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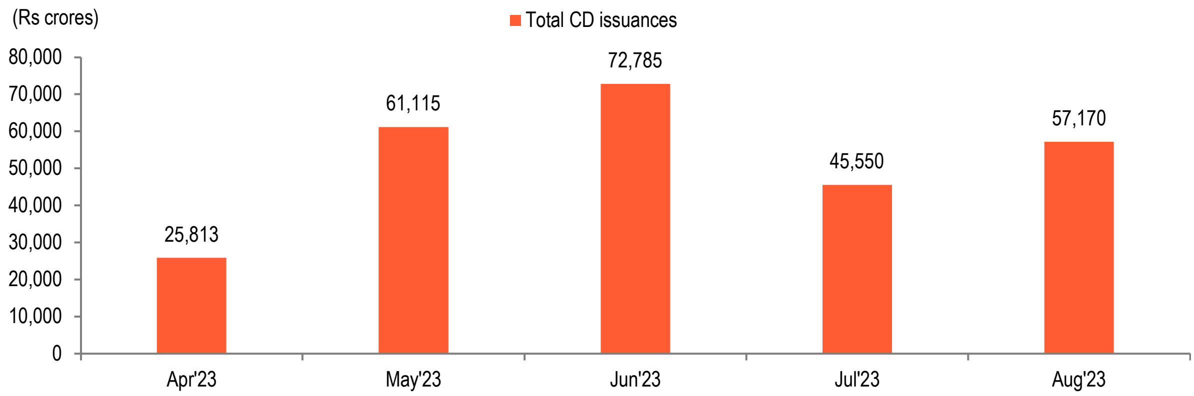
The CD market in FY24

To augment funds, banks have relied on alternative sources, one of which is through issuance of Certificate of Deposits or CDs. In recent times, there was a strong revival in credit demand, with credit growth registering double-digit growth. A revival in industrial activity along with government's capex push have contributed to an increase in credit. Retail credit also has been growing at a steady rate. However, there has not been a commensurate increase in deposit growth notwithstanding the increase witnessed due to the exchange of Rs 2000 notes. As a result, banks had to increase their reliance on other sources of funds to meet the growing credit demand. In this study, we are looking at the trends in CD issuances in FYTD24 (upto Aug'23). We also attempt to calculate the imputed yield on CDs that the banks are paying.

Figure 1 shows CD issuances till Aug'23. It can be seen that CD issuances increased steadily from Rs. 25,813 crore in Apr'23 to a high of Rs. 72,785 crores in Jun'23. Thereafter, there was some moderation in Jul'23. It is to be noted that liquidity in the system remained in surplus mode at above Rs 1 lakh crores in Jul'23. In Aug'23, with RBI mandating banks to maintain an incremental CRR of 10% of NDTL, and the resulting squeeze on liquidity, CD issuances once again increased and rose to Rs. 57,170 crore. In FYTD24, CD issuances stand at Rs. 2.62 lakh crores, higher compared with Rs. 2.5 lakh crores in the same period last year. With the upcoming festive season and tax outflows this trend is likely to continue in the near future.

Figure 1: Trends in CD issuances in FYTD24 (up to Aug'23)



Source: CCIL-F Trac Database, Bank of Baroda Research

Table 1 shows that in FYTD24, public sector banks (PSBs) were the major borrowers through the CD route. In fact, PSBs accounted for over 65% of all CD issuances in this period. Compared with last year, CD issuances by PSBs are ~30% higher on a YoY basis. PSBs, such as Canara Bank, Punjab National Bank, Bank of Baroda and Indian Bank account for 52% of the CD issuances this year. Private Banks (PVBs) accounted for another 26% of total CD issuances this year. On a YoY basis, CD issuances by PVBs is however lower by 25% when compared with the same period last year. Major borrowers within PVBs are Axis Bank and IDFC First Bank with a large share in total CD issuances in FYTD24. This is followed by ICICI Bank.

Table 1: Trends in CD issuances in FYTD24-Bank type wise (upto Aug'23)

	Apr'23	May'23	Jun'23	Jul'23	Aug'23	FYTD24
PSBs	8,550	45,965	51,385	34,585	32,225	1,72,710
PVBs	13,338	11,225	10,675	10,490	23,145	68,873
Other FIs	3,825	2,275	8,900	-	-	15,000
Foreign banks		1,500	1,320		1,000	3,820
SFBs	100	150	505	475	800	2,030
Total CD issuances	**25,813**	**61,115**	**72,785**	**45,550**	**57,170**	**2,62,433**

Source: CCIL-F Trac Database, Bank of Baroda Research

In terms of maturity pattern, there is a clear preference for shorter term CDs as can be seen in Table 2. A majority of CD issuances have maturity period of less than 4 months. In fact, out of the total issuances of Rs. 2.62 lakh crores in FYTD24, the share of CDs with maturity period below 4-months was 72.5%. CDs with maturity of between 11-12months accounted for 13.4% of total issuances in FYTD24. However, over the last few months, issuances under this tenure have seen a sharp dip.

