Gap between bank credit and deposit growth seen falling

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Bank credit growth may be continuing to outpace growth in deposits by a long margin — a point that the Reserve Bank of India (RBI) has taken note of — but analysts believe the gap will start to narrow going into the next year.

Going forward, analysts expect a combination of factors, including the RBI's rate hikes, slowing GDP growth, and the normalisation of the base effect to blunt the sharp growth in credit.

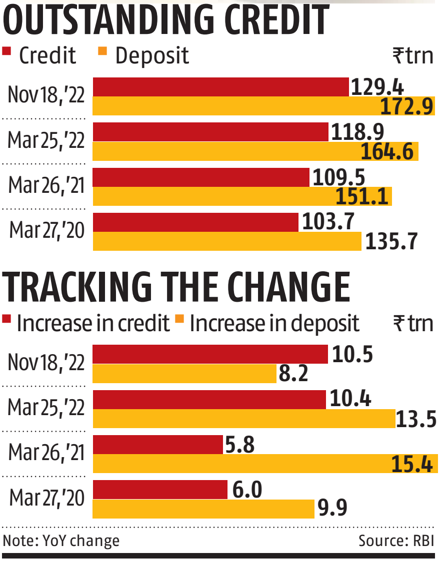
As on November 18, according to the latest RBI data, bank credit growth was at 17.2 per cent year-on-year (YoY) while deposit growth was at 9.6 per cent. According to a Macquarie report, the widening gap between loan and deposit growth was at 875 basis points for the fortnight ending November 4, the highest since November 2010.

"The current loan growth also is a function of base effect. For nearly two years during Covid, loan growth was at 6 per cent on an average whereas deposit growth was at 11 per cent," Suresh Ganapathy, associate director, Macquarie Capital said.

"So next year, the base effect should normalise and already economists expect GDP to slow down and, hence, we can see, say credit growth coming down to 14-15 per cent and deposit growth inching up to 11 per cent. As deposit repricing happens with a lag, margins should compress in FY24," he said.

RBI Governor Shaktikanta Das, however, on Wednesday said it was necessary to view the credit and deposit growth through the proper perspective, pointing out that a statistical base effect may have played a large role in pushing up loan growth. The swift pace of growth in bank credit alongside tepid growth in deposits has exerted pressure on banks to mobilise funds, with lenders raising deposit rates as well as turning to debt capital markets en masse over the past few months to raise money.

"Banks do their asset liability management (ALM) and depending on their fund requirement, and their ALM assessment, they will take necessary action, both on the credit side and on the deposit side," Das said.



According to analysts, as bank interest rates move up tracking the RBI's policy rate hikes, the rate differential between banks and debt capital markets would also shrink, which would also slow down the pace of credit growth.

The central bank's tighter policy would also naturally impact credit growth by reducing aggregate demand in the economy. So far in 2022, the RBI has hiked the rate by 225 bps.