

India: Liquidity – RBI shall pave the way

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BANKING RESEARCH TEAM

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RBI attempting to plug the gap created by FX-related outflows

- RBI has already acted on liquidity outside policy; spate of liquidity measures amounting to ~Rs 1.5 lakh crores announced by the RBI on 27th Jan'25
- We estimate FX related liquidity impact of more than Rs. 5 lakh crore since end-Sep'24 have created a gap which RBI is in process of plugging
- Structural liquidity also under pressure as credit-deposit growth wedge has opened up again since mid-December

Revisions in liquidity management framework by the RBI remain on close watch

- As per Liquidity Management Framework, WACR (Weighted Average Call Rate) is required to be aligned with Repo rate.
- However, given low volumes in call money market, SORR (Secured Overnight Rupee Rate) was introduced in Dec'24 MPC which being a collateralised rate may be derived from TREPS (~70% share in overnight money market). *Details awaited.*
- Volatility in government balances on “Just in Time” transition also warrants attention with clarity sought from the RBI.

Short term funding rates stay elevated ahead of LCR implementation despite drop in Tbill rates

- Banks keeping short-end funding rates (especially for CDs) elevated ahead of LCR implementation even as T-bill rates face downward pressure.
- Fixed income outlook: *Flat fiscal deficit and net borrowing in FY26 supports our view of yield curve steepening as liquidity measures kick in*

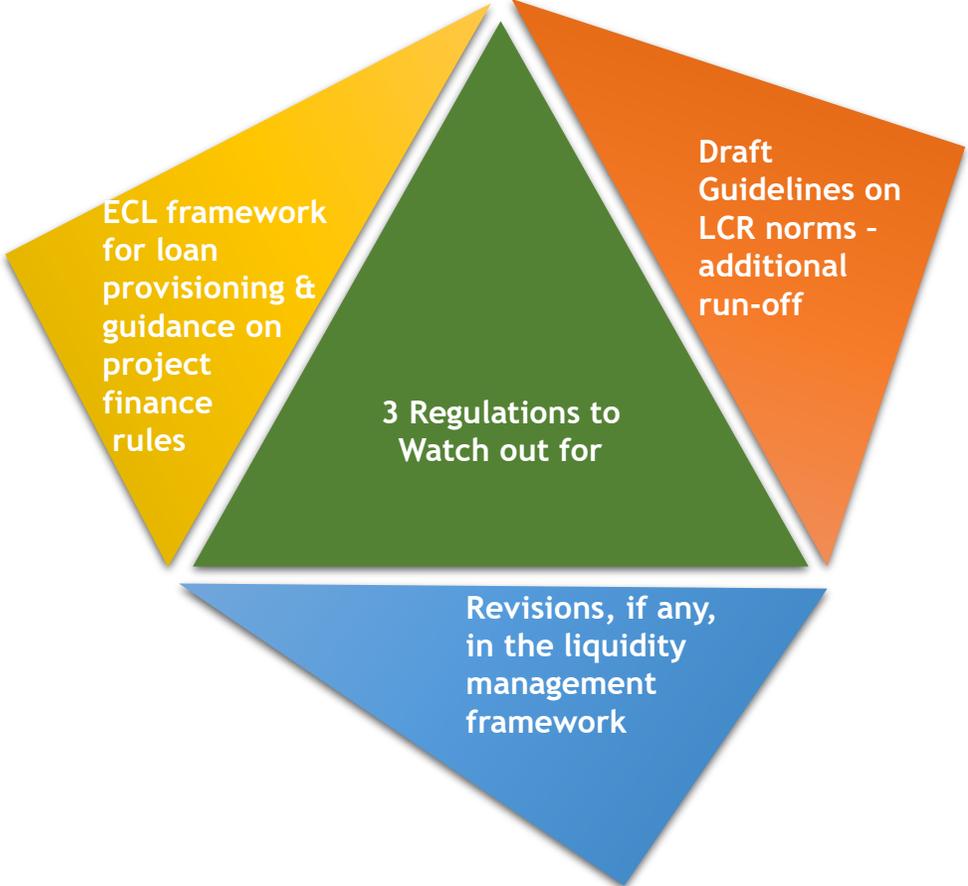
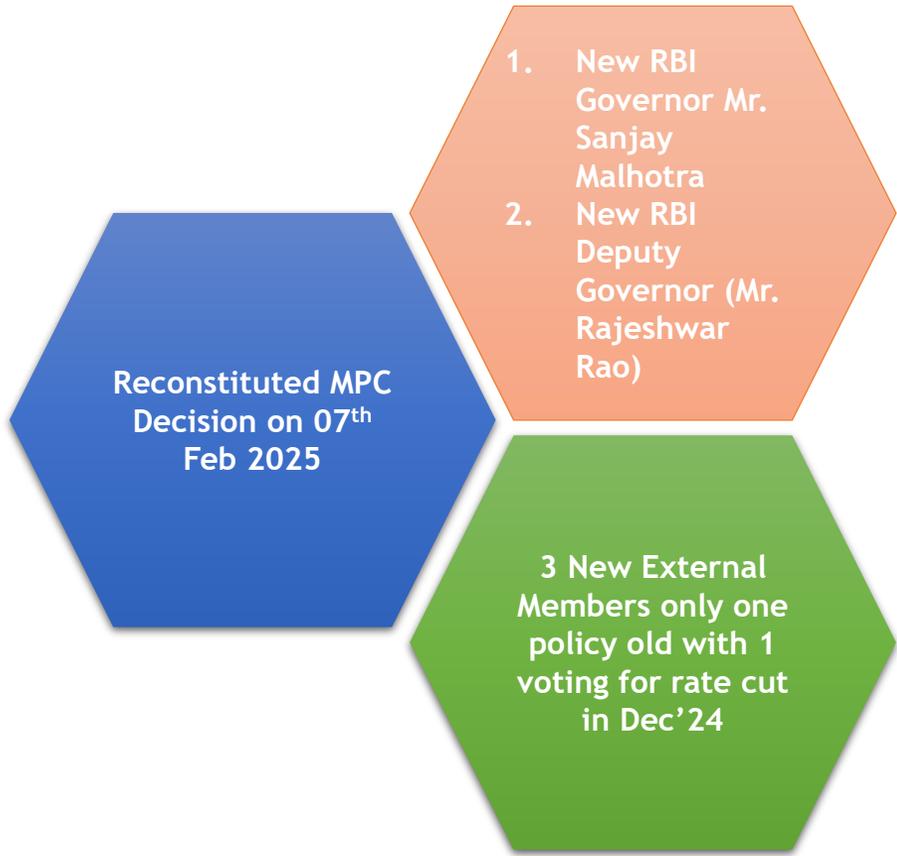
OMOs of Rs.60,000 Crore in three tranches of Rs.20,000 Crore on 30th Jan, 13th Feb and 20th Feb -
One Tranche already done

