Banks mobilise ₹8 trn via CDs in FY25 so far

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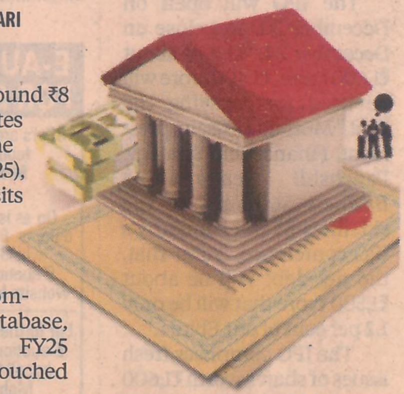
Mumbai, 17 December



Banks have mobilised around ₹8 trillion by issuing certificates of deposit (CDs) during the current financial year (FY25), amid a scramble for deposits in a tight liquidity environment and to manage their funding costs.

According to data compiled by Primedatabase, CD issuances in FY25 (up to December 13) have touched ₹7.93 trillion.

In the first fortnight of December alone, issuances exceeded ₹81,000 crore and are expected to surpass November's total of ₹92,260 crore.

In FY24, CD issuances amounted to ₹9.56 trillion, compared to ₹7.28 trillion in FY23, ₹2.87 trillion in FY22, and ₹90,890 crore in FY21.

CDs are negotiable money market instruments issued by banks, with maturities ranging from seven days to one year. Financial institutions, on the other hand, are allowed to issue CDs with maturities between one and three years.

They are rated by approved rating agencies. This rating enhances their tradability in the secondary market, depending on the demand.

"The issuance of CDs by banks is primarily driven by the need to manage their funding costs and credit-to-deposit gaps. In a highly-competitive deposit environment, banks are aggressively pursuing deposits and relying on CDs. CD issuances have remained elevated in FY25, although this may stabilise in the future," said Saurabh Bhalerao, associate director & head – BFSI Research, Care Edge.

"One of the key advantages of CDs for banks is the flexibility they offer in terms of repricing when interest rates change. This is unlike term deposits, which typically lock in rates for a comparatively longer tenure," he said.

A treasury official said that the reliance of banks on CDs is essentially because the CD market among financial institutions offers multiple benefits. They include trading opportunities, managing maturity gaps and offering liquidity, among others.

CDs are a cost-effective alternative to bulk term deposits, and contribute to the deposit pool. Additionally, they allow banks to replenish maturing deposits, ensuring smooth liquidity management. Hence, there is a reliance on such instruments.

While loan growth in the economy has moderated from its peak, it is expected to pick up as we enter the end of the financial year.

With deposit mobilisation remaining slow, the issuance of CDs may not slow down in the coming months, experts said.

Credit growth in the fortnight ending November 29 slowed to 10.64 per cent year-on-year (Y-o-Y), growing almost in tandem with deposits, which posted a growth of 10.72 per cent during the same period, according to the latest data from the Reserve Bank of India (RBI).

"There is a significant chase for deposits among banks, and of the deposits mobilised, nearly 22 per cent is allocated to fulfilling regulatory requirements. As a result, banks will likely turn to alternative funding sources, such as CDs. Issuances are expected to remain high, as banks will roll over maturing CDs, especially when other funding sources are relatively scarce," said Gopal Tripathi, head of treasury and capital markets, Jana Small Finance Bank.

Meanwhile, Anil Gupta, senior vice-president & co-group head-financial sector ratings, Icra, said the total outstanding CDs currently stand at ₹4.5 trillion.

CD ISSUANCES

	ISSUES	AMOUNT (₹cr)
FY21	227	90,890
FY22	428	287,475
FY23	775	728,202
FY24	969	956,984
FY25*	850	793,550

*(till Dec 13, 2024)
Source: primedatabase.com