

CD issuances plunge 74% as liquidity eases

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FUNDRAISING BY BANKS through certificates of deposits (CDs) declined by 74% in April compared with March as liquidity tightness in the banking system eased and demand for loans moderated. Banks raised ₹32,860 crore in April compared with ₹1.27 trillion in March through CDs, data from Prime Database show.

“Liquidity in the banking system has improved in April after the government released payments for different entities,” V Ramachandra Reddy, head of treasury at Karur Vysya Bank, told *FE*. “The demand for funds was high among banks in March as they wanted to build their balance sheet before the end of financial year, while in April there was no such pressure on bank,” he said. The fourth quarter is usually busy for banks and the demand for credit was high in the January-March quarter and CDs were the best option to mobilise short-term funds, Reddy added.

A CD is a short-term debt instrument used by banks to mobilise funds. Liquidity conditions have turned surplus in April offering much-needed relief to the banks struggling to raise funds to meet high credit demand. The surplus in the second week of April reached ₹80,000 crore, according to RBI data.

Liquidity in the banking system has eased considerably after March 2024 after staying in deficit mostly since November 2023. This has majorly been spurred by government spending, maturity of forex swap and buoyant foreign portfolio flows.

RBI took delivery of \$5-billion dollar/rupee swap that matured on March 13, releasing over ₹40,000 crore of durable liquidity in the system. System liquidity deficit — as

measured by net injections under the liquidity adjustment facility — fell to ₹1 trillion during February-March compared with ₹1.61 trillion in December-January.

“There is pressure on banks to bolster their balance sheets and reach

the targeted business levels in March. Hence, a correction from the high base of March is not all that surprising,” said Manoranjan Sharma, chief economist, Infomerics Ratings. “There was pressure on liquidity in March but this pressure eased in April,” he added.

Bankers say the drop in CD issuances is a temporary phenomenon as the credit demand will again gain momentum May onwards which will prompt banks to raise funds.

Experts said the system liquidity is likely to start easing from the second quarter of the current fiscal, in a sustained manner, barring occasional tightness owing to tax payments.

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CD Issuances by banks (in ₹ crore)

