

Q4 LIKELY TO REFLECT FULL-QUARTER IMPACT OF DEC 5 RATE CUT

High borrowing rates may hit banks' cost of funds

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ELEVATED MARKET BORROWING rates are likely to exert pressure on banks' cost of funds in the January-March quarter, said bankers and analysts. Credit growth outpacing deposits mobilisation has driven banks to heavily tap certificates of deposits (CDs) from the third quarter, with some lenders aggressively pursuing market-linked institutional deposits as well.

The higher supply pushed up the rates higher, making funding expensive for banks to meet the credit demand. The one-year CD rate rose 62 bps to 7.33% since January, while one-month CD increased 189 bps to 8.11%, according to *Bloomberg*. Higher funding costs are emerging despite the central bank's 125 bps rate cuts over the past year. The one-year CD to treasury bill spread has hit historical highs of 167 bps, versus the typical 70-90 bps range.

According to a senior public sector bank (PSB) official, CD rates spike seasonally every January-March quarter, but it starts from February. This year, it hit early in January, reaching 7%. "Bulk deposit rates from corporates, trusts, and others have surged

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by 30 bps above CDs," he said.

"The recent firming-up of CD yields amid geopolitical uncertainties, coupled with persistent challenges in deposit mobilisation, is exerting an upward pressure on funding costs," said Sachin Sachdeva, vice president and sector head—financial sector ratings, Icra.

He explained that Q4 will reflect the full-quarter impact of the rate cut undertaken on December 5, 2025. Consequently, net interest margins are expected to stay under pressure during the quarter.

According to a recent report by Nomura, the persistence of elevated G-Sec yields, rising CD issuances, and increasing CD

yields indicates that funding conditions remain tight at the margin despite policy easing. In this environment, liability franchise strength—not liquidity availability—will drive margin outcomes, leading to greater divergence across banks, it said.

Nomura has revised downwards NIM projections for banks due to moderation in current account, savings account (CASA) deposits and higher funding costs. "We were building in NIM improvement from Q4FY26 onwards for most banks; this is now likely to be delayed into H2FY27, with the pace of recovery more gradual," the report said.

Banks raised ₹1.08 lakh

crore through CDs for the fortnight ended March 15, taking outstanding issuances to a record ₹6.79 lakh crore, RBI data showed.

The gap between credit and deposit growth widened to 260 bps, compared to an average of 171 bps during October-December. Bank credit grew 14.5%, while deposits rose 11.9% as of February 28, as per the latest RBI data. Consequently, the credit-deposit ratio jumped to a multi-decadal high of 82.39%.

Despite proactive liquidity injections by the RBI via bond purchases through open market operations and variable rate repo auctions, liquidity remains tight and CD rates stay elevated.