

RBI flags concerns over deposit growth trailing credit expansion

TACKLING LIQUIDITY. Governor Das urges banks to focus on mobilising deposits through innovative services

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The Reserve Bank of India governor has flagged concerns over slow pace of growth in bank deposits that could potentially lead to a liquidity mismatch, some lending entities not following prudential norms on top-up home loans and certain segments of personal loans seeing high growth.

"It is observed that alternative investment avenues are becoming more attractive to retail customers and banks are facing challenges on the funding front with bank deposits trailing loan growth," RBI Governor Shaktikanta Das in the Monetary Policy statement.

"He pointed out that banks were taking recourse to short-term non-retail deposits, which could expose the banking system to structural liquidity issues.

He exhorted banks to focus on mobilising household savings through innovative

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SHAKTIKANTA DAS
RBI Governor



products and services, but said that it was up to the banks how they did it.

At a press briefing to discuss the monetary policy, Das said he was not suggesting that people should divert household savings to banks, but that banks should use their vast branch network and work within the bank regulations to mobilise more deposits.

Another major issue flagged by Das in monetary policy review was prudential

norms being flouted in home equity loans or top-up loans that were showing brisk growth.

FLOUTING NORMS

"It is noticed that the regulatory prescription relating to loan-to-value ratio, risk weights and monitoring of end use of funds are not being strictly adhered to by certain entities."

"Such practices may lead to loaned funds being deployed in unproductive seg-

ments or for speculative purposes. Banks and NBFCs would therefore be well advised to review such practices and take remedial action," he said.

He stressed on the fact that only some entities were doing this and it was not a system-wide phenomenon. The RBI was engaging bilaterally with these entities to ensure that they adhered to regulatory norms.

LOAN GROWTH

In a follow-up to the preemptive regulatory measures taken last year with respect to certain risky loan segments, Das said that certain segments of personal loans continued to witness high growth.

"Excess leverage through retail loans, mostly for consumption purposes, needs careful monitoring from macro-prudential point of view."

"It calls for careful assessment and calibration of underwriting standards, as may be required, as well as post-

sanction monitoring of such loans," he said.

Last year, RBI had increased risk weights on unsecured consumer credit and bank credit to NBFCs to preempt build-up of any potential risk in these segments. The total consumer loan growth in the sectors where risk weights were increased moderated from 23.3 per cent in November 2023 to 13.9 per cent in June 2024. Bank credit to NBFCs declined from 18.5 per cent to 8.2 per cent during the same period.

However credit growth in unsecured personal loans such as 'credit card outstanding' though declining, remained high at 23.3 per cent in June 2024 as compared to 34.2 per cent in November 2023.

Das also advised banks to beef up their cybersecurity and IT systems in view of the global outage last month caused by a technical glitch in software that affected businesses across countries, including India.