

# CD issuances rise, market expects I-CRR extension

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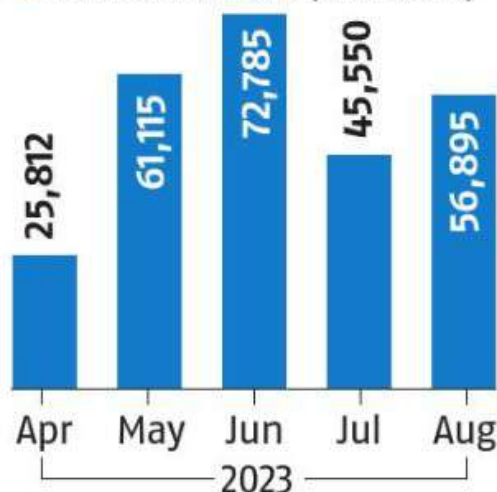
Banks in August increasingly turned to certificate of deposits (CDs), a short-term debt instrument used to raise funds, amid tight liquidity in the banking system.

Of the ₹56,895 crore worth of CDs issued in August, ₹42,395 crore was issued after August 12, according to the data on Clearing Corporation of India. The total issues in July were ₹45,550 crore.

During the monetary policy announcement on August 10, the Reserve Bank of India (RBI) mandated all scheduled banks to maintain an incremental credit reserve ratio (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. Market participants expect that banks might keep

## SHORT-TERM DEBT INSTRUMENT

■ Issued amount (in ₹ crore)



Source: Clearing Corporation of India

raising funds through CDs on the speculation that the RBI might extend the I-CRR.

“Everything depends on the RBI. There are speculations in the market that they are going to extend the I-CRR, at least partially,” said Venkatakrishnan Srinivasan, bond market veteran, founder

and managing partner of Rockfort Fincap LLP, said. “The liquidity is improving but it is not enough. The surplus amount of anything below ₹1 trillion is not enough.”

According to RBI data, banks parked ₹54,131 crore on Wednesday. RBI Governor Shaktikanta Das had said the I-CRR norms were temporary and would be reviewed on or before September 8. “August was very volatile in terms of CDs because the I-CRR was introduced in between, which had taken the excess liquidity out. And banks needed more money, so they came to the CD market, the reason why the yields went up. Now, the liquidity has started to cool down; if we compare Thursday with 10 days back, there is a difference of 10-15 paise,” said Ajay Malglunia, MD and head of investment grade group at JM Financial.