A Dollar Rupee buy/sell swap auction for a tenor of six months undertaken on 31st Jan'25

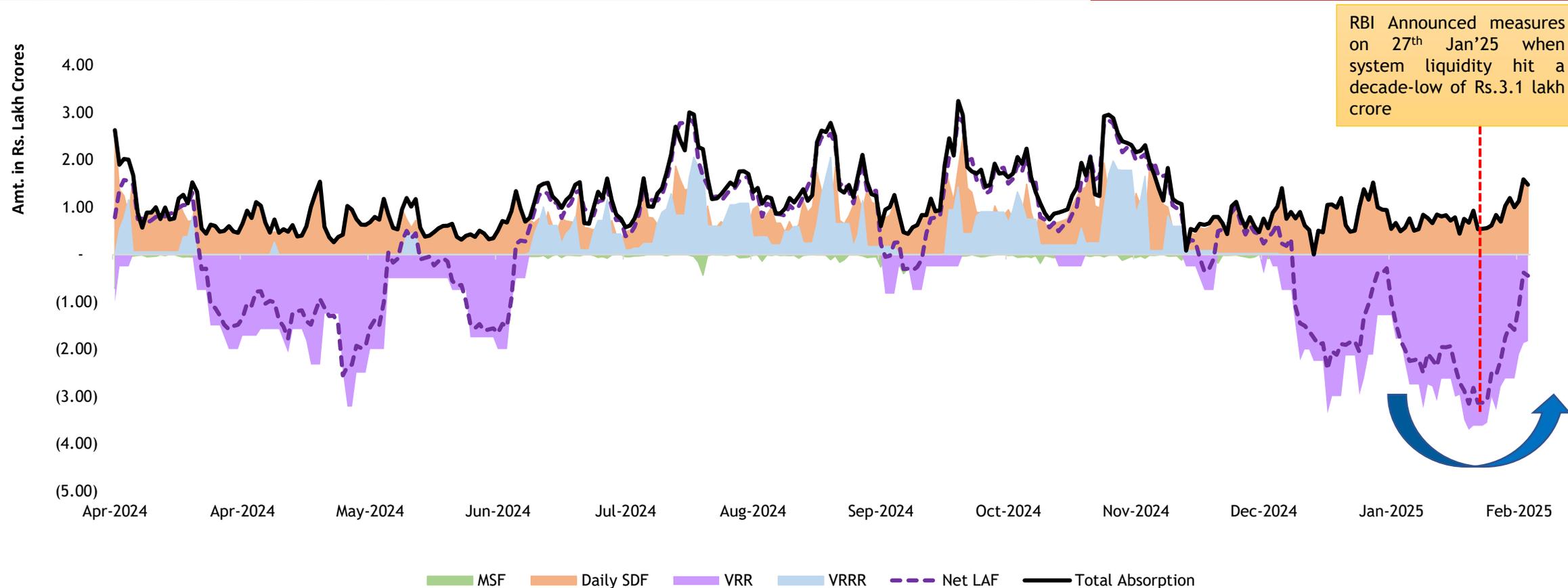
Already conducted

A 56-day Variable Repo auction of Rs.50,000 Crore will be held on 07th Feb

All eyes on the new MPC as new Governor makes first policy announcement on 7th Feb'25

