CDs outstanding at Rs 1 lakh crore point to rising demand for bank funds

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Synopsis
Data from the Reserve Bank of India (RBI) shows that outstanding CDs in the banking system increased to ₹1.12 lakh crore in the fortnight ended February 11, up from ₹99,700 crore in the fortnight ended January 28. This is the highest amount of outstanding CDs since the banking system had ₹1.73 lakh crore in the fortnight ended March 27, 2020, when the Covid-19 pandemic struck.

Credit rating agency Care said loan growth has been muted due to the demand destruction caused by the Covid-19 pandemic.

Mumbai: Outstanding certificates of deposits (CDs) issued by banks have touched a near two-year high, crossing the ₹1 lakh crore mark in February for the first time since the nation went into lockdown in March 2020.

The increase in issuances of CDs, which banks use to raise bulk funds from high net worth and institutional investors, reflects the rising demand for funds from the banking system as economic activity picks up.

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Total deposits stood at ₹161.3 lakh crore for the fortnight ended February 11, 2022, a growth of 9.1% year-on-year and up 76 basis points from the previous fortnight ended on January 28, 2022. Time deposits have increased 8.2%, while demand deposits 16.1% from the previous year even as banks have increased deposit rates in February.

However, despite an increase in deposits, loan growth has been muted, up 7.9% year on year but registering a decline of 30 basis points compared to the fortnight ended January 28, 2022.

Credit rating agency Care said loan growth has been muted due to the demand destruction caused by the Covid-19 pandemic. Also, large companies have deleveraged and are hesitant to undertake new capex due to growth uncertainties and lower utilisation. Even before the outbreak of Covid, credit growth was depressed as banks focused on cleaning up their books and resolving large NPAs.

"Credit growth is expected to be in the range of 8% to 9% for FY22 with a low base effect, economic expansion, rise in government and private capex (especially, capex for renewables and production linked incentive (PLI) schemes, extended ECLGS support, and retail credit push," Care Ratings said.

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