

Banks' fundraising via CDs rises amid liquidity deficit

Over ₹50,000 cr raised in May, compared with ₹32,860 cr in April

SACHIN KUMAR
Mumbai, May 27

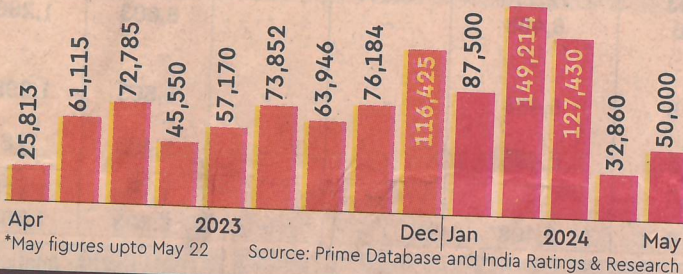
FOLLOWING A LULL in April, fundraising by banks through certificates of deposit (CDs) gained momentum in May as liquidity in the banking system slipped into deficit due to reduced government spending and tax outflows. In the first three weeks of May, banks issued CDs worth over ₹50,000 crore, surpassing total issuances of ₹32,860 crore in April.

Public sector banks issued CDs of ₹34,500 crore as of May 22, compared with ₹24,000 crore in April, while private banks mopped up ₹15,800 crore via this route, against ₹8,900 crore in April, India Ratings & Research data showed.

"CD issuances have risen this month on account of tight liquidity.

NUMBERS SAY IT ALL

(in ₹ crore)



The banking system liquidity deficit hit a near four-month high at ₹2.56 trillion on May 21 after GST outflows," Kunal Sodhani, vice president—treasury, Shinhan Bank, told FE. "The liquidity situation is expected to ease from next month due to increased government spending which should reduce the need for banks to raise funds via CDs."

Sodhani expects overnight rates to ease by 20-25 basis points (bps) and CD rates by 10-15 bps as more

funds flow into the banking system.

The average system liquidity slipped into deficit of ₹1.2 trillion for the first 15 days of May, against a surplus of ₹20,240 crore in April.

"The banking system liquidity has remained deficient and volatile, owing to restricted government spending, rise in cash in circulation and outflows from foreign portfolio investors (FPIs)," said Soumyajit Niyogi, director, core analytical group, India Ratings and Research.