# Banks tap certificates of deposit to meet rising credit demand

Gopika Gopakumar
gopika.g@htlive.com
MUMBAI

Banks are turning to cheaper certificates of deposit (CDs) to meet credit demand which has outpaced deposit growth, data showed.

Led by public sector banks, lenders issued CDs worth ₹2.62 trillion between April and August this year against ₹2.5 trillion in the same period last year, data from Prime Database showed. CD issues rose from ₹25,813 crore in April to ₹72,785 crore in June, before moderating in July as liquidity turned surplus, and rose again in August. During April-August, deposit growth rose 5.8%, while credit demand jumped 9.1%.

Interest rate on one-year bulk deposits currently stands at 7.6%, and one-year term deposit rate at 7.25%, against a three-month CD rate of 7.05%.

"In August 2023, with Reserve Bank of India (RBI) mandating banks to maintain an incremental CRR of 10% of NDTL (net demand and time liabilities,) and the resulting squeeze on liquidity, CD issuances once again increased and rose to ₹57,170 crore," said Aditi Gupta, economist, Bank of Baroda.


Public sector banks like Punjab National Bank saw higher CD issuances this year.

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"With the upcoming festive season and tax outflows, this trend is likely to continue in the near future," she added.

Public sector banks accounted for over 65% of all CD issues in this period. According to Gupta, CD issuances by PSU banks were 30% higher on a year-on-year basis. Canara Bank, Punjab National Bank, Bank of Baroda and Indian Bank saw higher CD issuances this year. Private banks' share of CD issues was 26%, and on a year-on-year basis, it was lower by 25%. Axis Bank and IDFC First Bank were the largest issuers among private sector banks this year.

"Banks like ours have strategically decided to raise funds through CDs to reduce cost," a treasury official with a public sector bank said on condition of anonymity.

Bankers also say that last year, the CD market was under pressure as HDFC Bank was raising short-term money to meet its requirements before the merger.

RBI was also on a rate hike spree, which made it expensive to raise CDs. This year, however, rates have stabilized and more banks see opportunity to raise CDs.

"Owing to fluctuating liquidity conditions, CD has remained a critical instrument for commercial banks to manage liquidity. Overall borrowing through CDs seems to have stabilized, but it may go up in the H2 depending on the liquidity condition," said Soumyajit Niyogi, director at India Ratings & Research (Ind-Ra).