RBI to discontinue ICRR

Why in news?

RBI to discontinue ICRR, which was announced as a temporary measure to absorb excess liquidity from the banking system.

What is Cash Reserve Ration (CRR)?

- Banks are required to maintain liquid cash amounting to a certain proportion of their deposits and certain other liabilities with the RBI.
- This is a tool at the disposal of the RBI to control the liquidity in the economy and can also act as a buffer in periods of bank stress.
- Banks are currently required to maintain 4.5 per cent of their Net Demand and Time Liabilities as CRR with the RBI.
- RBI has the option to impose incremental credit reserve ratio, in addition to the CRR, in periods of excess liquidity in the system.

What is Incremental Cash Reserve Ratio (ICRR)?

- All scheduled banks must uphold an additional cash reserve ratio equating to 10% of the surge in their net demand and time liabilities (NDTL) recorded between May 19, 2023, and July 28, 2023.
- It will apply to all scheduled banks, including commercial banks, cooperative banks, and regional rural banks.
- It is a temporary measure which will be reviewed in 3 months.

Why ICRR is needed?

- ICRR is a temporary measure to drain excess liquidity from the banking system due to its withdrawal of Rs 2,000 notes.
- As liquidity is withdrawn, banks will have limited funds for lending, thereby decreasing demand for goods and services.
- RBI’s surplus transfer to the government, pick up in government spending and capital inflows.

What was the impact of ICRR?

- The banking system’s liquidity turned deficit for the first time in the current fiscal mandate.
- The tight liquidity condition was also contributed by outflows on account of goods and services tax (GST) and the selling of dollars by the central bank to stem the rupee’s fall.

References

1. The Indian Express – RBI to discontinue I-CRR
2. The Hindu Business Line – What is ICRR, and its impact on liquidity?

