CD issuances plunge in July as FCNR (B) deposits spike

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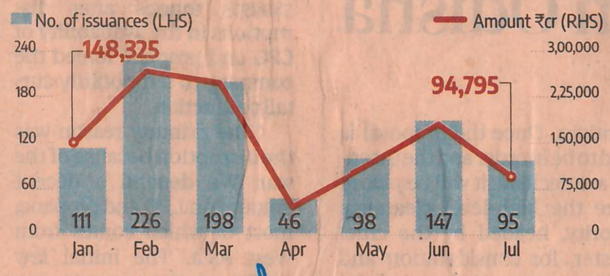
Banks' reliance on Certificates of Deposit (CDs) appears to be easing as the mobilisation of Foreign Currency Non-Resident (Bank), or FCNR (B), deposits gathers pace.

Banks and financial institutions raised around ₹95,000 crore through CDs in July, sharply down from ₹1.8 trillion in the previous month, while CD rates have softened by as much as 70 basis points since the end of June.

According to Prime Database, CD issuances had risen steadily from ₹45,700 crore in April to ₹1.11 trillion in May before peaking in June, as banks scrambled to shore up liquidity amid tight funding conditions. The credit-deposit growth gap had also widened during this period, with credit growing much faster than deposits, pushing banks to borrow more from the CD market.

CD issuances moderate

Certificates of deposit



Source: Prime Database

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CDs are short-term money market instruments issued by banks with maturities ranging from seven days to one year. Banks primarily use CDs to manage liquidity, bridge asset-liability mismatches, and diversify funding sources.

The moderation in CD issuances coincides with a sharp acceleration in FCNR (B) mobilisation. Turn to Page 6

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Since the Reserve Bank of India (RBI) announced a concessional swap facility in early June, banks have stepped up the mobilisation of overseas deposits, giving them access to an alternative source of wholesale funding. On Saturday, the RBI said banks had mobilised $41 billion in foreign exchange inflows under the concessional swap window as of July 31, including $36.7 billion in fresh FCNR (B) deposits. The improved liquidity has pushed CD rates lower, with the peak rate declining from 7.57 per cent to 6.85 per cent.

"The moderation in banks' reliance on CDs is a natural and expected outcome of the FCNR(B) mobilisation drive. As banks garner larger volumes of FCNR(B) deposits under the RBI's concessional swap scheme, they have access to a relatively cheaper source of funding, reducing the need to tap the domestic wholesale funding market through CDs. Consequently, FCNR (B) inflows are effectively replacing a part of banks' CD borrowings," a senior banker said, adding that this was already reflected in the market.

The trend, the banker said, was expected to persist through the current quarter, and the outlook for the following quarter would depend on the quantum of deposits mobilised before the September-end deadline. "If banks are able to build a sizeable FCNR (B) deposit base by then, they are likely to remain comfortably funded through October and November as well, reducing the need for fresh CD issuances even after the special window closes. As a result, both CD issuance volumes and CD rates could remain subdued beyond the current quarter, with the duration of the impact ultimately depending on the stock of FCNR(B) deposits accumulated under the scheme," the banker said.

Another senior banker said the recent decline in funding costs should also be viewed in the context of seasonal trends. "The first quarter was somewhat of an anomaly. Normally, CD rates soften after the fourth quarter as year-end funding requirements ease. This year, however, rates remained elevated through much of the first quarter because banks continued to compete aggressively for deposits amid strong credit growth," the banker said.

According to the second banker, the decline in rates is a combination of seasonal factors and the rollover of wholesale liabilities that was delayed this year. "There appears to have been a lag. Instead of cooling immediately after the fourth quarter, deposit rates started easing only about a month or six weeks later. Going forward, if FCNR(B) mobilisation continues to improve and brings additional liquidity into the system, deposit rates are likely to soften further," the person added.

Saurabh Bhalerao, associate director at CareEdge Ratings, said the CD market had reacted well before banks started repricing deposits. "The moderation in CD issuances and rates is a natural consequence of the FCNR (B) mobilisation drive. Rates have come off quite substantially, which reflects the market pricing in the additional liquidity expected from the mobilisation. With sizeable inflows coming into the system, banks have access to another funding source," he said. "Whether CD issuances remain subdued beyond the current quarter will depend largely on credit demand. However, if credit growth accelerates, banks may have to return to the CD market," he added.