PRESS RELEASE

January 09, 2023

# Bond issuances by banks touch all-time high amid tight liquidity: ICRA

- ***Gross bond issuances by banks estimated at Rs. 1.3-1.4 trillion for FY2023; YTD bond issuances of Rs. 0.9 trillion by banks already surpassed previous high of Rs. 0.8 trillion in FY2017***
- ***Alternate resource raising by banks increases on the back of widening credit-deposit gap***

As credit demand picked up strongly in recent months, the overall gap between deposits and credit growth widened substantially. Incremental credit expansion stood at Rs. 12.7 trillion in FY2023 (till December 16, 2022), while deposit accretion continued to trail at Rs. 8.9 trillion. To bridge this gap, banks have been relying on various sources of funding such as refinance from All India Financial Institutions (AIFIs), drawdown of excess on-balance sheet liquidity and debt capital market issuances. As a result, gross bond issuances by banks surged to Rs. 0.9 trillion in 9M FY2023 (Rs. 0.7 trillion in FY2022), surpassing the previous high of Rs. 0.8 trillion in FY2017.

Commenting on this development, **Mr. Aashay Choksey, Vice President & Sector Head – Financial Sector Ratings, ICRA** said*: "We expect the credit-to-deposit ratio for the banking system to firm up to 76.3-76.5% by March 2023 from 74.8% (as on December 16, 2022) and stand considerably higher than the low of 69.6% seen during the Covid-19 pandemic. Accordingly, we expect the overall gross bond issuances by banks to rise further to Rs. 1.3-1.4 trillion in FY2023."*

Besides helping shore up lendable resources, debt capital instruments (Tier-I and Tier-II bonds) qualify for inclusion in capital ratios. Banks also issue long-term infrastructure bonds to fund certain specified eligible assets. These debt instruments also boost the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR), given the longer tenor of these instruments. Given the risks associated with debt capital instruments, these are relatively higher priced than infrastructure bonds. Hence, the choice of instrument is also driven by the availability of eligible assets for infrastructure bonds or the benefits that a bank can derive in its capital/liquidity ratios by issuing capital instruments even if the same is at a marginally higher cost.

ICRA's analysis shows that while both public and private banks issued infrastructure bonds, public banks had a higher preference for Tier-I bonds while private banks issued more volumes of Tier-II bonds. Within overall bond issuances of Rs. 915 billion in 9M FY2023, Tier-II issuance reached an all-time high of Rs. 472 billion, albeit on the back of large issuances by two large private sector banks. We expect infrastructure bond issuances to reach an all-time high in FY2023.

Adds **Mr. Choksey**: *"As large private banks are well placed on core capital, their share of Tier-I bonds in aggregate issuances was lower compared to public sector banks. In the past, the public banks have relied more on Tier-I bonds to meet the rising regulatory requirements, while the recent issuances have been driven by stronger credit growth. Moreover, in the past, tight liquidity conditions had led to higher Tier-II and infrastructure bond issuances by private sector banks, which, in our view, will continue in the near term."*

**Exhibit 1: Bond issuances by public and private banks**

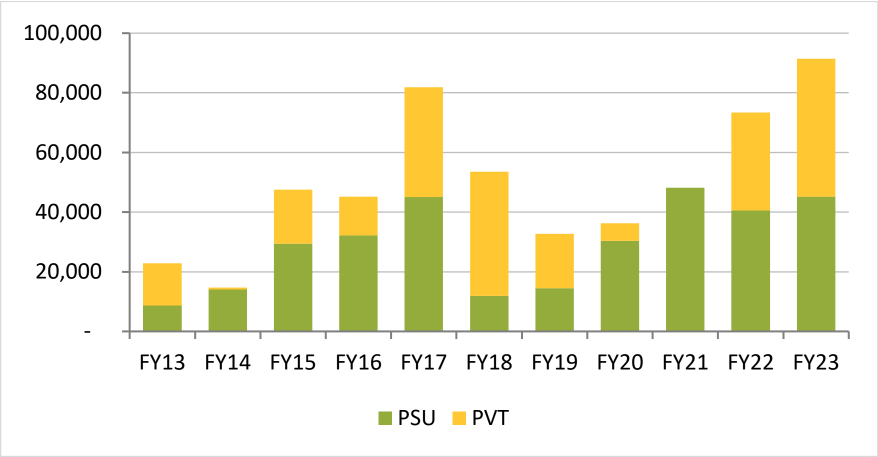
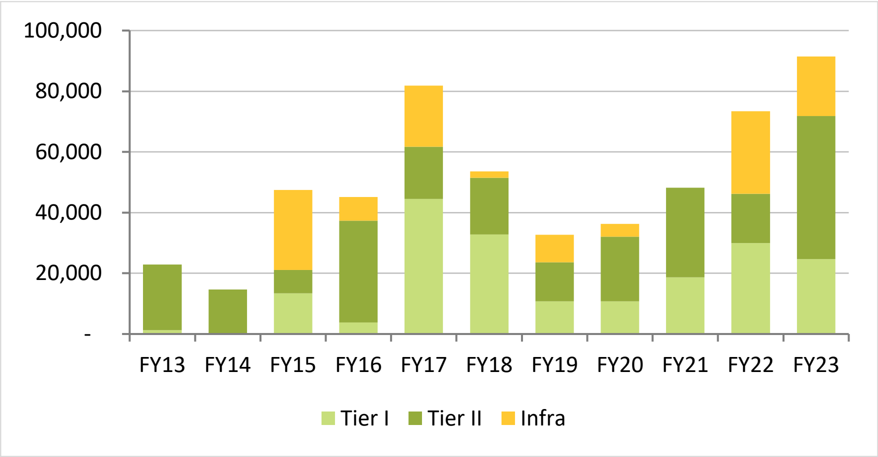



**Exhibit 2: Instrument-wise bonds issued by banks**




*Source: AIMIN, ICRA Research; Amount in Rs. crore; FY2023 data is for 9M*

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