

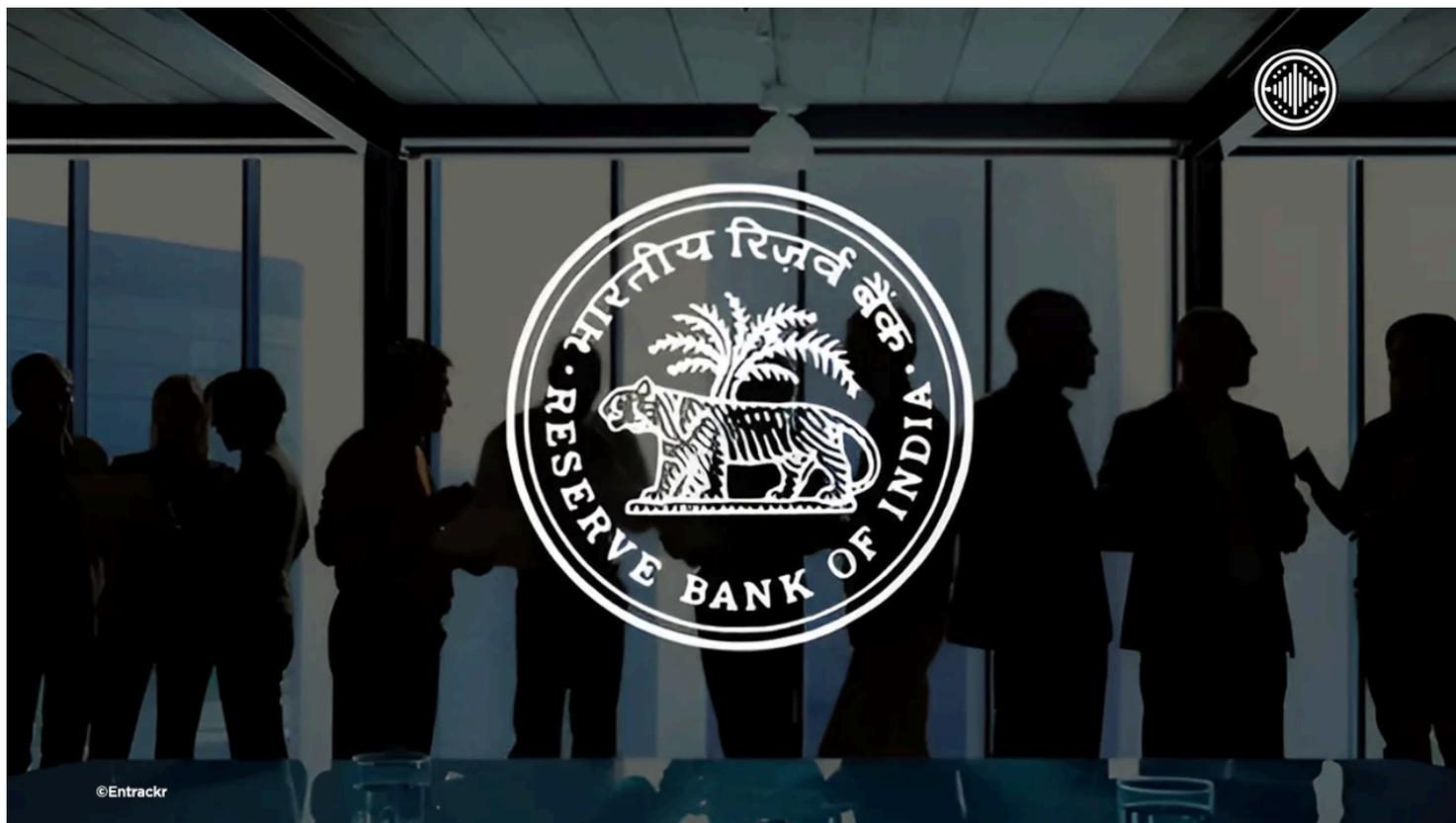
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RBI Panel Backs Weighted Average Call Rate as Policy Anchor

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The Reserve Bank of India (RBI) internal panel has recommended continuing with the Weighted Average Call Rate (WACR) as the operating target of India's monetary policy. The suggestion comes after a review of the liquidity management framework introduced in 2020.

The working group stated that while the share of call money transactions has declined over the years, the WACR remains a reliable benchmark for reflecting short-term interest rates. The panel argued that WACR continues to show strong correlation with broader market rates and plays a crucial role in transmitting the RBI's policy stance.

Although the call money market now accounts for just around 2 percent of overnight volumes, it still comprises regulated participants such as banks and primary dealers. The panel stated this structure gives the WACR more credibility compared to other overnight rates.

The group recommended maintaining the existing corridor-based liquidity management system, with the repo rate at the center, flanked by the Standing Deposit Facility (SDF) and Marginal Standing Facility (MSF) rates. The panel supported retaining the RBI's existing tools, such as variable rate repo and reverse repo auctions, open market operations, and forex swaps.

It also proposed focusing liquidity operations on seven-day and shorter-term tenors to better match market needs. To improve transparency, it is suggested that the RBI should announce variable rate operations with at least a one-day notice.

On the Cash Reserve Ratio (CRR), the panel advised no change to the current requirement for banks to maintain 90 percent of the prescribed CRR on a daily basis.

The RBI is seeking public feedback on the panel's recommendations until August 29. Following the consultation period, the central bank will decide whether to adopt the suggestions in full or make adjustments.