Banks, India Inc flock to CDs, CPs due to easing short-term rates

RATE SOFTENING. Borrowers favour short-term funding amid uncertainty over interest rate outlook

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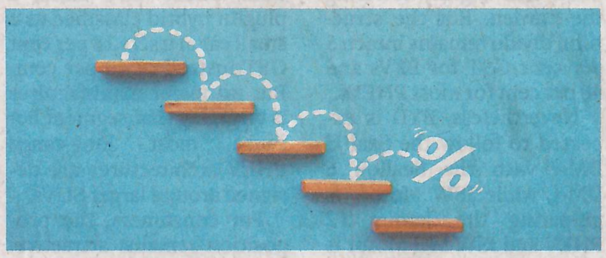
There is no let-up in demand for short-term funds of up to one-year tenor from banks and India Inc despite external headwinds arising from the West Asia conflict, as interest rates at the shorter end of the yield curve have softened.

Fundraising through Certificates of Deposit (CDs) by banks and Commercial Papers (CPs) by corporates, primary dealers and all-India financial institutions in the current financial year has remained robust and compares favourably with the year-ago period, even as bank credit growth continues to outpace deposit growth.

In FY27 so far (up to June 8, 2026), banks collectively raised ₹2.18 lakh crore through 190 CD issuances, compared with ₹2.55 lakh crore mobilised through 249 issuances during the first quarter (April-June) of FY26, according to data from primary capital market information provider Prime Database.



FRESH MEASURES. RBI's recent measures aimed at attracting foreign currency inflows have softened money market rates

Similarly, India Inc raised ₹3.6 lakh crore through 1,712 CP issuances during the period, against ₹4.51 lakh crore through 2,166 issuances in the first quarter of FY26. According to the latest RBI data, incremental credit growth of scheduled commercial banks stood at 17.44 per cent as of May 31, 2026, exceeding incremental deposit growth of 12.14 per cent by 530 basis points.

BORROWING PULL

Venkatakrishnan Srinivasan, Founder and Managing Partner of Rockfort Fincap LLP, said the current softness in money market rates has made short-term borrowing increasingly attractive. As a result, fundraising through CDs and CPs could scale fresh highs during the current fiscal.

However, he cautioned that excessive dependence on short-term instruments and repeated rollovers could create asset-liability mismatches and refinancing risks, particularly for borrowers funding long-tenor assets.

A balanced funding strategy, therefore, remains critical.

Srinivasan noted that CP and CD rates have witnessed significant volatility during FY27. Rates initially moved higher as markets reacted to escalating geopolitical tensions in West Asia.

However, following the RBI's recent measures aimed at attracting foreign currency inflows and supporting the rupee, money market rates have softened considerably.

Between May 26 and June 10, 2026, rates on 2-3 month bank CDs declined to around 6.85-6.90 per cent from 7.48-7.52 per cent, while 12-month CD rates eased to about 7.55 per cent from 7.98 per cent. Similarly, rates on 2-3 month CPs issued by A1+ rated public sector and manufacturing companies softened to around 6.92-6.93 per cent from 7.50-7.54 per cent. CP rates for housing finance companies eased to about 6.95 per cent from 7.60-7.64 per cent.

Even NBFC CP rates declined sharply, with 2-3 month borrowing costs falling to 7.35-7.50 per cent from 7.95-8.15 per cent.

According to Srinivasan, the decline in rates reflects improved market confidence and expectations of better liquidity conditions stemming from inflows linked to FCNR (B) deposits, external commercial borrowings (ECBs) and overseas foreign currency borrowings.

Nevertheless, uncertainty over the medium-term interest-rate outlook persists amid geopolitical tensions, and inflationary pressures.