

Banks' fundraising via CDs to hit nine-month high in December

Reuters

feedback@livemint.com

MUMBAI: Banks are increasingly relying on certificates of deposit (CD) to meet short-term funding needs amid liquidity constraints, with December set to mark the highest issuance since March.

Banks raised around ₹76,200 crore (\$9.10 billion) through the sale of certificates of deposit in November, registering the highest amount for this financial year, data from information provider Prime Database showed.

The fundraising momentum from lenders gathered pace, totalling ₹51,500 crore as of December 11.

In March, the concluding month of the previous financial year when liquidity typically tightens, banks had raised ₹1.10 lakh crore.

"Overall, banking system liquidity conditions have been pushing banks to continuously tap into the market, and it is highly likely that December issuance may surpass those of the previous month," said Venkatakrishnan Srinivasan, founder and managing partner at Rockfort Fincap.

India's banking system liquidity has remained in deficit for the past few months, with November's deficit reaching the highest since April 2019. Meanwhile, the combination of tax outflows and quarter-end cash requirement is expected to prompt them to borrow more.

Despite the liquidity tightness, banks are reluctant to raise deposit rates, and instead prefer CDs.

"Since banks are not raising fixed deposit rates, some retail



Tight banking system liquidity has been pushing lenders to tap the market.

AFP

investors are moving towards other investments like mutual funds (MFs), which is also a major reason, banks are able to raise large sums through CDs," Rockfort Fincap's Srinivasan added.

The surge in CDs has found takers, as MFs, which have reduced their government bond purchases recently, are lapping up ultra-short-term papers.

"While banks have been routinely reissuing maturing instruments, some have expanded both the amount and range of tenor issuance, from three months to one year. MFs are natural buyers of these instruments," said Kedar Karnik, a fund manager at DSP Mutual Fund.

Though CD rates have risen, banks don't seem to be concerned, as they are able to attract bulk funding, traders added.

"Rates of CDs across tenors have increased in recent months, providing attractive opportunities for MFs to redeploy their maturing assets as well as new flows," the fund manager added.