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# Eyeing policy normalisation, RBI to absorb excess liquidity

RBI Governor Shaktikanta Das, post the monetary policy committee meeting, said the RBI has now decided to conduct fortnightly variable rate reverse repo (VRRR) auctions of Rs 2.5 lakh crore on August 13, 2021; Rs 3 lakh crore on August 27, 2021; Rs 3.5 lakh crore on September 9, 2021; and Rs 4 lakh crore on September 24, 2021.

Written by George Mathew | Mumbai | Updated: August 7, 2021 1:20:14 am

With the system flush with liquidity and inflation at elevated levels, the Reserve Bank of India (RBI) on Friday announced measures to normalise the accommodative monetary policy by absorbing around Rs 4 lakh crore every fortnight as against Rs 2 lakh crore till now from the financial system.

Yield on the benchmark 10-year bond rose by 4 basis points to 6.24 per cent, following the latest central bank move.

RBI Governor Shaktikanta Das, post the monetary policy committee meeting, said the RBI has now decided to conduct fortnightly variable rate reverse repo (VRRR) auctions of Rs 2.5 lakh crore on August 13, 2021; Rs 3 lakh crore on August 27, 2021; Rs 3.5 lakh crore on September 9, 2021; and Rs 4 lakh crore on September 24, 2021.

"Fears that the recommencement of the VRRR is tantamount to liquidity tightening have been allayed. We have seen a higher appetite for VRRR in terms of the bid-cover ratio in the auctions," Das said.

The RBI has refused to admit it was unwinding the accommodative policy stance.

Das said these enhanced VRRR auctions should not be misread as a reversal of the accommodative policy stance, as the amount absorbed under the fixed rate reverse repo is expected to remain over Rs 4 lakh crore at September-end 2021. "Needless to add that the amount accepted under the VRRR window forms part of system liquidity," he said.

On the liquidity absorption, rating firm Crisil said its announcement of greater absorption of surplus liquidity through VRRR operations could be read as the beginning of its imminent exit from unconventional monetary easing. "With growth expected to gain momentum in the second half of this fiscal, and inflation remaining elevated, we expect monetary policy to tighten in the coming months. The US Federal Reserve is also expected to begin tapering bond purchases by end-2021, further reducing scope for the RBI to continue its present policy stance. We therefore, expect a hike in repo rate by 25 basis points by end-fiscal 2022," Crisil said.

**"Along with ensuring adequate liquidity to facilitate the government borrowing programme, the RBI has announced some measures to rein in the excess liquidity as well," said**

**M Govinda Rao, chief economic advisor, Brickwork Ratings.**

**Analysts said the RBI move to absorb liquidity might be aimed at reining in inflation, which is projected to be at 5.7 per cent, close to the upper target of the RBI band of 2-6 per cent. The RBI had earlier injected funds into the system to tackle the slowdown caused by the Covid pandemic.**

**The RBI also proposes to conduct two more auctions of Rs 25,000 crore each on August 12 and August 26, 2021 under the government securities acquisition programme (G-SAP) 2.0.**

**"The RBI through its market operations, both conventional and unconventional, has maintained ample surplus liquidity since the onset of the pandemic to ensure easing of financial conditions in support of domestic demand," it said.**

Buoyed by the renewed vigour of capital inflows and the central bank's purchase of government securities in the secondary market, total absorption through reverse repos surged from a daily average of Rs 5.7 lakh crore in June to Rs 6.8 lakh crore in July 2021 and further to Rs 8.5 lakh crore in August 2021 so far (up to August 4).