

Bank borrowings up 2x amid rush to fund credit

As liquidity shrinks, lenders' reliance on short-term funding routes increases

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Amid a decade-high credit growth, the short-term market borrowings of banks have surged 100 per cent, so far, in the current financial year as lenders seek avenues to fund the accelerated pace of loan demand.

According to the latest data released by the Reserve Bank of India (RBI), borrowings by banks increased to ₹5.49 trillion as on October 21, 2022, from ₹2.74 trillion as on March 25, 2022.

The figures, which are listed under the 'borrowings' section for scheduled commercial banks in RBI data, largely represent short-term funding routes, such as interbank repo operations and the use of tri-party repos, analysts said. Issuances of instruments, such as additional tier-1 bonds, are also included, they said.

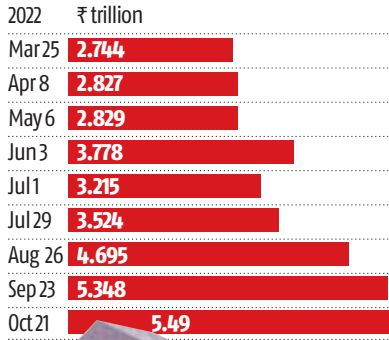
The increase in bank borrowings picked up in earnest from June 2022 when the figure stood at ₹3.78 trillion (as on June 3). On March 26, 2021, bank borrowings were at ₹2.44 trillion.

The key driver of the huge increase in banks' reliance on short-term market instruments to garner funds is the sharp decline in surplus liquidity, even as loan demand stays firm.

"It's a huge amount," said Soumyajit Niyogi, director, India Ratings & Research.

"Banks could be relying on short-term and overnight instruments, along with garnering funds through long-term deposits.

OUTSTANDING BANK BORROWINGS



Source: RBI



However, relying on short-term borrowing on a sustained basis suggests tight liquidity conditions," Niyogi told *Business Standard*.

"In case credit growth remains strong and BoP (balance of payments) doesn't improve, the situation may turn out to be

challenging. The instruments included in the market borrowings category are AT-1 bonds, TREPs (tri-party repos), and interbank repos. CDs (certificates of deposit) are not included as CDs are treated as deposits," he said.

From around ₹7-8 trillion in April 2022, the liquidity surplus in the banking system shrunk to around ₹1.35 trillion in October. Over the past couple of months, there have also been instances of liquidity slipping into a deficit.

The tightening of liquidity comes at a time when the RBI is battling high inflation and hence, is withdrawing monetary accommodation.

With banks no longer being able to rely on the central bank's fund infusions, the rush to mobilise funds has intensified.

"There has been a rise in bank borrowings during the year. This situation has risen mainly due to the fact that bank deposits growth has trailed credit growth, thus creating a liquidity issue. Banks are also holding excess SLR (Statutory Liquidity Ratio) paper," said Bank of Baroda's Chief Economist Madan Sabnavis.

"In order to manage liquidity they have resorted to these borrowings which would largely be short-term in nature (outside from the LAF window provided by the RBI)," he said.

The latest RBI data showed that as on October 21, 2022, bank credit grew 17.9 per cent year-on-year. Deposit growth for the same period trailed at 9.5 per cent.