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SENSEX 76,570.35 ↓ 373.93

NIFTY 23,914.45 ↓ 141.35

DOLLAR ₹94.73 ↓ ₹0.22

EURO ₹109.89 ↑ ₹0.18

OIL \$93.85 ↓ \$0.53

POUND ₹128.08 ↑ ₹0.47

Banks' CD
rates dip as
FCNR flows
hit \$127 bnSubhana Shaikh
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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 31 August 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

Banks' CD rates plunge as FCNR flows cross \$127 billion

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external commercial borrowings (ECBs) \$3.9 billion.

As liquidity swelled, touching ₹7.8 trillion on 1 September from ₹1.85 trillion on 5 June, rates cooled in the CD market. Central Bank of India on Tuesday raised ₹1,000 crore by issuing CDs maturing on 2 December at 6.38%, compared to ₹500 crore it raised at 6.60% on 27 August for a similar maturity. On 6 March, 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



With the surge in FCNR(B) inflows, banks are now flush with funds and their need to raise money through CDs has fallen sharply. AFP

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 trillion over 5 June to 14 August and liquidity could peak at ₹9.9 trillion in September before gradually declining to ₹5.4 trillion by March 2027 as currency leakage rises and the balance of payments moves closer to neutral, according to a 27 August report by IDFC First Bank.

Since the RBI incentivized the FCNR(B) scheme, it has been using variable rate reverse

repo (VRRRs) auctions to suck out excess liquidity from the system. However, IDFC First Bank believes that the RBI may

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INTEREST rates on CDs have fallen since the RBI incentivized dollar deposits and borrowings

RATES on 3-month CDs have cooled to 6.3% vs 7.09-7.23% when RBI unveiled the scheme on 5 Jun

need to use stronger measures as the surplus rises further in September. Yet, the sharp fall in CD rates has not translated into a broad-based easing across the fixed-income market as investors remain cautious about deploying money into government securities and corporate bonds.

"While CD rates coming down is an advantage, this eas-

ing is not percolating to the other parts of the yield curve in the fixed-income market because of other concerns and the way oil is behaving," a senior treasury official at a private bank said.

Global bond yields have risen as markets price in tighter monetary policy from central banks world over. Recent RBI minutes also showed that Monetary Policy Committee (MPC) members are recalibrating a rate hike based on the inflation-growth outlook. Yield on the 10-year benchmark government bond has risen to 6.98% from 6.82% since 20 August, and is likely to weigh on short-term markets as well.