Banking system liquidity 'may ease from mid-April'

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The liquidity stress that banks are currently experiencing may ease from the second half of April as government spending is seen kicking in by then even as credit demand typically moderates in the first quarter, per treasury market experts.

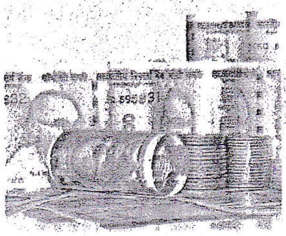
The banking system has been reeling under a liquidity deficit since mid-December, despite the RBI undertaking a slew of liquidity-infusion measures. Currently, the deficit is estimated at ₹2 lakh crore.

TIGHT LIQUIDITY

Foreign Portfolio Investor (FPI) selling in the Indian capital markets, one of the factors weakening the rupee, the RBI's intervention in the forex market to smooth the excessive volatility in the Indian currency against the dollar, and tepid government spending are among the reasons for tight liquidity in the banking system, said a senior treasury official of a public sector bank.

The RBI's liquidity injection measures the last couple of months include Cash Reserve Ratio (CRR) reduction in December from 4.50 per cent of bank deposits to 4 per cent, open market operation (OMO) purchase of Government Securities, conducting longer-term variable rate repo (VRR) auctions and undertaking dollar/rupee buy/sell swap auctions.

RK Gurumurthy, Treasurer, Karnataka Bank, observed that the banking system has seen liquidity deficit since mid-December.



PROVIDING SUPPORT

He said that festival spending, tax outflows, currency intervention and the resultant liquidity leakage, and FPI/FDI (foreign direct investment) led to outflows that translated into liquidity drain aggravated the situation.

"While these clearly suggest a strong intent to arrest the deficit and provide required liquidity support, the imbalance may sustain beyond March-end as the system will yet again get into tax payment mode, which will drain liquidity temporarily," Gurumurthy said.

He noted that government spending and slack in credit demand during Q1 (April-June) of FY26 should help correct this liquidity deficit.

Referring to deposit growth lagging credit expansion in the banking system, a CareEdge Ratings report said banks are sourcing funds through certificates of deposit (CDs), albeit at a higher cost.

Furthermore, a liquidity deficit in the banking system has hampered deposit growth.