



Call Volumes & CD Issuances: Empirical Assessments

Highlights:

- ✓ *Certificates of Deposit (CDs) and Call money markets are crucial for banks and other financial institutions for managing short-term funding.*
- ✓ *Both the instruments are unsecured and are driven by multiple factors, dominant among them being banking system liquidity.*
- ✓ *Liquidity situation, interest rate expectations and volatility determine CD issuances in the long run.*
- ✓ *Systemic liquidity conditions and the spread of the weighted average call rate (WACR) over the policy repo rate have a significant impact on call transaction volumes.*

The factors driving the issuance of Certificates of Deposits and the determinants of call money volumes in the Indian money markets are discussed in successive issues of RBI's monthly bulletin. The drivers of CD issuances are discussed in the June 2025 issue while the determinants of call money volumes are discussed in the recent July 2025 issue. Both CDs and call are money market instruments and hence there is a natural overlap between them, though they are two distinct instruments with distinct microstructures. The common connection between the two is that both are products of India's significant banking system. Hence, banking system liquidity is both a prominent driver of CD issuance as well as a major determinant of call volumes.

Certificates of deposit (CDs) and call money are short-term unsecured borrowing and lending instruments. Banks use these two instruments to manage their short-term funding gaps that arise out of the daily borrowing and lending operations and asset liability mismatches, along with other money market instruments such as tri-party repo (TREP) and market repo.

Since these instruments are money market instruments they are short-term tools of liquidity management. By short-term it is meant that the maturity of these money market instruments is from 1 day i.e. overnight to 1 year i.e. 365 days. Minimum maturity for call is one day, but for CDs it is 7 days. While financial institutions can issue CDs starting from 1 year up to 3 years, these are not the subject of the article. CDs are negotiable instruments, where the interest rates are bilaterally negotiable between counterparties.

This also leads to some market inefficiencies which make the CD markets less efficient as compared to other instruments such as call and repo. Call money is traded on the NDS-CALL electronic platform. The classification of call money segment on the basis of maturity is that overnight transactions are referred to as call money, funds borrowed for 2-14 days are termed as notice, while funds borrowed for 15 days-1 year is called term money.



Drivers of CD Issuances: An Empirical Assessment- Anshul, Priyanka Priyadarshini and Dipak R. Chaudahri. (RBI Monthly Bulletin – June 2025)

In terms of the major drivers of CD Issuances, the factors remain unchanged over time. The major drivers being systemic liquidity deficit or tightness, emanating primarily from sluggish deposit growth falling behind credit growth in times of an economic upcycle. The central question posed by the authors is whether banks are substituting traditional savings deposits with CDs, sometimes even at a higher cost to the banks. The authors conduct an empirical test to understand the various factors which affect issuance of CDs. The most prominent amongst them are banking system liquidity and the authors find that issuance of CDs is negatively correlated (-0.62) to banking system liquidity during the study period of July 2018-November 2023.

Amongst other drivers, interest rate expectations, as reflected through the overnight index swaps (OIS) can be used to predict CD issuances. The increase in OIS rates reflects market expectations of higher interest rates and lower credit growth that could lead to a decline in CD issuances. The results reconfirm that liquidity and lower credit growth relative to deposit growth can predict the future volume of CD issuances. Among variables that have a long-term impact over CD issuances, the authors analyse a market volatility measure i.e. the volatility index (VIX), the incremental credit-deposit ratio, liquidity adjustment facility (LAF) and overnight indexed swaps fortnightly variation. The estimation results confirm that the liquidity situation, interest rate expectations and volatility determine CD issuances in the long run. A positive incremental credit-deposit coefficient indicates increase in credit with lower deposit mobilisation prompts CD issuances. The findings confirm that CD issuances are driven by liquidity management and short-term funding requirements.

As for the participant profile, similar to the global experience where money market mutual funds are the largest investors in CDs, in India too, mutual funds remain the dominant investors with an average share of 85 per cent since November 2021 driven by debt mutual funds that are mandated to invest in shorter duration investments. Increase of the mutual funds share is a function of their assets under management (AUM). Among other investors, private banks and public sector banks have an average share of 11 per cent and 6 per cent, respectively.

Among CD issuers, public and private sector banks are dominant while CD issuance by foreign banks and small finance banks remain muted and intermittent. Share of private banks has declined from 85 per cent in January 2022 to 30 per cent in December 2024, while the share of public sector banks has increased from 6 per cent to 69 per cent during the period.



