

**GOVERNMENT OF INDIA  
FINANCE  
LOK SABHA**

UNSTARRED QUESTION NO:5117

ANSWERED ON:10.12.2010

MAINTENANCE OF LIQUIDITY IN THE FINANCIAL MARKETS

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**Will the Minister of FINANCE be pleased to state:**

(a) whether the Reserve Bank of India (RBI) has re-introduced liquidity easing measures to prevent disruption in financial markets and maintain credit flow in the system;

(b) if so, the details thereof;

(c) whether rising Government cash balances lead to cash shortage in the financial markets;

(d) if so, the details thereof; and

(e) the remedial measures taken / being taken by the Government in this regard?

**Answer**

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI NAMO NARAIN MEENA)

(a) and (b) : The Reserve Bank of India (RBI) in their Second Quarter Review of Monetary Policy, 2010-11 announced on November 2, 2010, stated that the liquidity deficit needs to be contained within a reasonable limit to ensure that economic activity is not disrupted by liquidity constraints. Accordingly, the RBI has taken necessary steps to provide liquidity to the financial markets which included an average daily net injection under the liquidity adjustment facility (LAF) window at Rs.99,307 crore in November 2010 and Rs.81,896 crore in December 2010 so far (up to December 7). RBI also announced on November 29, 2010 to:

# Conduct second liquidity adjustment Facility (SLAF) on a daily basis at 4.15 p.m. up to January 28, 2011.

# Allow Scheduled Commercial Banks to avail of additional liquidity support under the LAF to the extent of up to 2.0 per cent of their net demand and time liabilities (NDTL) as on the reporting Friday of the second preceding fortnight. For any shortfall in Statutory Liquidity Ratio (SLR) maintenance up to January 28, 2011 arising out of avilment of this facility, banks may seek waiver of penal interest on a fortnightly basis purely as an ad- hoc, temporary measure.

(c), (d) and (e) : Government cash balances are parked with the RBI. Therefore, to the extent, Government accumulates cash balances, it leads to corresponding shortage of liquidity from the system. Since end-May 2010, Government cash balances have remained generally in surplus largely due to 3G spectrum proceeds, disinvestment proceeds and advance tax receipts. Government has taken steps in this regard which, inter-alia, included offering buy back of government securities and reduction in the market borrowing size from its planned level.