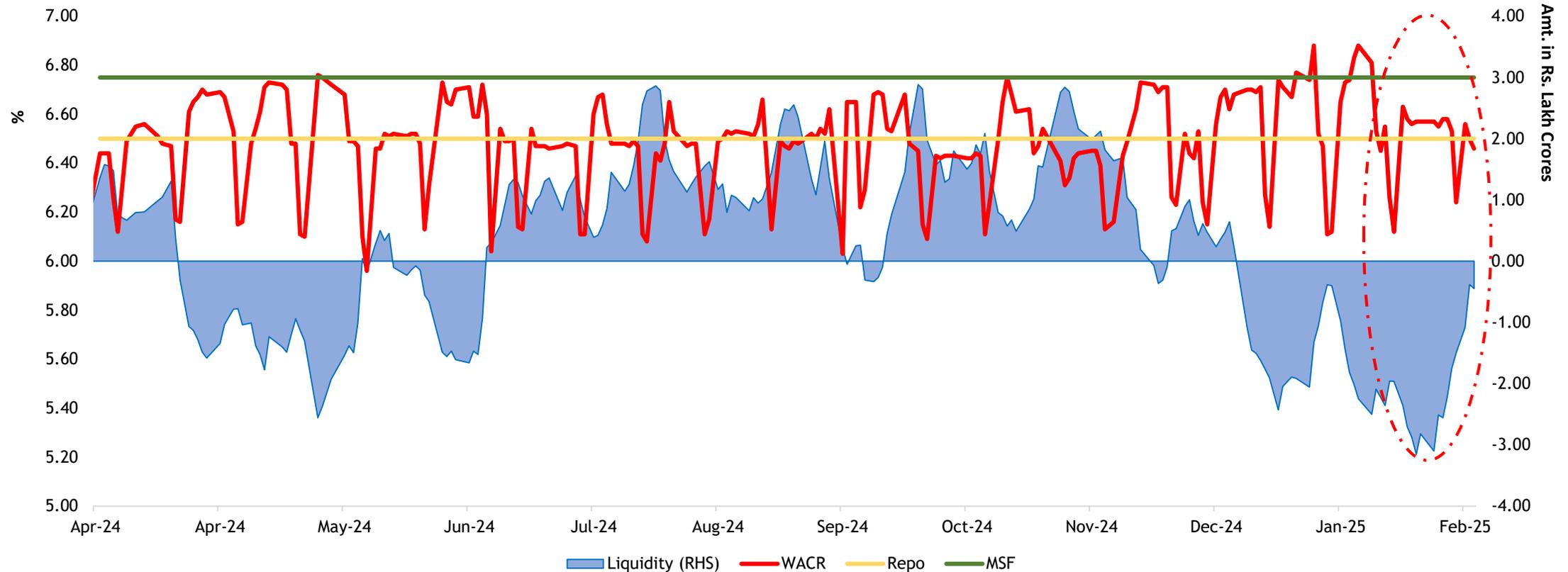


RBI has actively managed liquidity both ways via fine tuning operations



- RBI has been actively monitoring the liquidity situation to align weighted average call rate (WACR) with Repo Rate.
- RBI has announced slew of measures on 27th Jan'25. Since then, the systemic liquidity has moved from a deficit of Rs.3.1 lakh crore (as on 27th Jan'25) to a deficit of Rs. 0.45 lakh crore (as on 05th Jan'25). On 07th Feb'25, 56-day VRR is to be conducted with reversal date of 04th Apr'25 to support crossing over the financial year end with seasonally high deficit.

