of liquidity is primarily aimed at offsetting the drain caused by recent forex interventions, along with seasonal pressures such as advance tax outflows and a rise in currency in circulation.

Last week, the central bank intervened aggressively in the foreign exchange market to stem a sharp depreciation in the local currency against the US dollar. The rupee had come under pressure amid uncertainty surrounding a trade deal with the US and persistent foreign portfolio investor outflows from equity and debt markets.

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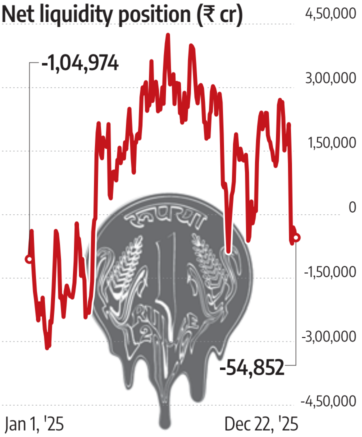
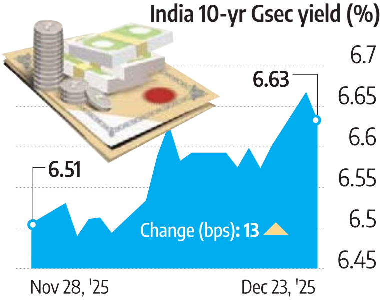
Liquidity crunch



Bond yield on the rise



₹ under pressure

₹ vs $ (spot): As on Dec 23, 2025 **89.66**

Change %			
1-day	-0.01	FYTD	-4.67
MTD(Dec)	-0.23	YTD	-4.51
QTD	-0.97	1-year	-5.07

Source: Bloomberg
Compiled by BS Research Bureau

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The strengthening of the rupee from 91 per dollar to 89 per dollar following the intervention has, however, tightened liquidity conditions in the banking system.

Market participants said any further action would depend on how liquidity conditions evolve and whether additional currency market intervention becomes necessary. While the RBI could do more in the fourth quarter if pressures persist, the latest steps are widely viewed as timely and adequate for now.

"Given the scale of forex intervention already undertaken, the amount being injected now appears appropriate. This is also unlikely to be the last such move. Going ahead, the need for further liquidity support will depend on the extent of additional currency market intervention and how overall liquidity conditions evolve," Sakshi Gupta, principal economist at HDFC Bank. "If required, the RBI may do more in the fourth quarter, but for now this is a sizeable and timely response, considering the liquidity outlook."

At its most recent monetary policy meeting, RBI Governor Sanjay Malhotra had assured markets that the central bank would ensure ample liquidity in the banking system, even without explicitly targeting surplus levels of around 1 per cent of net demand and time liabilities.

The RBI has infused ₹1.45 trillion of durable liquidity so far in December through OMO purchases and forex buy-sell swaps. Bond market participants said that conducting OMO purchases in more liquid securities would help improve participation and price discovery. OMOs in illiquid bonds often clear at 2–5 basis points above prevailing market levels, as banks seek to lock in gains, reducing the overall effectiveness of such operations.

In the first half of the current calendar year, the RBI injected ₹9.5 trillion of durable liquidity into the banking system. This helped shift liquidity conditions from a sustained deficit since mid-December 2024 to a surplus by the end of March 2025. Of the total infusion, ₹5.2 trillion came through open market purchases, including secondary market operations, while long-term variable rate repo auctions and USD/INR buy-sell swaps contributed ₹2.1 trillion and ₹2.2 trillion respectively.

Meanwhile, government bond yields have continued to rise despite the earlier liquidity announcement and a 25 basis point repo rate cut in the first week of December, underscoring the limited transmission to the bond market. With the RBI having already exhausted its cash reserve ratio tool, OMOs remain the primary instrument to neutralise the negative liquidity impact of forex intervention, analysts said.

The yield on the benchmark 10-year government bond has risen by 12 basis points since the rate cut earlier this month.

"This would take system liquidity to around 1 per cent of net demand and time liabilities before March, indicating that the central bank is comfortable with a higher liquidity surplus. The scale of OMO purchases — around ₹2 trillion in a single month compared with the usual ₹1 trillion — is expected to improve demand-supply dynamics in the bond market and ease pressure on yields. On the forex side, the $10 billion buy-sell swap addresses both rupee liquidity and dollar supply. By buying dollars, the RBI injects rupee liquidity while simultaneously absorbing excess dollar supply, which should help bring down elevated forward premiums," said Gaura Sen Gupta, chief economist at IDFC First Bank.

Durable liquidity was estimated at around ₹3.3 trillion as of mid-December and is expected to rise to about ₹3.6-3.7 trillion by the end of the month, even after accounting for currency leakage and forex intervention. With the additional ₹3 trillion injection, system liquidity is projected to remain comfortably above 1 per cent of net demand and time liabilities well before March.

Some economists, however, cautioned that the scope for a sustained decline in yields remains limited amid emerging fiscal concerns. Central government bond redemptions are estimated at around ₹5.5 trillion in the next financial year, while additional borrowing pressure could also emerge from states. As a result, the combined supply of central and state government securities is expected to remain elevated, keeping upward pressure on yields.

"The latest OMOs and swaps are essentially a countermeasure to offset the liquidity sucked out by forex intervention and are unlikely to have any meaningful impact on bond yields. Even after the earlier liquidity announcement, yields moved higher, which shows that the room for yields to come down is limited," said Indranil Pan, chief economist at YES Bank. "Fiscal worries are beginning to surface, with large government bond redemptions next year and the likelihood of higher state borrowings adding to supply pressure," he added.

Direct equity investors take money off table in '25 — a first since Covid

Mutual fund inflows, particularly through systematic investment plans, have remained buoyant in 2025. As of November, SIP inflows this year stood at a record ₹3.04 trillion, up sharply from ₹2.69 trillion in 2024.

These SIP inflows, along with lump-sum investments, emerged as key supports for the market in 2025 as foreign institutional investors and direct equity investors pulled money out. According to the NSE report, domestic institutional investors invested more than ₹7.6 trillion in equities this year, up sharply from ₹5.3 trillion in 2024. Mutual funds' net equity purchases as on November 30 were at a record ₹4.6 trillion.

Experts also point to heightened investor interest in initial public offerings, along with the rally in gold and silver, as factors that have weighed on direct equity investments. "CY24 delivered phenomenal returns for retail investors, particularly in midcap and smallcap stocks. This year saw profit-booking," said G Chokkalingam, founder of Equinomics.

"There was also a boom in the IPO market and a bull run in gold — so a lot of money shifted from the secondary market to these avenues."

The cooling trend in direct investing has also been reflected in demat account openings. In the first 11 months of 2025, demat accounts grew by 28 million, compared with 46 million additions in 2024.