Determinants of Overnight Uncollateralised Money Market Volume – An Empirical Assessment – Srijashree Sardar and Alqama Pervez (RBI Monthly Bulletin – July 2025)

This article aims to analyse different segments of the money market with a focus on call money market and its volume. The empirical findings suggest that system liquidity conditions and the spread of the weighted average call rate (WACR) over the policy repo rate have a significant impact on the call transaction volume. Forward premia divergence and inflows to the government also have a positive impact on call money volume, as borrowing would typically increase if the banking system faces liquidity tightness. Call markets have maturities from 1 day (overnight) to 1 year. This allows banks and primary dealers to borrow and lend funds for managing their short-term liquidity needs.

The WACR is the operating target of RBI's monetary policy as monetary transmission is the fastest to the uncollateralised interbank segment. Among the factors affecting the call volumes, the authors highlight the distinction between transient or frictional factors and durable shifts. Among the frictional factors, government cash balances are a major source affecting call volumes. Durable shifts in liquidity arise from lasting changes in the RBI's liabilities, expansion or contraction in currency-in-circulation, and changes in banking system reserves due to unsterilized foreign exchange intervention operations by RBI. In the context of the monetary policy corridor, i.e. the LAF corridor, in periods of liquidity deficit call rates trade above the policy repo rate and sometimes even breach the marginal standing facility (MSF) rate. Primary dealers (PDs) without access to the MSF, may borrow at a rate higher than the MSF rate in times of liquidity deficit. When the banking system is in surplus, call rates dip below the policy repo rate and converge with the standing deposit facility (SDF) rate as banks have no incentive to lend below the SDF rate.

In terms of transaction volumes, activity in the Indian money market has increased significantly in recent years, with the tri-party repo (TREP) market dominating volumes. Comparatively, call markets have 4 per cent share while TREP and other collateralised instruments put together have a transaction volume share of 96 per cent, during January 2019 to December 2024. Call volumes have nearly halved during this period and its share in the overall money market has dipped to 2 per cent in December 2024. Within the uncollateralised markets, the overnight segment dominates in terms of volume. Despite several measures taken by RBI, volumes in the term and notice segments remained low, i.e. 6 per cent on average of the overall call money volume during the period of study, i.e. 2019 to 2024.



In terms of participants, PDs are the major borrowers while banks, especially co-operative banks, are major lenders in this segment. The share of co-operative banks in the monthly lending volume was around 66 per cent during 2019-2024. A unique feature of the call market is the skewed distribution of trades during the day. The bulk of the trades occur in the first hour of any given day, which may be attributed to the fact that PDs, the major borrowers in the segment, tend to fulfil their funding needs early in the day.

As per the study, transaction volume in the call money market is impacted by several factors. The authors find that the net system liquidity, spread of the WACR over the policy repo rate, transaction volumes in the TREP and market repo segment, government cash balances and flows, tax flows, monetary policy announcements, USD/INR forward premia are major determinants of call volumes. In addition to these factors, truncated market hours and RBI regulation are also considered important determinants of call volumes. The empirical study suggests that the WACR spread over policy repo rate and system liquidity have a bi-directional relationship with call market volumes, while the overnight TREP and market repo, government flows, forward premia divergence, trading hours of call market and RBI's regulation regarding the mandatory membership in NDS-CALL platform for all eligible players including co-operative banks, have a one-sided granger causality on the overnight call money market volumes. Monetary policy announcements do not granger cause money market volumes.

Concluding Remarks: Certificates of Deposits and call money being money market instruments are affected by similar factors, the most prominent among them being banking system liquidity. The relationship between call volumes and CD issuances and system liquidity are linked to the effect that if there is surplus liquidity in the banking system, it would result not only in lower issuance of CDs and lower call money volumes, but sometimes also create a situation that banks may buyback the outstanding CDs. Also, call volumes may see a dip if there is surplus liquidity, and vice versa. Both instruments facilitate short term funding management. The tri-party repo dominates as the instrument of choice for banks and to an extent even for primary dealers. Primary dealers remain significantly active in the interbank call money market as the major borrowers, while co-operative banks are a major lender in this segment. The two studies analyse the effects of various factors playing into the expansion or contraction in these two instruments and also offer ways based on empirical assessments, to predict the behaviour of the CD issuances and call money volumes, which will prove useful for policy makers, and market participants.



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