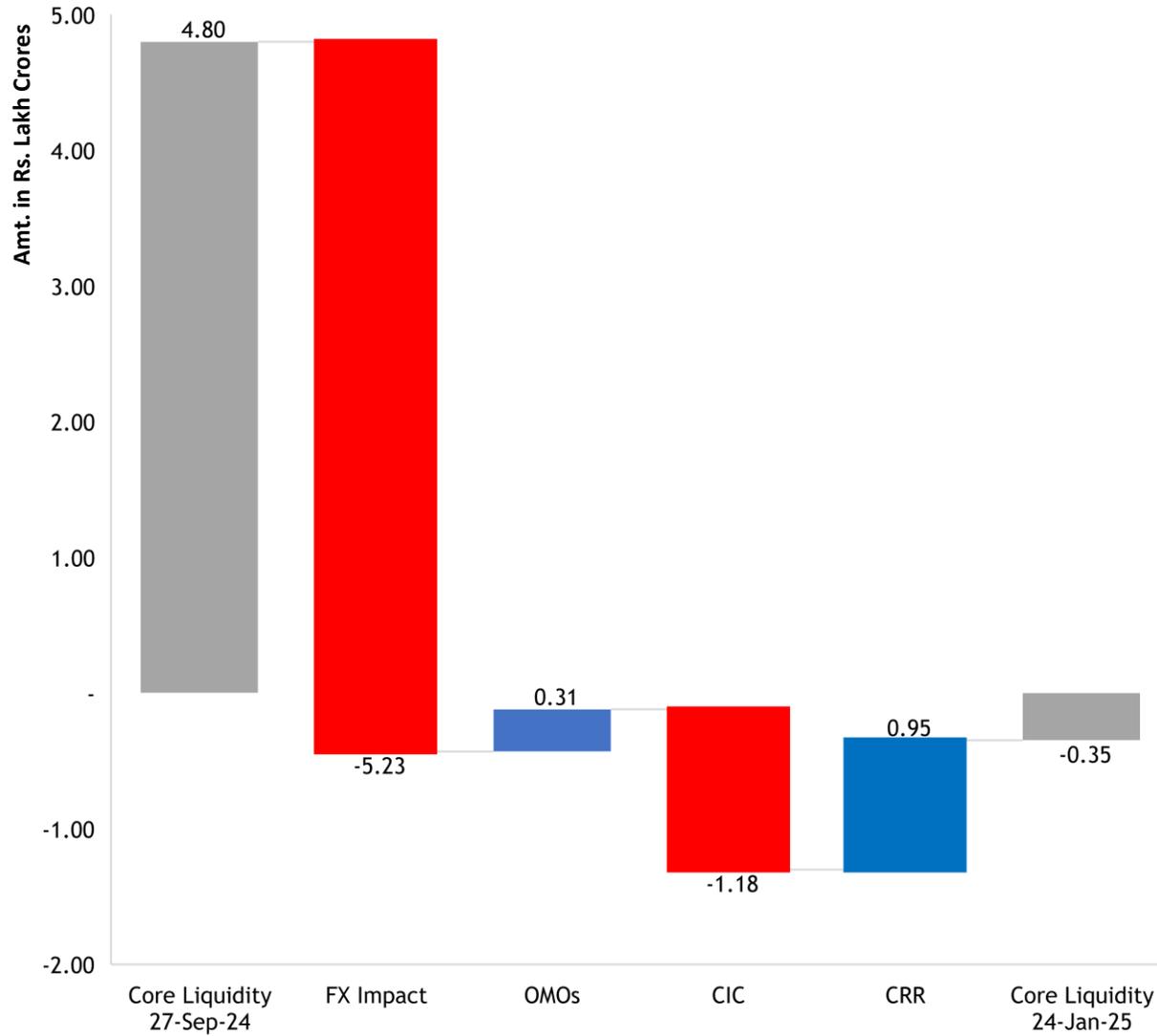
WACR has aligned back to repo on improvement in liquidity; all eyes on any discussion on SORR from the RBI



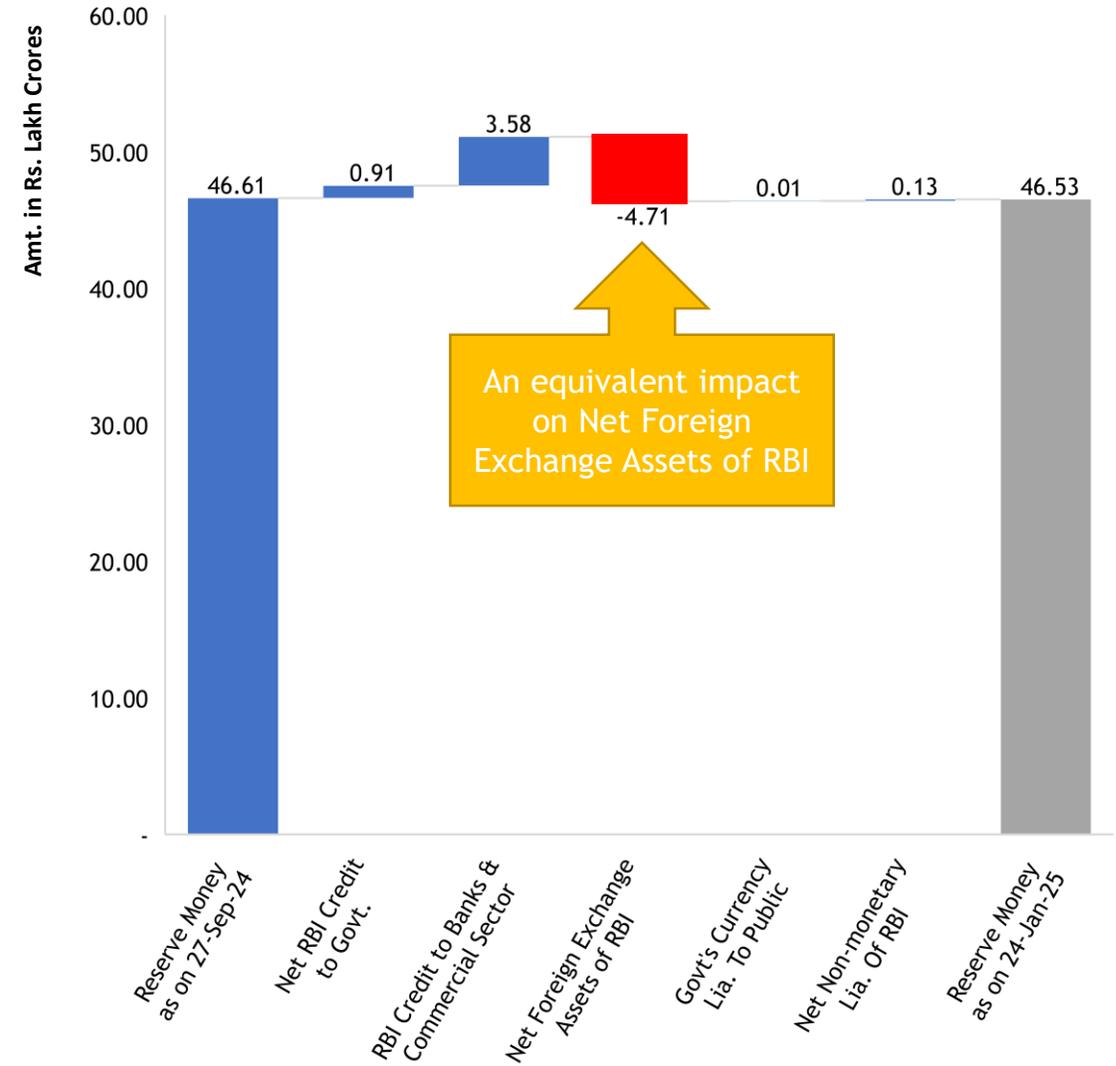
- As per Liquidity Management Framework, the WACR (Weighted Average Call Rate) is required to be aligned with Repo rate.
- The announcement and execution of liquidity measures post 27th Jan'25, the overnight WACR has recently aligned to the Repo rate after hitting MSF ceiling earlier in the month.
- However, given the low volumes in call money market, we will be watching out for any changes in the upcoming MPC on 07th Feb'25. SORR (Secured Overnight Rupee Rate) was recently introduced which being a collateralised rate may be derived from TREPS (~70% share in overnight money market) and other repo transactions of the day.

