GS-III: Call money rates should be close to policy rate, says liquidity panel.

News

An internal working group formed by the RBI to review the current liquidity management framework has suggested that the framework should be guided by the objective of maintaining the target rate.

What is Call Money?

The call money market is an essential part of the Indian Money Market, where the day-to-day surplus funds (mostly of banks) are traded. The money market is a market for short-term financial assets that are close substitutes of money. The most important feature of a money market instrument is that it is liquid and can be turned into money quickly at low cost and provides an avenue for equilibrating the short-term surplus funds of lenders and the requirements of borrowers.

The loans are of short-term duration varying from 1 to 14 days, are traded in call money market. The money that is lent for one day in this market is known as "Call Money", and if it exceeds one day (but less than 15 days) it is referred to as "Notice Money". Term Money refers to Money lent for 15 days or more in the Inter Bank Market.

Way Forward:

The current provision of assured liquidity upto 1% of NDTL is no longer necessary since the proposed liquidity framework would entirely meet the system’s liquidity. In case build up of a large liquidity deficit or surplus is expected to persist it should be offset through appropriate durable liquidity operations.