

# Banks' cost of raising funds via CDs goes up

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The cost of raising funds for banks and financial institutions via certificate of deposits (CDs) has gone up in the last month amid a marginal increase in the issuance of these short-term money market instruments in the financial year so far. This comes even as the banking system's deposit growth continues to lag credit growth.

The average interest rate on CD issuances of 2-3 months' tenor has hardened from 6-6.1 per cent in the last month to 6.5-7 per cent now. Further, the average interest rate on CD issuances of one-year tenor has gone up from about the 6.65 per cent level to about 7.03 per cent.

In the current financial year so far (up to January 20, 2026), the number of CD issuances was higher at 1,078 (against 974 in the year-ago period), even as the total amount raised by banks and financial institutions through the issuances was marginally higher at ₹9,51,095 crore (₹9,25,665 crore), according to data sourced from Prime Data-



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base. In FY25, the number of CD issuances jumped to 1,346 (against 969 in FY24), with the total amount raised by banks and financial institutions soaring to ₹13,23,865 crore (₹9,56,984 crore), per information collated by the provider of data on capital markets.

That there is a gap between credit and deposit growth is underscored by the fact that as on December 31,

2025, credit has grown at a faster clip of 14.5 per cent against deposit growth of 12.7 per cent.

## DEPOSIT RATES

So, banks are overcoming this gap by tapping CDs even as fixed and savings bank deposit rates have declined due to the cumulative 125 basis points cut in the repo rate over the last year or so.

According to RBI data, as on January 16, 2026, interest rates on term deposits of more than one year tenure declined to 6/6.5 per cent from 6/7.25 per cent as on January 17, 2025.

Further, interest rates on savings bank deposits as on January 16, 2026, nudged lower to 2 per cent from 2.7/3 per cent.

Venkatkrishnan Srinivasan, Founder and Managing Partner, Rockfort Fincap LLP, said banks have increasingly turned to short-term CDs to meet incremental funding needs, with issuances largely concentrated in the 1- to 3-month segment, though extending up to one year.

"One-year CD yields have moved up sharply, touching levels of up to 7.49 per cent,

underscoring elevated short-term funding costs and a rising dependence on rollover funding. The firming up of CD yields reflects mounting pressure on banks' liability management amid strong credit growth," he said.

## TOTAL ISSUANCE

With credit growth continuing in double digits and deposit growth lagging, banks are expected to scale up CD borrowings as the financial year draws to a close, raising the likelihood that total issuance could exceed last year's levels (₹13,23,865 crore) by March-end 2026, per Venkatkrishnan's assessment.

He noted that deposit rates broadly reflect the cumulative 125 basis points reduction in the policy repo rate by the RBI, but have become relatively less attractive for households.

Retail deposit mobilisation has gradually slowed as the Government of India's small savings schemes and RBI-backed instruments continue to offer higher, risk-free returns, leading to a slow but steady drift of household savings away from bank deposits.