Fx related liquidity impact of more than Rs 5 lakh cr have created a gap which RBI is in process of plugging

Drivers of Core Liquidity during end of Sep-24 to Jan-25

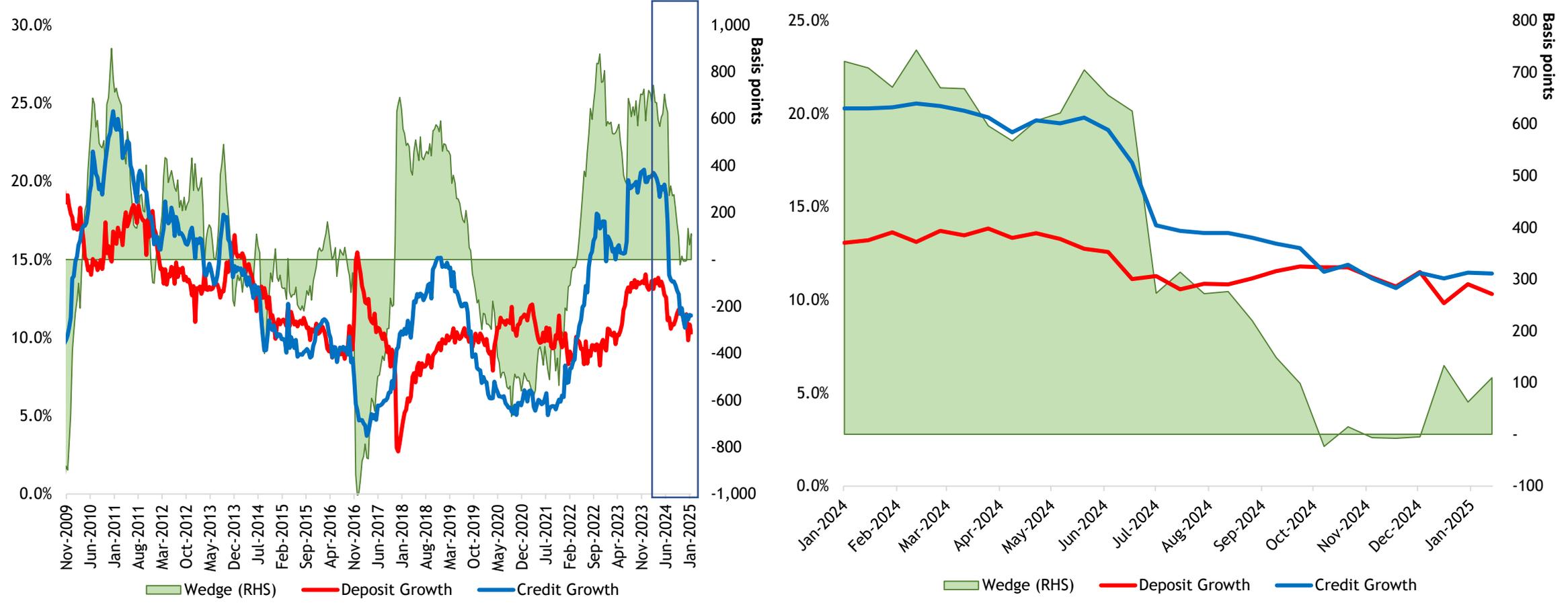


Drivers of Reserve Money during end of Sep-24 to Jan-25



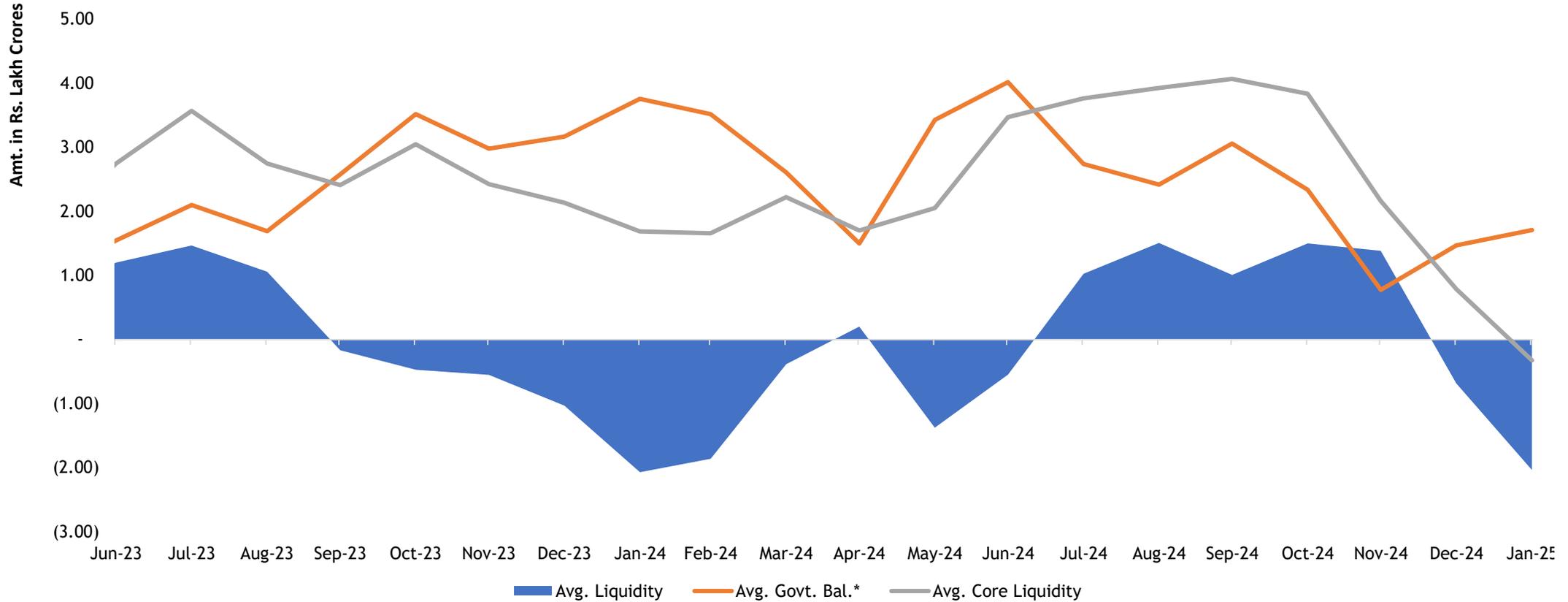
*Data upto 24 Jan-25; Source: RBI, CEIC, UBI Research

Structural liquidity also under pressure as credit-deposit growth wedge has opened up again since mid-December



Source: CEIC and UBI research

Volatility in government balances having significant impact on systemic liquidity



**Data estimated available on Weekly Basis
Source: RBI, CEIC, UBI Research*

Government Deposit in SCBs

Amount in Lakh Crores

	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Sep-23	Sep-24
CASA	5	6.3	7.4	8.3	9.5	8.7	8.5
Term	6.8	7.1	8.1	8.8	10.6	9.4	10.8
Total	11.8	13.4	15.5	17.1	20.1	18.1	19.3

% Share of Government Deposit in SCBs

	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Sep-23	Sep-24
CASA	8.6	9.2	9.6	10.1	10.9	10.6	10.1
Term	8.3	8	8.4	8.1	8.2	8.3	8.0
Total	8.4	8.6	9	9	9.3	9.2	8.8

Sharp drop in Government CASA seen in H1-FY25, keeping up funding pressures for the banking system

