

# Banks rush to raise funds via CDs

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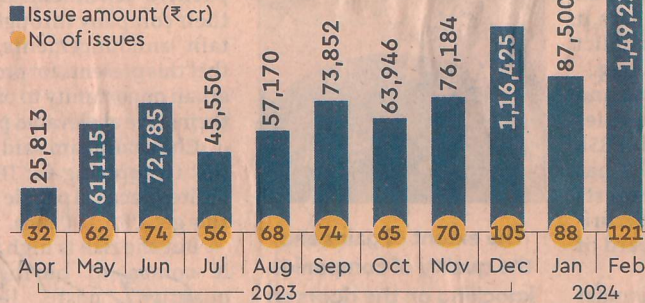
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Mumbai, September 8

**BANKS ARE RUSHING** to issue Certificate of Deposits (CDs) to meet their temporary mismatch between assets and liabilities, amid dwindling low-cost deposits.

Lenders have raised around ₹82,020 crores by issuing certificates of deposits in August, marking a 43% increase compared to the same month last year, according to Prime Database. In July, issuances reached ₹67,170 crore, up from ₹45,550 crore a year ago.

In the near term, CD issuances are expected to rise further until

## ISSUANCES EXPECTED TO RISE



Source : primedatabase.com



banks find a permanent solution to the problem of declining deposits, dealers said.

“Until there is a concrete solution, banks are left with no choice but to tap the market. Also, it is easier for banks with AAA or AA ratings to raise money via CDs than through

deposits,” said another dealer.

According to RBI’s latest monthly bulletin, the share of low-cost current and saving deposits (CASA) in total deposits has shown a steady decline from 44% to 39-40% in 2021-22. This may lead to further demand for bulk deposits, dealers said. Bulk

deposits are any deposits above ₹2 crore for scheduled commercial banks and small finance banks.

However, a rise in bulk deposits or CD issuances may further squeeze banks’ net interest margins, as the cost of raising funds via these two options is higher than

that of retail deposits. Moreover, banks have a certain limit for issuing CDs based on their financials, and most are already nearing this threshold, thereby posing another big challenge before the industry, dealers said.

Banks have been grappling with the issue of falling CASA ratio, which has dropped to 41% in 2023-24 from 45% in 2021-22.

Lenders attribute this fall to the widening gap between interest earned on term deposits and savings accounts, tight liquidity in the banking system, and behavioural shifts as individuals increasingly choose to invest in mutual funds or the equity markets.

Dealers said that if banks fail to find a permanent solution to increase deposit mobilisation, credit growth may also be adversely impacted.