

**GOVERNMENT OF INDIA  
FINANCE  
LOK SABHA**

UNSTARRED QUESTION NO:1705  
ANSWERED ON:23.03.2012  
LIQUIDITY CRUNCH  
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**Will the Minister of FINANCE be pleased to state:**

- (a) whether the Reserve Bank of India (RBI) has estimated any liquidity crunch in the country;
- (b) if so, the details thereof and reaction of the Government thereto; and
- (c) the action plan chalked out/being chalked out by the Government to address this liquidity crunch?

**Answer**

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

(a) & (b): The liquidity conditions have generally remained in deficit mode throughout 2011-12 so far. The deficit, however, was outside the comfort level of (+)/(-) one per cent of net demand and time liabilities (NDTL) of Scheduled Commercial Banks since the beginning of November 2011. This was on account of increase in currency demand, increased demand for bank reserves, RBI's forex market interventions and turnaround in Central Government's cash position from deficit to surplus. Deficit in the system, as reflected by borrowings under the liquidity adjustment facility (LAF) repos, which averaged around Rs. 540 billion in October 2011, increased to around Rs. 1400 billion during February – March 16, 2012.

(c): In order to mitigate the liquidity tightness, the RBI undertook steps to inject primary liquidity of more durable nature, which included (i) open market operations (OMOs) of around Rs. 1247 billion during November 2011- March 9, 2012; and (ii) reduction in the cash reserve ratio (CRR) by 125 basis points (50 bps effective January 28, 2012 and 75 bps effective March 10, 2012), injecting primary liquidity of about Rs. 800 billion. As a result, the liquidity situation has improved and is expected to ease further.