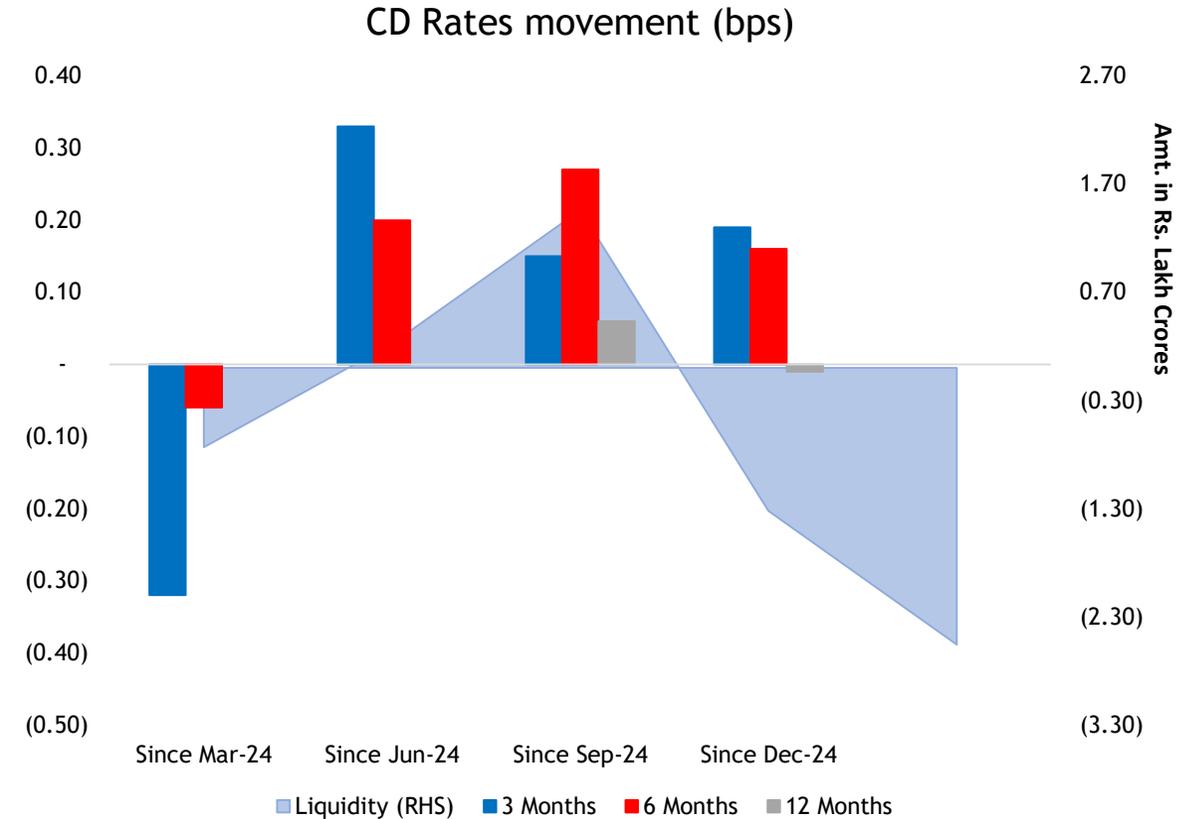
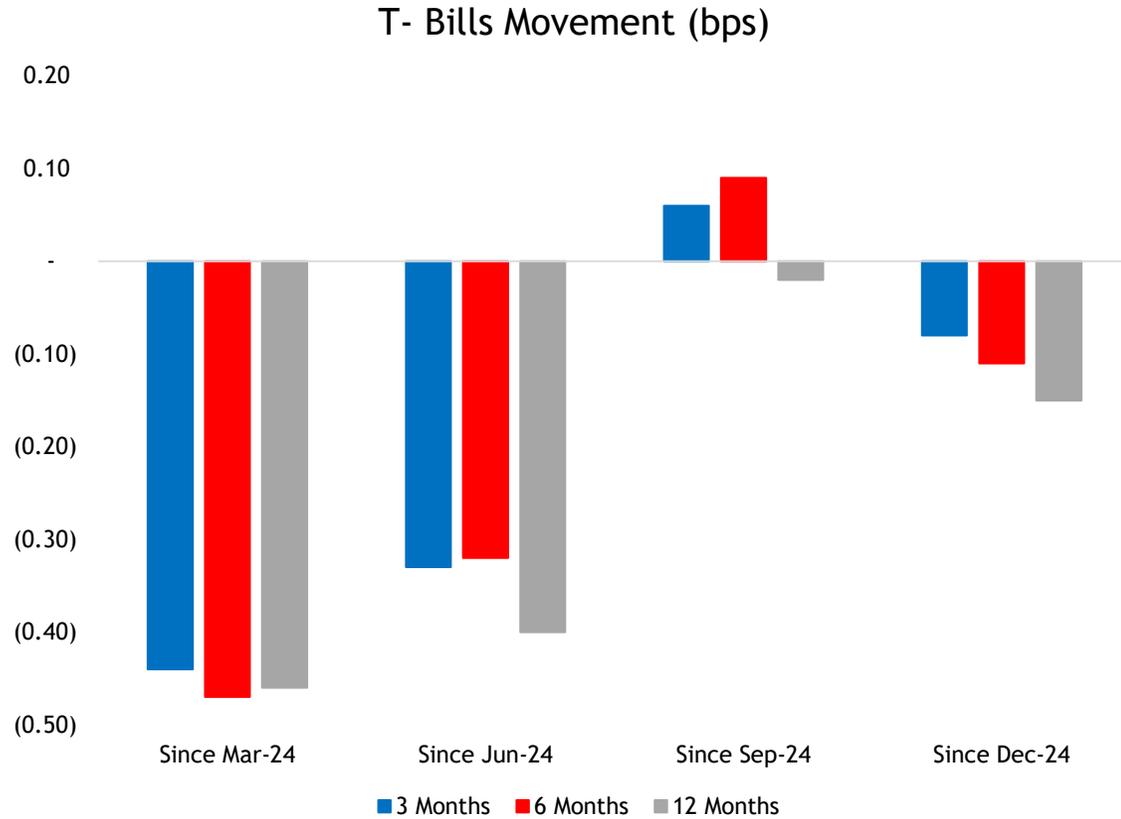
Amt in 000' Crores

Amt in 000' Crores	Increment in H1FY24*			Increment in H2FY24			Increment in H1FY25#		
	CASA	Term	Total	CASA	Term	Total	CASA	Term	Total
General Government Sector	20	101	122	102	77	179	-87	30	-57
Non-Financial Corporations	-129	343	214	124	194	317	-70	187	116
Financial Corporations	-2	22	20	23	141	164	11	89	100
Household sector	84	615	699	288	370	658	147	468	615
Rest of the World (Non-Residents)	7	59	66	10	80	90	20	82	102
Total	-20	1139	1120	546	862	1408	21	856	876

