S&P: Tight liquidity may moderate bank credit growth in FY25

ABHIJIT LELE
Mumbai, 5 January

India's bank credit growth could moderate to 12-14 per cent in the upcoming financial year (FY25) if deposit growth remains tepid, compounded by higher deposit costs, and competition for funds, S&P Global Ratings said on Monday.

Reflecting a robust economic growth, bank credit grew 16 per cent year-on-year (Y-o-Y) till January 12 in the current financial year against 16.5 per cent growth last year. Deposits, meanwhile, increased by 13.1 per cent till January 12, up from 10.6 per cent growth last year, according to the Reserve Bank of India (RBI) data. This does not reflect the impact of the HDFC merger.

"We expect that the share of unsecured personal loans in the banks' total loan book could continue to rise. This will also help banks to partly mitigate the downside risks to margins from tighter liquidity". The RBI's recent ruling on applying higher risk weighting to unsecured personal loans has not yet hindered rapid growth in this segment, the rating agency said.

Liquidity deficit has increased since the RBI's last monetary policy review in December 2023. Net Liquidity Adjustment Facility (LAF) has remained in the deficit mode since mid-September 2023, with the current system liquidity deficit at ₹2.3 trillion and average of ₹1.8 trillion after the December 2023 policy, according to a research report by State Bank of India.