

RBI TO INFUSE RS 3.74 LAKH CR LIQUIDITY INTO FINANCIAL SYSTEM

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Banking, NPAs and RBI

MUMBAI: The [Reserve Bank of India](#) (RBI) unleashed Rs 3.74 lakh crore of [liquidity](#) on the Indian banking system as it vowed to do whatever it takes to support financial markets hit by the spread of an unprecedented health emergency.

RBI slashed the cash reserve rate (CRR) by 100 basis points to 3% of bank deposits, straight away unleashing Rs 1.37 lakh crore into the banking system for the next one year. It also allowed banks to borrow an additional 1% from their investments of statutory liquidity ratio (SLR) securities making available another Rs 1.37 lakh crore for banks to borrow.

Banks have also been given an option to borrow three-year funds up to Rs 1 lakh crore through the so called targeted long-term repos, the first of which was conducted for Rs 25,000 crore on Friday.

“Liquidity availed under the scheme by banks has to be deployed in investment grade corporate bonds, commercial papers, and non-convertible debentures over and above the outstanding level of their investments in these bonds as on March 27, 2020. Banks shall be required to acquire up to 50% of their incremental holdings of eligible instruments from primary market issuances and the remaining 50% from the secondary market, including from mutual funds and non-banking finance companies. Investments made by banks under this facility will be classified as held to maturity (HTM) even in excess of 25% of total investment permitted to be included in the HTM portfolio. Exposures under this facility will also not be reckoned under the large exposure framework,” RBI said.



Bankers said the RBI action was more than what the market had expected and has already cooled off borrowing rates which had increased in the last two weeks.

“RBI has either pushed in liquidity or made sure it is available in the plenty. Already short-term yields have fallen sharply and interbank lending rates are also down to levels before the corona crisis began,” said Harihar Krishnamurthy, head treasury at FirstRand Bank.

The overnight call money rate was traded at 4.40% after the announcement with the weighted average rate (WAR) falling to 5.23% in the afternoon trade. WAR was at about 5.5% Thursday.

The 10-year benchmark bond yield dipped 22 bps to as low as 5.98% before paring some of its gains. Short term yields on AAA companies like HDFC also eased to below 7% from highs of 8% earlier this week.

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