*Impact of Rs. 2000 notes
in Q1FY25 was election quarter

- Differential impact seen within banks with public sector banks (PSBs) relatively better provisioned vis-à-vis private sector banks (PVBs).
- RBI Financial Stability Report (FSR) estimates that the LCR ratio of the banking system stood at 130.3% as of March 2024 with that for PVBs at 126.9%.
- To maintain LCR at existing levels, there will be substantial increase in the HQLA requirement of the banking system. (With the modification in LCR guidelines, with having higher haircut in HQLA, it will further increase the demand for govt securities).
- Consequently, banks need to deploy more funds in government securities to maintain LCR. This will raise the demand for funds and may adversely impact credit growth, CD ratios as well as NIMs of the banking system.
- On balance, LCR implementation from 1st April, 2025 is likely to keep up some competition for deposits. That said, we will watch out for any relaxation in LCR requirements by the RBI ahead of its implementation.

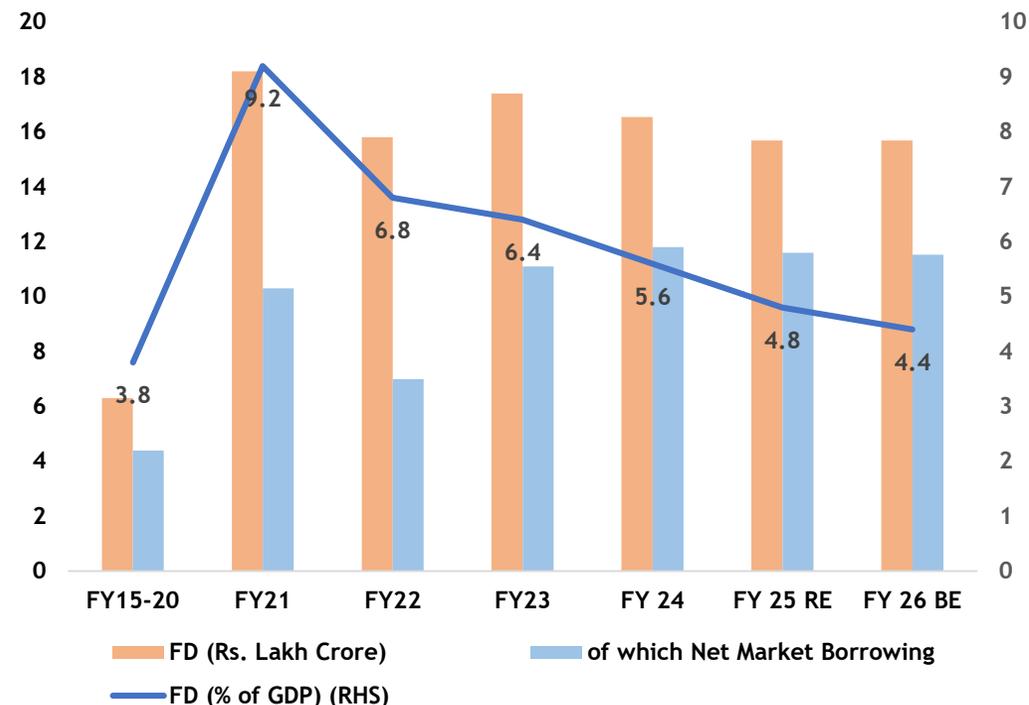
Banks keeping short-end funding rates (especially for CDs) elevated ahead of LCR implementation



- Banks are now focusing on medium term deposit mobilization to comply new LCR norms and improve asset-liability profile. Despite higher costs, two to five-year maturities of Non-callable deposits are preferred.
- The Banks are also resorting to CD keeping levels elevated ahead of new LCR norms being implemented even as T-bill rates face downward pressure.

Flat fiscal deficit and net borrowing in FY26 supports our view of yield curve steepening as liquidity measures kick in

Parameter	FY15-20	FY21	FY22	FY23	FY24	FY25 RE	FY26 BE
FD (% of GDP)	3.8	9.2	6.8	6.4	5.6	4.8	4.4
FD (Rs. Lakh Crore)	6.3	18.2	15.8	17.4	16.5	15.7	15.7
of which: Net Market Borrowing (Rs. in Lakh Crore)	4.4	10.3	7.3	11.1	11.8*	11.6*	11.5



- Government would endeavor to keep fiscal deficit in each year (from FY 2026-27 till FY 2030-31) such that the Central Government debt is on declining path to attain a debt to GDP level of 50+/-1% by 31st Mar 2031.
- While the FY26 fiscal deficit is largely similar to FY25 at Rs.15.7 lakh crore, the gross borrowing has gone up to Rs.14.8 lakh crore. While the near-term impact may be slightly negative for bond markets, however, with MPC expected to cut rates by 25bps this week and RBI providing liquidity via OMOs, we expect the yield curve to steepen with longer tenor bond yields likely to remain range bound.
- Under switching of securities, Rs.2.5 lakh crore is budgeted for FY26, which is likely to be in securities maturing in FY27 and beyond.

Thank You !

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