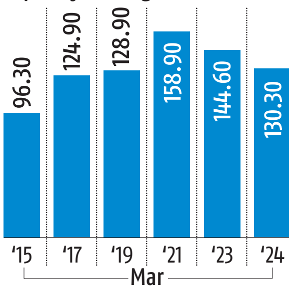
Liquidity coverage ratio falls to 130.3%

The liquidity coverage ratio (LCR) of banks declined to 130.3 per cent from 135.7 per cent between September 2023 and March 2024, according to the Financial Stability Report of the Reserve Bank of India (RBI). LCR refers to a requirement whereby banks must hold a stock of high-quality liquid assets sufficient to cover 30 days' net outflows under stressed conditions.

These assets include cash, short-term bonds, and other cash equivalents, along with excess statutory liquidity ratio and the marginal standing facility, an emergency liquidity window provided by the RBI. LCR is the financial shield that protects a bank from impending bankruptcy. The LCR of private banks stood at 126.9 per cent in March 2024 after dipping to 118.8 per cent in the third quarter of the previous financial year.



Note: As on June 14, 2024
Source: Financial Stability Report

The report said that banks' efficiency indicators weakened due to the rising staff costs and an increased cost-to-income ratio. The LCR of banks fell despite them holding substantial liquidity buffers above the regulatory minimum. Governor Shaktikanta Das announced in April that RBI planned to review the LCR framework to enhance liquidity risk management by banks, with a draft circular forthcoming.

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