प्रेस प्रकाशनी PRESS RELEASE

भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

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RBI Announces Reduction in the CRR

Monetary/Liquidity Measures

It has been decided to:

- reduce the cash reserve ratio (CRR) of scheduled banks by 75 basis points from 5.5 per cent to 4.75 per cent of their net demand and time liabilities (NDTL) effective the fortnight beginning March 10, 2012.

This reduction will inject around ₹480 billion of primary liquidity into the banking system.

In order to mitigate tight liquidity conditions, the cash reserve ratio was reduced by 50 basis points in the Third Quarter Review (TQR) of January 2012, injecting primary liquidity of ₹315 billion into the banking system. The Reserve Bank also continued with the open market operations (OMOs), injecting primary liquidity of over ₹1,245 billion this financial year so far, of which ₹528 billion was injected after the TQR.

Despite these measures, the liquidity deficit has remained large on account of both structural and frictional factors. This was reflected in the net average borrowing under the Reserve Bank's liquidity adjustment facility (LAF) rising from an average of ₹1,292 billion in January 2012 to ₹1,405 billion in February. Net injection of liquidity through LAF rose to a peak of ₹1,917 billion on March 1, 2012, though subsequently it declined to ₹1,273 billion on March 7, 2012.

Further, the liquidity deficit is expected to increase significantly during the second week of March due to advance tax outflows and the usual frontloading of cash balances by banks with the Reserve Bank. Thus, the overall deficit in the system persists above the comfort level of the Reserve Bank. Accordingly, it has been decided to inject permanent primary liquidity into the system by reducing the CRR so as to ensure smooth flow of credit to productive sectors of the economy.

As already announced, the Reserve Bank will provide its assessment of the macroeconomic situation in its Mid-Quarter Review to be published on March 15, 2012.

Jaya Mohanty
Director

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