

## **St expects more OMOs, CRR cut to ease liquidity deficit**

The Street is expecting more open market operation (OMO) purchases of government bonds, coupled with a further cut in the cash reserve ratio (CRR), to ease the liquidity deficit. However, experts also feel that despite these measures, borrowing by banks under the Reserve Bank of India's (RBI) daily liquidity adjustment facility (LAF) might continue to remain above Rs 100,000 crore till the end of the current financial year.

Banks borrowed Rs 1,25,805 crore under LAF on Monday, compared with a daily average borrowing of about Rs 1 lakh crore in the last one month. "Government spending is not happening, due to which bank borrowing from LAF window continues to be high," said the head of treasury of a large public sector bank.

The high liquidity deficit also resulted in call rates inching up. In the inter-bank money market, call rates closed at 7.94 per cent on Monday, compared with Friday's close of 7.85 per cent.

"I think OMOs will be continued by the RBI to ease the liquidity. I expect OMOs of about Rs 30,000 crore till end-March," said Dhawal Dalal, executive vice-president and head of fixed income at DSP BlackRock Mutual Fund. The RBI conducted an OMO last Friday, in which Rs 9,997 crore was infused.

To comfort the liquidity, RBI in its third-quarter monetary policy review on January 29 had slashed the cash reserve ratio (CRR) by 25 basis points to four per cent of banks' net demand and time liabilities (NDTL) effective the fortnight beginning February 9.

According to experts, there could be one more cut in the CRR in the mid-quarter review of the monetary policy on March 19. This is because liquidity is expected to tighten further due to advance tax outflows by mid-March.

"We are expecting a CRR cut of 25 basis points. The liquidity scenario will ease only in April. Till then, daily average bank borrowing will be above Rs 100,000 crore. In fact, the liquidity scenario will worsen substantially in the run-up to March 15. We are also expecting short-term rates to move up further from current levels," said Maneesh Dangi, co-chief investment officer, Birla Sun Life Mutual Fund.

*(Business Standard)*