GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF FINANCIAL SERVICES

RAJYA SABHA
UNSTARRED QUESTION NO. 2629

ANSWERED ON TUESDAY, AUGUST 12, 2025/ 21 SRAVANA, 1947 (SAKA)

LIQUIDITY SHORTAGE IN THE BANKING SYSTEM

2629. SHRI NARAIN DASS GUPTA:

Will the Minister of FINANCE be pleased to state:

(a) month- wise details of banking system liquidity from November 2023 to February 2025, including surplus/ deficit levels;
(b) key factors behind the liquidity crunch, including FPI outflows, maturing forward transactions, and tax outflows;
(c) the liquidity infusion measures by RBI and their effectiveness; and
(d) the impact on credit availability, interest rates, and economic growth and the steps taken to mitigate these challenges?

ANSWER

THE MINISTER OF STATE FOR FINANCE
(SHRI PANKAJ CHAUDHARY)

(a) to (d): Reserve Bank of India (RBI) endeavours to maintain sufficient liquidity in the banking system to ensure that the productive requirements of the economy are met and transmission to market rates remains robust. As part of the Monetary Policy Framework, it manages liquidity through different instruments. The banking liquidity being kept in deficit or in surplus mode is a design feature of the liquidity management framework and may not reflect, or depend upon, the monetary policy stance. If financial conditions warrant a situation of liquidity surplus, the framework may be used flexibly, with variable rate operations to ensure stability of the interest rates. Thus, liquidity operations may take into consideration the prevailing conditions, based on which the required tools may be used to achieve the objectives of liquidity management framework.

Details of the ‘average banking system liquidity’ on net monthly basis, during the period from November 2023 to February 2025, including the surplus/deficit levels, are as per Annexure.

The liquidity in the baking system was in surplus and deficit during the said period on monthly average basis due to multiple factors, including, *inter alia*, increase in currency in circulation, relatively higher government balances maintained with the RBI, FPI outflows, forex operations, significant pickup in currency in circulation and pick-up in Government spending. In order to provide durable liquidity, multiple measures were undertaken by the RBI, including, *inter alia*, reduction in Cash Reserve Ratio in staggered manner, change in policy rate, open market operations, term Variable REPO rate auctions and USD/INR Buy/Sell swaps.

The decisions on liquidity operations are made, keeping in view the current as well as the evolving liquidity conditions and the outlook. In an easing cycle, as interest rates go down, it is expected to propel credit growth in the economy. Similarly, controlled liquidity infusion also propels credit growth in the economy, albeit impacts on inflation.

A change in policy repo rate generally influences 'banks'/non-banks' (NBFCs) benchmark lending rates with a lag. In order to arrest the lag in transmission of interest rates, RBI introduced External Benchmark Linked Rates (EBLRs), w.e.f. 1.10.2019. Accordingly, all new floating rate personal or retail loans (housing, auto, etc.) and floating rate loans to Micro and Small Enterprises extended by banks are to be linked to EBLR, resulting in faster transmission of interest rate changes to the said loans. However, the degree of transmission of policy rate changes to lending rates may differ across the financial institutions as the spread in the interest rates depends upon their commercial judgment, subject to the general guidelines issued by the RBI in this regard.

Policy Repo Rate was reduced by *100bps* since February 2025, by the Monetary Policy Committee. Accordingly, Scheduled Commercial Banks (SCBs) adjusted their benchmark rate linked to repo rate downward by a similar magnitude. However, the Marginal Cost of Funds-based Lending Rates (MCLRs) are linked to the banks' cost of funds and may take a longer time to adjust. Moreover, most of the SCBs have started adjusting their MCLRs downward.

As per the provisional data, during February - June 2025, corresponding to the *100bps* reduction in the repo rate, the Weighted Average Lending Rate (WALR) declined by *71bps* for fresh rupee loans and *39bps* for outstanding rupee loans. During the same period, the Weighted Average Domestic Term Deposit Rate (WADTDR) on fresh and outstanding deposits declined by 87 *bps* and 10 *bps*, respectively.

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Annexure

Annexure referred in Part(a) of the Rajya Sabha Unstarred Question No. 2629 dated 12.8.2025 regarding Liquidity shortage in the banking system and RBI's response

Net Liquid Adjustment Facility (Amount in ₹ Crore)	
Month	**Net Absorption (+)/ Injection (-)-Monthly Average**
Nov-23	-61,513
Dec-23	-1,17,655
Jan-24	-2,04,109
Feb-24	-1,78,441
Mar-24	-29,323
Apr-24	29,328
May-24	-1,28,617
Jun-24	-45,406
Jul-24	1,11,657
Aug-24	1,59,320
Sep-24	1,08,706
Oct-24	1,57,466
Nov-24	1,46,104
Dec-24	-60,363
Jan-25	-1,94,605
Feb-25	-1,57,600

Source: Reserve Bank of India