Variable Reverse Repo Rate (VRRR)

***Prelims:** Current events of national and international importance | Economy*

Why in news?

Reserve Bank of India (RBI) has absorbed Rs. 71,971 crore liquidity from the banking system through an overnight Variable Reverse Repo Rate (VRRR) auction.

- **VRRR** – It is the rate at which banks park surplus funds with the Reserve Bank of India (RBI).
- It is a *monetary policy tool* used by central banks to absorb excess liquidity from the banking system.
- **VRRR auction** – It was held for Rs. 75,000 crore, and offers were received for 96% of the amount at a rate of 5.24%.
- The overnight facility had a tenor of one day.
- **Reasons for surplus liquidity** –
    - Heavy mobilisation of Foreign Currency Non-Resident deposits,
    - Subsequent currency swaps with the central bank, and
    - Month-end government expenditure on salaries and pensions.
- **Current liquidity status** – As per the RBI data, currently, surplus liquidity in the banking system is estimated to be around 4.92 lakh crore rupees.
- To manage these conditions, the central bank also conducted two open market operations (OMOs).
- **Working of VRRR**
- **Liquidity absorption** – Central banks (like the Reserve Bank of India) use VRRR to absorb surplus cash when liquidity is high.
- **Auction mechanism** – Unlike a fixed rate, banks bid competitively by quoting the interest rate they are willing to accept.
- **Rate determination** – The RBI accepts bids from the lowest rate upward until the notified amount is filled.
- **Market alignment –** It helps align the overnight money market rates with the benchmark policy repo rate ahead of a potential rate hike cycle.

Reference

[The Hindu | RBI absorbs ₹71,971 crore liquidity from banks]