Table 2: CD issuances by maturity in FYTD24 (upto Aug'23)

Tenure	Apr'23	May'23	Jun'23	Jul'23	Aug'23	FYTD24
Less than 1 month					1,900	1,900
1-2 month			3,935		3,625	7,560
2-3 months	4,250	5,200	6,050	12,555	4,950	33,005
3-4 months	5,050	35,490	44,575	24,350	38,360	1,47,825
4-5 months		50		475	1,600	2,125
5-6 months		600	1,725	1,510	800	4,635
6-7 months		450	495	675	3,135	4,755
7-8 months				4,660		4,660
8-9 months			1,000	1,000		2,000
9-10 months		1,850				1,850
10-11 months		5,650			2,100	7,750
11-12 months	16,513	11,825	15,005	325	700	44,368
Total	**25,813**	**61,115**	**72,785**	**45,550**	**57,170**	**2,62,433**

Source: CCIL-F Trac Database, Bank of Baroda Research

In Table 3, we have calculated the imputed cost to the banks on an annualized basis across different tenures. It is interesting to note the movement in CD rates across tenors. In Aug'23, CD rates have moved higher compared with Jul'23, due to higher issuances. The steepest increase in CD rates in Aug'23 was seen in CDs maturing in 4-5-months.

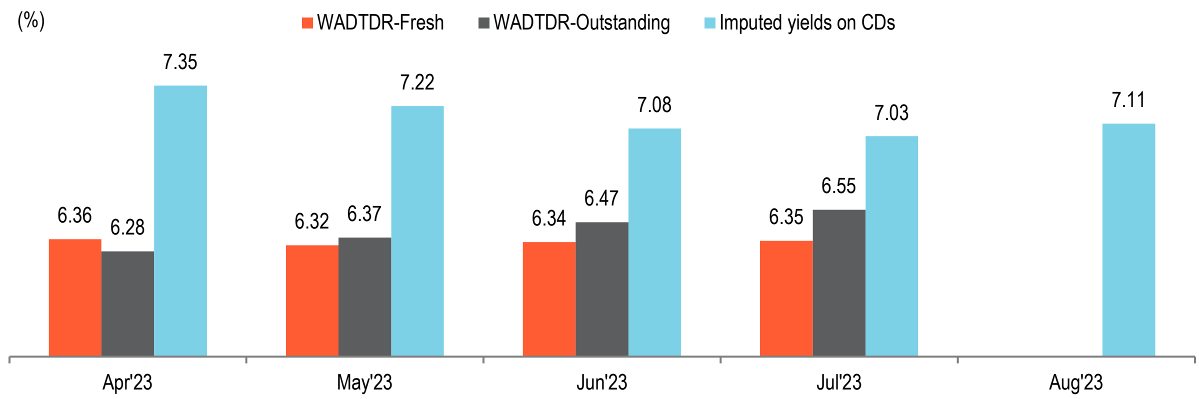
Table 3: Implied yields tenure wise

	Apr'23	May'23	Jun'23	Jul'23	Aug'23
Less than 1 month	-	-	-	-	6.96
1-2 month	-	-	6.91	-	6.95
2-3 months	7.18	6.99	6.94	7.02	7.04
3-4 months	7.09	7.15	6.98	6.95	7.05
4-5 months	-	7.40	-	7.15	7.75
5-6 months	-	7.15	7.14	7.30	7.34
6-7 months	-	7.37	7.85	7.29	7.31
7-8 months	-	-	-	7.18	-
8-9 months	-	-	7.42	7.34	-
9-10 months	-	7.48	-	-	-
10-11 months-		7.47	-	-	7.59
11-12 months	7.48	7.39	-	-	-
Total	**7.35**	**7.22**	**7.08**	**7.03**	**7.11**

Source: CCIL-F Trac Database, Bank of Baroda Research

It is interesting to note that CD rates have been higher across all tenures when compared with the Weighted Average Domestic Term Lending Rates (WADTDR) on both outstanding as well as fresh term deposits in each of the respective months. Even so, banks have preferred raising funds through CDs rather than fixed term deposits. The main reason is that banks have been able to raise large amounts to meet business requirements at one point of time rather than wait to gather bulk or retail deposits.

Figure 2: Movement in Weighted Average Domestic Term Deposit Rates (upto Aug'23)



Source: RBI, CCIL-F Trac Database, Bank of Baroda Research

To conclude it can be said that CDs have been a very useful source of funds for banks. The market has been used more by PSBs relative to private banks. The cost of CDs has been higher than that on term deposits with the margin being as high as 100 bps in April though it has come down to 68 bps by July. Tenures tend to be shorter with less than 4 months being preferred which ensures that banks don't get locked in at higher rates for long tenures.

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