Draining the Excess: RBI's Rs 50,000 Crore VRRR Auction



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Why in News

In its release of 16 November 2026, the Reserve Bank of India (RBI) said that, on a review of current and evolving liquidity conditions, it will conduct a Variable Rate Reverse Repo (VRRR) auction on Tuesday, 17 November 2026. The notified amount is Rs 50,000 crore, the tenor 2 days, the auction window 9:30-10:00 AM, and the date of reversal 19 November 2026 (Thursday). Operational guidelines will follow the RBI's press release of 13 February 2020 (2019-2020/1947).

Introduction: what is VRRR

Variable Rate Reverse Repo (VRRR): An auction arrangement in which the RBI borrows funds from banks - banks park their surplus cash with the RBI and earn interest in return. 'Variable rate' means the interest rate is discovered through bidding, not fixed in advance.

Reverse repo versus repo: In a repo, the RBI lends to banks (liquidity increases); in a reverse repo, the RBI borrows from banks (liquidity decreases). VRRR is the market-based, auctioned form of this reverse repo.

Why manage liquidity: Too much cash in the banking system risks inflation and speculation; too little chokes credit flow. The RBI uses instruments in both directions to keep the balance.

Main Body: auction details

- **Date:** 17 November 2026 (Tuesday).
- **Notified amount:** Rs 50,000 crore.
- **Tenor:** 2 days; reversal on 19 November 2026 (Thursday) - the funds return to banks with interest on that date.
- **Window:** 9:30 to 10:00 AM.
- **Background:** A review of current and evolving liquidity conditions - when the system shows surplus cash, the RBI absorbs it temporarily.

VRRR, reverse repo and the LAF

Liquidity Adjustment Facility (LAF): The RBI framework under which daily liquidity is adjusted through repo and reverse repo operations; VRRR auctions are conducted under the LAF. Note - the **Marginal Standing Facility (MSF)** is a different instrument: under it, banks borrow overnight funds from the RBI in emergencies at a rate somewhat above the repo rate; it injects liquidity rather than absorbing it. Similarly, the **SDF (Standing Deposit Facility)** is a standing window for absorbing funds without collateral. Calling VRRR a component of the MSF would be incorrect.

Exam relevance

For Prelims: The meaning of VRRR, the difference between LAF and MSF/SDF, liquidity absorption through reverse repo, and the auction facts (Rs 50,000 crore, 2 days, reversal on 19 November) are direct question areas.

For Mains: The operational framework of monetary policy and the process of liquidity management - for GS-III (monetary policy, banking).

Way Forward

The 2-day auction reverses on 19 November. Depending on liquidity conditions, the RBI may conduct more such short-tenor auctions; the market will watch interest rates and inflation forecasts.

Prelims Practice Questions

Q1. With reference to the VRRR auction of 17 November 2026, consider the following statements:
Statement 1: It is a scheduled 2-day auction of Rs 50,000 crore
Statement 2: Its announced date of reversal is 19 November 2026
Statement 3: VRRR auctions are conducted under the Marginal Standing Facility (MSF)

Which of the statements given above is/are correct?

(a) 1 and 2 only

(b) 2 and 3 only

(c) 1 and 3 only

(d) 1, 2 and 3

Answer and Explanation

Correct answer: (a) 1 and 2 only

Explanation: Statement 1 is correct: the announced auction is a 2-day one of Rs 50,000 crore. Statement 2 is correct: the announced reversal date is 19 November 2026 (Thursday). Statement 3 is incorrect: VRRR is conducted under the Liquidity Adjustment Facility (LAF); the MSF is a facility that lends additional liquidity to banks.

Q2. What is the RBI's purpose in a VRRR auction?

(a) To add liquidity to the banking system

(b) To absorb surplus liquidity from the banking system

(c) To lend long-term funds to banks

(d) To increase foreign exchange reserves

Answer and Explanation

Correct answer: (b) To absorb surplus liquidity from the banking system

Explanation: In a VRRR, the RBI borrows funds from banks (reverse repo), which temporarily removes excess cash from the system. Instruments like the repo and the MSF add liquidity instead.

Mains Practice Question

Review the Reserve Bank of India's liquidity-management instruments. What role do VRRR auctions play in the operational framework of monetary policy? (GS-III; 250 words)

Answer Outline:

Introduction: Introduce the Rs 50,000 crore VRRR auction of 17 November 2026; define liquidity management.

Main Body: The repo/reverse repo mechanism under the LAF; the auction-based process of VRRR and its role in short-term absorption; the difference from the MSF and SDF; the link between surplus liquidity and inflation/speculation risks; regularisation through operational guidelines (the 2020 release).

Conclusion: Conclude that market-friendly, flexible instruments such as the VRRR give practical effect to the goal of price stability.

Frequently Asked Questions (FAQ)

Short answer: The RBI announced a 2-day VRRR auction of Rs 50,000 crore on 17 November 2026 (reversal on 19 November 2026), which will temporarily absorb surplus liquidity from the banking system.

Q: What is VRRR?

Variable Rate Reverse Repo - an auction arrangement through which the RBI borrows funds from banks, with the interest rate discovered by bidding; it absorbs excess liquidity.

Q: What is the difference between VRRR and MSF?

The VRRR is an auction instrument under the LAF that absorbs liquidity; the MSF is an emergency facility that lends overnight funds to banks at a rate above the repo rate.

Q: What was the amount and tenor of this auction?

The notified amount was Rs 50,000 crore for 2 days; the auction is scheduled for 17 November and reversal for 19 November 2026.

Sources

- RBI - RBI to conduct 2-day Variable Rate Reverse Repo (VRRR) auction under LAF on November 17, 2026 (16 November 2026): https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=63984

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