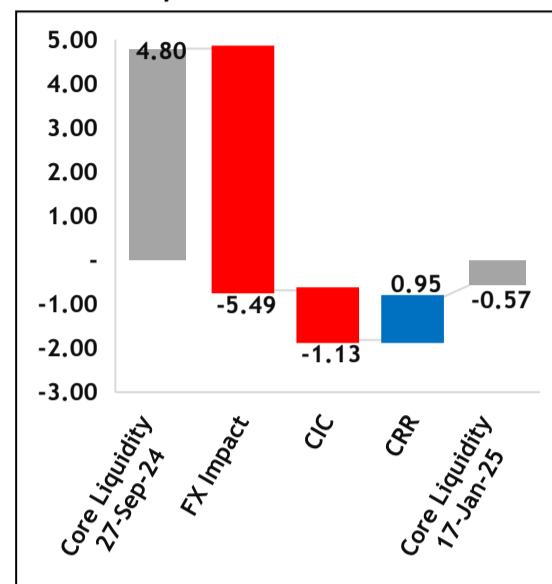


Fig 1: Drivers of core liquidity show FX outflows of close to Rs 5 lakh Cr Since end-September



Source: RBI, UBI research

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With the liquidity deficit in the banking system hitting close to Rs 3 lakh crore (highest levels in more than a decade), the RBI announced a slew of measures on 27th Jan'25, to ease the situation.

➤ **RBI announced following liquidity booster shot(s) worth Rs 1.5 lakh crore**

As per the [announcement](#), the RBI will hold open market operations (OMOs) of Rs 60,000 crore in three tranches of Rs 20,000 crore on 30th Jan, 13th Feb and 20th Feb. A dollar-rupee buy/sell swap auction of USD 5 billion for a tenor of six months will be undertaken on 31st Jan. Also, a 56-day variable rate repo auction of Rs 50,000 crore will be held on 7th Feb. The RBI will continue to monitor evolving liquidity and market conditions and take steps as appropriate to ensure orderly liquidity conditions.

Following the announcement of liquidity measures by RBI, 3-month and 1-year CD rates were down by ~5-7bps to 7.47% and 7.64% respectively, on the expectation of easing of funding pressures in the short term. The 10-year G-sec yield was down by ~1-2bps to 6.67% (post profit booking from 6.63%).

It needs to be noted that other liquidity steps already undertaken included G-sec buyback worth Rs 39,000 crore and OMOs in secondary market worth Rs 15,000 crore since end-September.

➤ **Do we see need for further liquidity steps in coming months?**

The core liquidity deficit (excluding government balance) as of 17th Jan'25 was Rs 53,000 crore. It has slipped from a surplus of Rs 2.3 lakh crore as of end-Mar'24 on the back of FX outflows (Rs 4.3 lakh crore FYTD of which Rs 5 lakh crore since end-September) and currency leakage. Even if FX outflows do not worsen, with another Rs 1.5 lakh crore of seasonal currency leakage likely before end-Mar'25, these steps help offset the impact. Hence, RBI must be complemented for this liquidity boost, yet the need for further steps (if any) is contingent on FX flows and consequently, global factors. The gap that has emerged between credit and deposit growth in the last 1-2 months (11.5% credit growth, 10.8% deposit growth as of fortnight ended 10th Jan'25) also raises liquidity needs for banking system.

➤ **All eyes now on the Budget and MPC decision**

As regards the upcoming Budget, the government is likely to adhere to the fiscal consolidation roadmap and provide for deficit of ~4.5% of GDP versus 4.8-4.9% in FY25. More importantly, we will look for stimulus measures despite focus on fiscal prudence like income tax cuts, boost to capex budget, tax rate equalisation for bank deposits vis-à-vis other risk assets and sector specific steps among others.

The steps pave way to further monetary easing in MPC decision on 7th Feb'25. We see a shallow 50bps rate cut cycle - 25bps cut in Feb'25 and April'25. With the host of durable liquidity measures announced, we do not see the need for a repeat of a CRR cut.

Table 1: Core liquidity already slipped into deficit, thereby raising urgency for liquidity relief

INR Lakh Crore	Systemic Liquidity Balance	Govt. Balance with RBI	LTRO	Core Liquidity	Spot Fx Intervention	OMOs / Buyback	LTROs	RBI Dividend	CIC	CRR
FY19	0.99	1.23	-	0.24	1.12	2.99	-	0.50	3.10	0.42
FY20	3.46	0.51	1.25	5.22	3.12	1.15	1.25	1.76	3.00	0.41
FY21	5.00	2.33	0.82	8.15	5.11	3.13	0.43	0.57	4.19	0.90
FY22	7.18	0.35	0.87	8.40	1.35	2.14	0.05	0.99	2.77	2.01
FY23	1.51	0.49	0.73	1.76	2.17	0.35	0.14	0.31	2.43	1.65
FY24	0.54	1.72	0.07	2.34	3.40	0.19	0.66	0.87	1.33	1.28
FY 25 Proj.	2.29	0.95	0.07	1.34	4.26	0.55	0.07	2.11	2.18	0.17
FY25 YTD*	2.02	1.45	0.04	0.53	4.26	0.05	0.04	2.11	0.83	0.40
H1 FY25	0.98	3.82	0.03	4.83	0.91	0.24	0.03	2.11	0.29	0.56
	2.02	1.45	0.04	0.53	5.47	0.29	0.01	-	1.13	0.95

*as of 17th Jan'25;

Source: RBI, UBI research

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