CD issuances sharply rise in Oct-Dec as credit growth picks up

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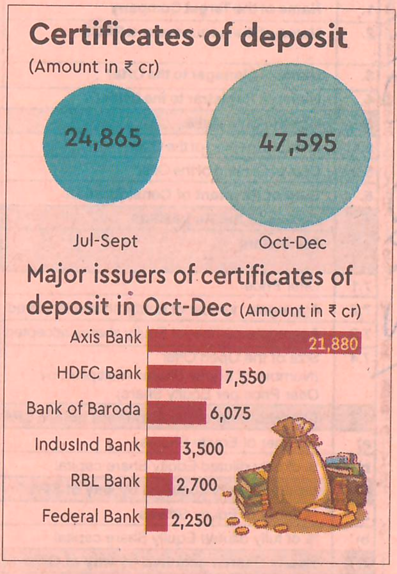
FUND-RAISING THROUGH CERTIFICATES of deposit (CDs) rose by more than 90% quarter-on-quarter in October-December, as banks raised funds to meet their funding requirements following growth in the credit offtake and rollover of debt instruments that were set to mature in the third quarter of this fiscal.

Issuances also surged after the Reserve Bank of India (RBI), in the October monetary policy, started liquidity normalisation process through an increase in the amount to be withdrawn through variable rate reverse repo (VRRR) auctions, prompting banks to raise additional funds through short-term papers.

According to Prime Database, banks raised ₹47,595 crore in the December quarter, compared with ₹24,865 crore raised in the September quarter. Of the total amount, more than 87% fund-raising was done by five banks — Axis Bank, HDFC Bank, Bank of Baroda, IndusInd Bank, and RBL Bank.

"Liquidity surplus or deficit is a different case for every bank, quite a few larger sized banks like SBI were hugely surplus on liquidity, but the case may be different with other small banks. In Q3, we saw VRRR has constantly been taking away liquidity, and that coupled with a bit of credit off-take, prompted a few banks to raise short-term CDs," said Ajay Manglunia, MD and head – institutional fixed income at JM Financial.

The third quarter witnessed an uptick in credit growth across sectors. Sectors, where demand for credit started picking up during the last three months include NBFC, telecom, petroleum, chemical, electronics, gems & jewellery and infrastructure, according to the report of SBI Ecowrap. The report said the credit growth, which had weakened since FY20, has picked up significantly and was at 7.3% till December 17, 2021, a tad lower than the pre-pandemic level of 7.5% in December 2019.



The RBI increased the amount of VRRR auctions to withdraw additional liquidity from the system in the October and December policies, which lifted short-term rates close to the repo rate. The surplus liquidity has kept most banks on the sidelines, but those with low surplus or need of funding requirements tapped the market. Despite a lot of reverse repo auctions, liquidity remained in huge surplus in the banking system.

As liquidity gets tightened, issuances are expected to rise going forward, expect market participants. However, a sharp rise in short-term rates after the December monetary policy will keep most issuers on the sidelines.

"We can expect this trend to continue. As we are moving from reverse repo rate to repo rate as the operational rate in the money market, demand for CD issuances shall surely kick in," Manglunia said.