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RESERVE BANK OF INDIA

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RBI releases the Report of the Internal Working Group to Review the Liquidity Management Framework

1. As announced in the [Statement on Developmental and Regulatory Policies of June 06, 2019](#), an Internal Working Group was mandated to review the current liquidity management framework with a view to simplifying it and suggest measures to clearly communicate the objectives and the toolkit for liquidity management. The Group has since submitted its [report](#).
2. The Group has articulated guiding principles for an effective liquidity management framework. Some of the major guiding principles are: the liquidity framework should be guided by the objective of maintaining the call money rate close to the policy rate; it should be consistent with the policy rate; and it should not undermine the price discovery in the inter-bank money market.
3. Based on the guiding principles, the Group has made the following key recommendations:
 - (i) The current liquidity management framework should largely continue in its present form- a corridor system with the call money rate as the target rate.
 - (ii) The framework should be flexible. While the corridor system would normally require the system liquidity to be in a small deficit, if financial conditions warrant a situation of liquidity surplus, the framework should be adaptable.
 - (iii) Minimizing the number of operations should be an efficiency goal of the liquidity framework. Consequently, there should be ideally one single overnight variable rate operation in a day, supported by fine-tuning operations, if required.
 - (iv) The current provision of assured liquidity – up to 1% of NDTL - is no longer necessary since the proposed liquidity framework would entirely meet the system's liquidity needs.
 - (v) Build-up of a large deficit or surplus, if expected to persist, should be offset through appropriate durable liquidity operations. In addition to OMOs and forex swaps, the Group recommended longer term repo operations at market related rates.
 - (vi) The daily dissemination through Money Market Operations (MMO) press release should be improved by including the 'flow' impact of liquidity operations. To improve transparency, quantitative assessment of durable liquidity conditions of the banking system may also be published.

4. The report is placed on the RBI website today for comments of stakeholders and members of the public. The liquidity framework shall be finalized taking into account the recommendations of the Group and the public feedback. Comments on the report may be sent by October 31, 2019 through [email](#).

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