

Surplus liquidity from FCNR(B) flows may lower bank funding costs



The cost of funds for banks is expected to decline by up to 50 basis points as robust Foreign Currency Non-Resident (Bank) or FCNR(B) inflows boost liquidity and reduce dependence on higher-cost certificates of deposit (CDs), as per multiple reports.

The surplus liquidity is expected to support credit expansion particularly in short-term lending, according to them.

While enabling refinancing agencies to prepay costlier loans. Banks' liquidity coverage ratio (LCR) may also improve by up to 1 percentage point, they added.

Moreover, the impact is visible in the CD market with banks raising Rs 68,130 crore in August, the lowest since April, when issuances stood at Rs 45,700 crore, as per Prime Database.

In comparison, issuances were Rs 1.11 lakh crore in May, Rs 1.80 lakh crore in June and Rs 95,945 crore in July.

Together, many top lenders raised Rs 46,770 crore or 68.7 per cent of the total.

Apart from that, CD rates have also declined sharply since the Reserve Bank of India (RBI) announced the FCNR(B) swap facility on June 8.

The three-month rate fell 130 bps to 5.86 per cent on September 3 from 7.16 per cent on June 8, while the one-year rate declined 50 bps to 7.02 per cent, say reports.

Additionally, global brokerage Jefferies estimates that FCNR(B) deposits could create an additional annual profit pool of Rs 10,000-11,000 crore for banks, equivalent to around 2 per cent of their profit before tax.

Banks could deploy the funds in fresh loans, refinance older high-cost borrowings or park them with the RBI under the Standing Deposit Facility.

Earlier in September, the RBI's said that banks mobilised \$127.23 billion through FCNR(B) deposits by August 31, while overseas foreign currency borrowing and external commercial borrowing contributed \$5.26 billion and \$3.89 billion, respectively taking the total to \$136.38 billion.