



## Long Term Reverse Repo Operation

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### Why in news

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According to the **Reserve Bank of India (RBI)**, the response to the **Long Term Reverse Repo Operation (LTROs)** has been highly encouraging.

### Key Points

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- Long Term Reverse Repo Operation (LTRO) is a mechanism **to facilitate the transmission of monetary policy** actions and the flow of credit to the economy. This helps in **injecting liquidity in the banking system**.
- Funds through LTRO are provided at the repo rate. This means that banks can avail one year and three-year loans at the same interest rate of one day repo. But usually, loans with higher maturity period (here like 1 year and 3 years) will have a higher interest rate compared to short term (repo) loans.
- According to the RBI, the LTRO scheme will be in addition to the existing **Liquidity Adjustment Facility (LAF) and the Marginal Standing Facility (MSF)** operations.
  - The LAF and MSF are the two sets of liquidity operations by the RBI with the LAF having a number of tools like repo, reverse repo, term repo etc.
- The central bank has been conducting LTROs for one- and three-year tenors of appropriate sizes for up to a total amount of Rs 1,00,000 crore at the policy repo rate from the fortnight beginning February 15, 2020.
  - The central bank received total bids of ₹1.94 lakh crore, for the three-year repo, compared with the notified amount of ₹25,000 crores.
  - In yet another (LTROs) ₹48,856 crores worth of bids were conducted for an amount of ₹25,000 crores with a three-year tenor.
- LTROs are conducted on **Core Banking Solution (E-KUBER) platform**. The operations would be conducted at a fixed rate.
- The minimum bid amount would be Rs 1 crore and multiples thereof. There will be no restriction on the maximum amount of bidding by individual bidders.

## E-Kuber

- **e-Kuber is the Core Banking Solution of Reserve Bank of India which was introduced in 2012.**
- **Core Banking Solutions (CBS) can be defined as a solution that enables banks to offer a multitude of customer-centric services on a 24x7 basis from a single location, supporting retail as well as corporate banking activities.**
- **The centralisation thus makes a “one-stop” shop for financial services a reality. Using CBS, customers can access their accounts from any branch, anywhere, irrespective of where they have physically opened their accounts.**
- **Almost all branches of commercial banks, including the Regional Rural Banks (RRBs), are brought into the core-banking fold.**
- **The e-kuber system can be accessed either through INFINET or Internet. The INFINET is a Closed User Group Network for the exclusive use of member banks and financial institutions and is the communication backbone for the National Payments System.**

## Benefits of the LTROs

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- **Enhance Liquidity:** It will enhance liquidity in the banking system by Rs 1 lakh crore.
- **Bring down the cost of funds for banks:** The introduction of long-term repo operations (LTRO) will bring down the cost of funds for banks without effectively cutting deposit rates. This decision is likely to make reverse repo rate as the operative policy rate over a point of time.
- **Boost Investment:** It is a measure that is expected to bring down short-term rates and also boost investment in corporate bonds.
- **Ensure banks have durable liquidity:** These efforts are being carried forward with a view to assuring banks about the availability of durable liquidity at a reasonable cost relative to prevailing market conditions.
- **Ensure credit flow to productive sectors:** This should encourage banks to undertake maturity transformation smoothly and seamlessly so as to augment credit flows to productive sectors.

**Source: TH**