

Banks' CD rates dip as FCNR flows hit \$127 bn

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MUMBAI: A torrent of dollar deposits has crashed short-term borrowing costs for banks, as India's ambitious plan targeting overseas citizens closes with a resounding success.

Interest rates on certificates of deposit (CDs) which banks issue for short-term funds have fallen since the Reserve Bank of India incentivized dollar deposits and borrowings, showed data from Crest Finserv, an inter-dealer broking firm. Rates on three-month CDs have cooled to 6.3% against 7.09-7.23% when RBI announced the scheme on 5 June, and 7.30-8.00% at the end of March.

The central bank said on Wednesday that the scheme brought in a total of \$136.4 billion till August 31 when its FCNR(B) component ended. Of this, foreign currency non-resident bank or FCNR(B) that targets dollar deposits from non-resident Indians fetched \$127.2 billion or about 93.3%, while overseas foreign currency borrowings (OFCBs) contributed \$5.3 billion and external commercial borrowings (ECBs) \$3.9 billion.



The scheme mobilised \$136.4 billion by August 31, when its FCNR(B) component came to an end.

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As liquidity swelled, touching ₹7.8 lakh crore on September 1 from ₹1.85 lakh crore on June 5, rates cooled in the CD market. Central Bank of India on Tuesday raised ₹1,000 crore by issuing CDs maturing on December 2 at 6.38%, compared to ₹500 crore it raised at 6.60% on August 27 for a similar maturity. On March 6, the bank had raised ₹250 crore through three-month CDs at 7.15%, Crest Finserv data showed.

"CD rates have fallen because banks are flush with FCNR(B) inflows and overall system liquidity has risen substantially, reducing their need to raise funds through CDs. Lower issuance is also putting downward

pressure on CD rates," said Gopal Tripathi, treasury head at Jana Small Finance Bank.

The RBI introduced the swap window allowing banks to offer interest rates as high as 7.10% on 3- to 5-year foreign currency deposits for NRIs by covering the banks' currency exchange costs. The scheme also allowed NRIs to make leveraged deposits, increasing its allure. The scheme drew on an earlier effort in 2013, when Indian banks successfully raised \$26 billion in foreign inflows.

The surplus funds have sharply reduced banks' dependence on CDs. In August, banks raised ₹68,130 crore through CDs, lower than the ₹95,945

crore raised in July, according to data from Primedatabase.com. The RBI's August bulletin noted the trend, stating CD rates softened in the second half of July and August as improved liquidity and FCNR(B) inflows reduced banks' dependence on CDs.

CDs are short-term debt instruments that banks issue to raise funds, typically from institutional investors.

Banks had increased their reliance on CDs as retail deposit growth struggled to keep pace with credit demand, using the wholesale funding route to bridge the gap and support loan growth. However, with the surge in FCNR(B) inflows, banks are now flush with funds and their need to raise money through CDs has fallen sharply, reducing CD issuance and pushing rates lower.

Total liquidity infusion through the RBI's 5 June measures is estimated at ₹3.6 lakh crore over June 5 to August 14 and liquidity could peak at ₹9.9 lakh crore in September before gradually declining to ₹5.4 lakh crore by March 2027 as currency leakage rises and the balance of payments moves closer to neutral, according to a August 27 report by IDFC First Bank.