RBI may resort to open-market ops as liquidity deficit widens

ANJALI KUMARI
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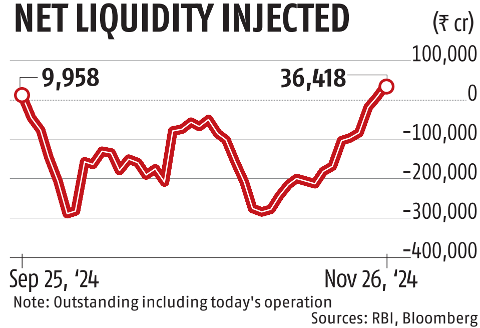

As the liquidity deficit in banking widens, the Reserve Bank of India (RBI) may have to resort to open market operations (OMOs), directly or through secondary markets, to maintain liquidity within a manageable range, according to market experts.

The deficit is estimated to be between ₹50,000 crore and ₹1 trillion.

Temporary measures like variable rate repos (VRR) may provide short-term relief but are unlikely to address fundamental liquidity gaps, they said.

The latest RBI data shows the liquidity deficit was ₹36,418 crore on Tuesday. It fell into deficit on Tuesday after two months due to outflows on account of goods and services tax, a negative balance of payments in the third quarter this financial year (Q3FY25), a widening trade deficit, and increased foreign portfolio Investor outflows since October.

"If the liquidity deficit widens, the RBI might have to do some OMOs to keep liquidity at a level they are comfortable with," said Abheek Barua, chief economist, HDFC Bank.

"The government cash balance has turned negative, so there is no scope for increasing liquidity from there. In the best-case scenario, some of the currency leakage comes back, it stabilises, and the need for intervention is not there and liquidity starts improving from these levels and maybe there will be some small open market operations because you can't really depend on the foreign exchange route anymore to increase liquidity. Fine-tuning operations like VRR will not affect the fundamental underlying balance," he added.

The extent of the intervention will largely depend on global developments, which remains volatile, said experts, adding that the increase in government spending after the first quarter (Q1FY25) aided liquidity in a major way.

"A key support to system liquidity has been a rise in government expenditure, which is reflected in government cash balances turning negative as of November 15 at ₹-0.4 trillion from peak levels of ₹5.1 trillion surplus as of May 24," said Gaura Sen Gupta, chief economist, IDFC First Bank.