Deposits outpace credit growth after 30 months

Alignment due to fall in credit growth from previous highs

SUBRATA PANDA
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After nearly 30 months, banks' deposit growth has edged above credit expansion, potentially signalling an end to a period when the reverse was in operation.

Growth in credit staying ahead of growth in deposits had prompted the Reserve Bank of India (RBI) to encourage banks to adopt innovative strategies to get more funds and narrow the gap between the two.

However, the alignment of deposit growth with credit expansion can largely be attributed to a decline in credit growth from its previous highs.

Having said that, deposit mobilisation by banks, especially those in the private sector, has picked up pace following the nudge from the regulator.

According to the latest data from the Reserve Bank of India (RBI), deposits in banks grew 11.74 per cent year-on-year (Y-o-Y) during the fortnight ended October 18 to ₹218.07 trillion while credit growth during the same period came in at 11.52 per cent Y-o-Y to ₹172.38 trillion.

"This is in line with expectations, although it is likely occurring faster than anticipated. Incremental credit growth this financial year has been lower than last year, particularly due to a slowdown in credit to the services sector, which is contributing to the alignment of credit and deposit growth," said a senior economist.

That said, deposit growth of 11.74 per cent in the fortnight ended October 18 is lower than the 11.8 per cent growth in the previous fortnight (October 4). Similarly, credit growth also slowed during the October 18 fortnight, decreasing from the 12.77 per cent in the prior period.

Credit growth exceeded deposit growth since the fortnight ended March 25, 2022, leading to a widening gap that reached as much as 700 basis points. According to a State Bank of India report, there have been episodes of credit and deposit growth divergence persisting for 2-4 years.

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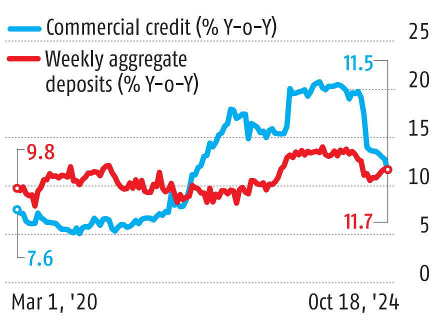
BRIDGING THE GAP



Source: Bloomberg/RBI Compiled by BS Research Bureau

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Credit growth may be 12-13% in FY25: Experts

"Regulatory measures by the RBI, such as increased risk weightings for consumer loans and loans to non-banking financial companies, along with the newly proposed liquidity coverage ratio (LCR) norms and stress on retail unsecured lending leading to banks recalibrating their growth in this segment, has contributed to a slowdown in credit growth. Going forward, credit growth is likely to be in line with deposit growth. Private banks are intensifying efforts to boost deposit growth in order to improve their credit-deposit ratios. Meanwhile, banks are also approaching the capital markets," said Saurabh Bhalerao, associate director, BFSI research, CareEdge Ratings.

Industry experts suggest with HDFC Bank slowing its credit growth to bring down its elevated credit-deposit ratio, loan expansion is bound to lose pace. Credit growth in banking could be in the range 12-13 per cent in FY25, according to them.

The challenge of deposit mobilisation for banks has been intensified by the upward trend in equity markets, which has attracted more household savings than lenders. After Covid-19, households have increasingly shifted their investment to equities, directly as well as through mutual funds (MFs), at the expense of banks. According to the data by Kotak Institutional Equities, the allocation of household assets to equities, MFs, and portfolio management services/alternative investment funds has increased from 15 per cent in 2020 to 25 per cent in 2024. In contrast, cumulatively, allocation to bank deposits— fixed deposits, savings account deposits, and current account deposits — came down from 53 per cent in 2020 to 42 per cent in 2024.

Allocation to fixed deposits has come down to 23 per cent in 2024 from 28 per cent during the same period. Similarly, there has been a decline in allocation towards savings accounts as well — from 22 per cent in 2014 to 17 per cent in 2024.

Additionally, the merger of HDFC with HDFC Bank also added to the deposit worries of the banking sector because following the merger HDFC Bank's credit-deposit ratio moved above 100 per cent. It was around 85 per cent pre-merger.

RBI Governor Shaktikanta Das on numerous occasions over the last few months cautioned banks about the need for deposits because they faced competition from equity markets.

Banks have acted on the governor's advice. Not only did they increase interest rates on fixed deposits, thereby taking a hit on their margins, they also started to provide allied services to customers. State-owned banks have also started tapping into the Jan-Dhan accounts to mobilise deposits.

"Banks have raised their deposit rates on select tenors and the equity market has cooled to some extent, which has contributed to the pickup in deposit growth. However, given last year's high base and a slowdown in retail lending, credit growth appears to be slower. We expect credit growth for FY25 to be 13-14 per cent," said Madan Sabnavis, chief economist, Bank of Baroda.