CD issuances in Sept surged to FY24 high amid tight liquidity

RBI pumped in ₹1 trn on September 29

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Amid deficit liquidity in the banking system, September saw the highest issuances of certificates of deposit (CDs) in the current financial year as banks scout to raise resources. CDs are short-term debt instruments used by banks to raise funds.

Banks issued CDs worth ₹73,856 crore in September, as compared to ₹56,895 crore in August and ₹45,550 crore in July.

As the banks rushed to raise funds through CD issuances, the six-month, and 12-month CD rates went up by 2 basis points (bps) and 5 bps, respectively, in September. The three-month CD rates, on the other hand, fell by 3 bps to 7.05 per cent.

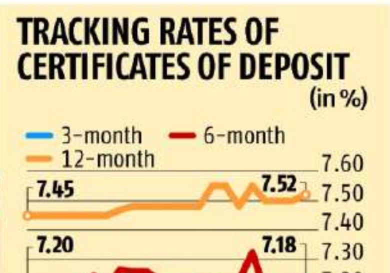
"This is because of the liquidity. The systematic liquidity was more in deficit and banks were borrowing from the Reserve Bank of India (RBI). And due to the incremental credit reserve ratio (ICRR), there was some liquidity absorption by the RBI, which was to be disbursed in tranches," said Ajay Manglunia, managing director at JM Financial.

"September is usually slightly tight as there is advance tax, goods and services tax (GST) payment, and a lot of payments. And there was credit flow ahead of the festival season because people need money. After the rain, the sowing of the crops starts, for which people need money. This is kind of the start of the busy season. The credit offtake is slightly high," he said.

The banking system liquidity continues to remain in deficit since September 15 on the back of advance tax outflows and GST payments. On Friday, the central bank injected ₹1 trillion, according to the data by the RBI.

The deficit liquidity neared ₹1.47 trillion on September 19, the highest since January 29, 2020, when it went up to ₹3 trillion. The liquidity had slipped into deficit on August 21 for the first time in the current financial year.

Market participants expect that banks might keep raising funds through CDs as the liquidity might continue to remain tight in October; however, they believe it should be better than September due to government spending, and disbursement of the last tranche of I-CRR.



"Most of the banks were issuing CDs because of the quarter-end approach as the previous issuances were maturing. The issuances were mostly in three-month and six-month segments. But in October, there won't be much of issuances because it is the first month of the quarter," said Arun Bansal, executive director head of treasury at IDBI Bank.

The RBI had decided to discontinue the I-CRR by October 7 in phases. Of the total I-CRR maintained, 25 per cent was disbursed on September 19, another 25 per cent on September 23, and the remaining 50 per cent will be released on October 7.

During the monetary policy review announcement on August 10, the RBI had mandated all scheduled banks to maintain an I-CRR of 10 per cent on the increase in their net demand and time liabilities between May 19 and July 28, with effect from August 12.