Banks' CD issuances may fall with improvement in liquidity

Banks have raised nearly ₹8.29 trillion via CDs in the April-February period

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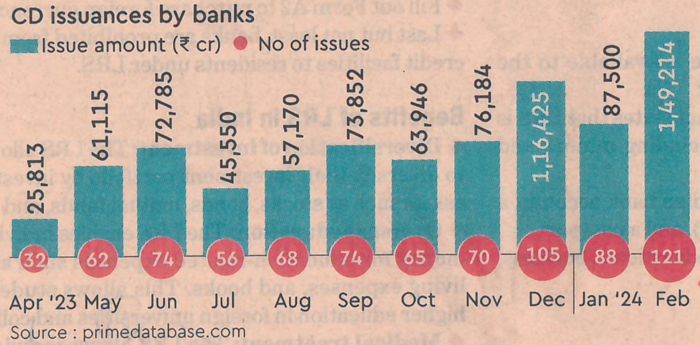
BANKS' EXUBERANCE TO issue certificates of deposit (CDs) is expected to moderate in the next financial year. The sharp growth in CD issuances witnessed this year may slow down due to increase in system liquidity and lower need for banks to raise funds as the credit growth, too, is likely to moderate in the next fiscal.

"With an improvement in system liquidity and slowing demand for credit, CD issuances incrementally will come down in the next financial year," Soumyajit Niyogi, director — core analytical group, India Ratings and Research, told *FE*. "Banks will not be desperate to raise funds next year because credit growth is expected to decline."

Tight liquidity condition in the banking system has forced lenders to raise funds through CDs. Banks have raised nearly ₹8.29 trillion through the route in the April-February period of the current fiscal, compared with ₹7.3 trillion in 2022-23, according to data from Prime Database.

THE NUMBER GAME



Banks raised ₹1.49 trillion in February 2024, compared with ₹56,795 crore in the same month last year, reflecting a rise of over 160%. CD issuances are likely to remain high in March as outflows related to the goods and services tax and advance tax have drained out liquidity.

"Inflow of funds to due to inclusion of government securities in global indices will play a crucial role in improving liquidity situation next fiscal," said the head of treasury of a private sector bank. "We believe that the worst of liquidity shortage is over and the next year will better in terms of liquidity for banks."

Experts expect inflow of $25-30 billion in the next financial year due to inclusion of government securities into the global indices.

The RBI's decision to take delivery of dollar/rupee swap last week has sent a signal to the market that the central bank does not want tight liquidity conditions to persist.

The Reserve Bank of India took delivery of $5-billion dollar/rupee swap that matured on March 13, releasing over ₹40,000 crore of durable liquidity in the system. Sustained dollar flows and tight liquidity have prompted the central bank to take delivery of the swap, said bankers.

The central bank had the option to take delivery of the swap, roll it over entirely, or opt for a partial rollover.