

# RBI's liquidity infusion largest since April 2019 as surplus cash dries up

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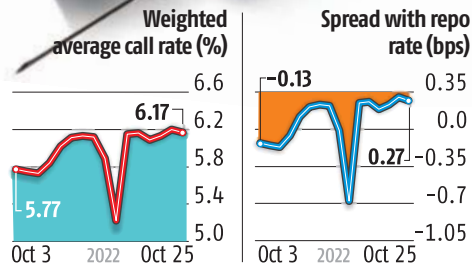
The Reserve Bank of India (RBI) on October 21 injected the largest amount of funds into the banking system in three and a half years, indicating that surplus cash with banks is drying up at an accelerated pace.

The RBI last Friday injected liquidity worth ₹72,860.70 crore — the highest since April 30, 2019. Three days later, on October 24, the central bank injected ₹62,835.70 crore, the RBI data showed. An injection of funds implies tight liquidity in the banking system, whereas if the RBI absorbs money, it implies surplus cash with banks.

The abrupt tightening of liquidity conditions is attributable to outflows on account of goods and services tax (GST) payments and higher currency in circulation during the festival season. What is significant, however, is the degree to which surplus liquidity has shrunk in just a few months.

From an average liquidity absorption of about ₹7 trillion in April, the RBI's absorption has fallen to well below ₹1 trillion in October. So far this month, the RBI mopped up excess funds from banks on 14 occasions, while infused cash in seven cases. The average absorption stands at ₹57,815 crore, while the average infusion is at ₹25,429 crore.

## STEPPING UP



Source: RBI

According to analysts, the RBI's decision to refrain from offering a repo window for banks to borrow funds from points towards the central bank's tolerance of money market rates hovering around the higher end of the interest rate corridor

— the RBI's marginal standing facility (MSF).

"You could say the RBI is tolerating higher money market rates but the weighted average overnight rates have not sustainably gone above the MSF rate, so that is the line in the sand. As long as the rates are hanging around or just below the MSF rate, the RBI is happy not to intervene," A Prasanna, head, fixed-income research, ICICI Securities Primary Dealership, said.

The last time the RBI offered banks a repo window was on September 21. Liquidity was briefly in a deficit of around ₹20,000 crore.

The weighted average call rate — the operating target of the RBI's monetary policy — has been above the repo rate of 5.9 per cent 10 times so far this month. On three of those occasions, the WACR was above the MSF.

While overall banking system liquidity is still at a surplus, borrowing from the RBI's marginal standing facility (MSF) window has gone up sharply in October. This means banks that are short of funds are shelling out the highest possible rate to receive funds from the RBI.

Higher money market rates have led to a sharp rise in cost of borrowing for banks and companies tapping the debt markets. Rates on commercial papers and certificates of deposits have climbed close to 70 bps over the last couple of weeks.

Besides, Google will ensure transparency in communicating to app developers, services provided, and corresponding fees charged. Google was also asked to publish its payment policy in an “unambiguous manner” while ensuring that it should not discriminate against other apps facilitating payment via the UPI in India vis-à-vis its app, in any manner.

Experts say the remedies imposed by the CCI are excessive and disproportionate. “A lot more clarity and certainty would be required from the Commission for Google to comply with the remedies imposed by the Commission,” said Akshay S Nanda, partner (competition law and personal data protection practice), Saraf & Partners.

“As far as the allegations against the commission fee charged by Google, I am of the view that the CCI has taken the correct stand that it is not a price regulator or price setter. Prices must be determined by market forces and price regulation by an antitrust regulator would be the anti-thesis of competition law,” Nanda said.

## RBI...

The higher market rates come at a time when a depreciating rupee has prompted analysts to point out the need for maintaining adequate interest rate differentials with the US.

“The absence of a repo by the RBI suggests that they are not uncomfortable with money market rates moving higher because anyway the short-term rates are always the first line of defence for the currency,” Soumyajit Niyogi, director, India Ratings & Research, said.

“But that doesn’t mean that they will tighten the liquidity condition in a significant way because the repercussions are quite significant. In terms of

the operating environment for businesses, they are facing multiple challenges,” he said.

According to Barclays MD and head of EM Asia (ex-China) Economics Rahul Bajoria, a key factor that could be driving the RBI’s perceptions of durable liquidity was government expenditure. “Government spending has been weak. We don’t get to see the extent of the total holdings of balances that the government has with the RBI. That clearly would give you a sense that the RBI is perhaps not anticipating this as a recurring phenomenon,” he said.

## CAG...

The CAG will look at the Central Vigilance Commission’s guidelines as well as those relating to project management for this, he said. Programmes such as the National Rural Health Mission and Ayushman Bharat will come under the audit. “We will see how much the Centre has allocated to each of these programmes, and how states have utilised those funds,” he said.

### Urban local bodies

Officials said the CAG was looking at auditing urban local bodies, which were given powers under the 74th Constitutional amendment, introduced in 1993. “What was the objective of that amendment? Whether those were fulfilled or not are some of the aspects the CAG would determine,” one of the officers cited above said. The 74th Amendment Act established a mandate for decentralising powers and authorities to urban local bodies at various levels. This amendment also aimed at creating an institutional framework for grassroots democracy through self-governing local bodies in urban areas.

