

# Bank liquidity may come under stress

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Banks leaned heavily on certificates of deposit in Dec and even more in Jan to shore up liquidity amid tight funding conditions. AFP

Liquidity buffers of banks are expected to come under stress in the March quarter as large volumes of short-term certificates of deposit (CDs) raised in recent months mature in March, analysts said.

Market participants said banks leaned heavily on CDs in December and even more in January to shore up liquidity amid tight funding conditions and sluggish retail deposit growth. CDs are short-term borrowing instruments with maturities ranging from seven days to one year, through which banks raise funds from institutions by offering higher interest rates than those paid to retail depositors.

As these instruments fall due, repayments will cause a dip in current liquidity ratios.

"CDs outstanding for banks have increased to an all-time high during the last decade, driven by higher issuance in December, January and February. Now, those CDs will be due for maturity in the coming months," said Anil Gupta, senior vice-president and co-group head of financial sector ratings at Icra.

The Reserve Bank of India's liquidity coverage ratio (LCR) norms require banks to hold sufficient high-quality liquid assets, including government securities or cash, to meet net cash outflows over the next 30 days. Banks must maintain a minimum LCR of 100% but most have around 115-120%, providing additional cushion

against short-term liquidity stress. As these CDs near maturity, they reflect as outflows in the next 30 days, dragging down the LCR.

"We expect a sharp decline in LCR for Q4FY2026 driven by huge CD issuance in past months. However, this decline shall be recouped partially with the revised LCR norms effective 1 April, which is driven by lower outflow rates on certain other deposits," said Gupta.

In December 2025, banks raised a total of ₹1.56 trillion through 176 CD issuances, followed by ₹1.48 trillion in January through 111 CDs and ₹2.67 trillion in February, according to data provided by Prime Database.

In 2025, banks raised ₹13.4 trillion through 1,446 CD issuances, higher than the ₹12.33 trillion raised via 1,284 issuances

in 2024, data from Prime Database showed.

The spurt in CD issuances comes as credit growth continues to outpace deposit accretion. As of 15 February, banks' non-food credit grew 13.4% year-on-year and deposits rose 11.2%, latest RBI data showed.

For the quarter ended December (Q3), State Bank of India's liquidity coverage ratio fell to 125% from 144% in the prior quarter, reflecting the widening gap between loan growth and deposit mobilization.

HDFC Bank's LCR's dropped to 116% in Q3 against 120% in Q2, while ICICI Bank's liquidity buffer dipped to 125% from over 130% in Q2.

As of 27 February, banking system liquidity was in a surplus of ₹2.9 trillion, easing short-term funding conditions and lowering money-market

## Large volumes of short-term CDs raised in recent months mature in March which may put bank liquidity under stress

borrowing rates. But market participants see little respite for banks' LCR despite surplus liquidity. As of 15 February, CD rates were around 5.25-7.37%, against 5.25-7.84% as of 31 January, RBI data showed.

"Major CDs were issued in December and the fact that banks are raising CDs itself is a sign that LCR is under stress, that you are not getting retail deposits," a senior treasury official at a private sector bank. "The liquidity risk is shifting to the buyer of the CD. So it helps and that's why banks have been borrowing a lot more through CDs. So, the LCR pressure is definitely there."

However, another section of the market believes the spike in short-term CD maturities does not signal a systemic liquidity problem, and that banks should be able to manage the rollover.

Addressing concerns around the March maturity bulge, Rajeev Pawar, treasury head at Ujjivan Small Finance Bank, said there was little reason to assume banks would be unable to refinance these instruments

"There should be no reason for banks to not be able to roll over. A lot of CDs have been issued now for one year also, and some have been issued for three months, which is a regular pattern, and they will get rolled over," Pawar said.

Dismissing fears of a broader funding squeeze, he said, "There is no liquidity crisis in the system right now. So, I don't imagine any issues with banks right now. Growth has been very good. Demand is strong for funds right now, and that has been reflected in rates also moving up."