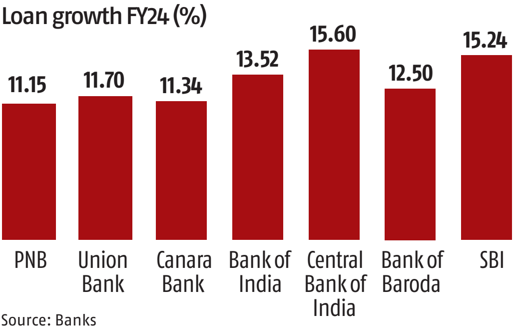
PSBs' loan growth lags industry avg

ILLUSTRATION: AJAY MOHANTY

HOW BANKS FARED

Loan growth FY24 (%)



Source: Banks

MANOJIT SAHA
Mumbai, 16 May

With SBI an exception, loan growth of large public sector banks stood in the range of 11-13 per cent in financial year (FY) 2024, lagging well behind the banking sector trend which registered a growth of 16 per cent during the same period, excluding the impact of merger of HDFC Ltd with HDFC Bank.

Only State Bank of India (SBI), the largest public sector lender, reported loan growth of over 15 per cent.

Pressure on net interest margins was one of the reasons why these banks were cautious.

Most large state-owned lenders have seen margin compression in financial year (FY) 2024, as compared to FY23. They are also worried because when the interest rate cycle turns, lending rates adjust faster than deposit rates.

According to Reserve Bank of India data, the share of external benchmark linked loans (EBLR) in total outstanding floating rate loans increased to 56.2 per cent as at end-December 2023 from 49.6 per cent in March 2023.

Most banks have taken the repo rate as the external benchmark.

"There are no signs of deposit rates coming down. Cost of funds is elevated. In addition, when RBI starts cutting repo rate, the EBLR linked loan rates will fall immediately while deposit rates will be revised with a lag," said a senior official from a public sector bank. Large private sector banks on the other hand reported loan growth upward of 16 per cent.

Public sector lenders were constrained to grow the loan book because of slower deposit accretion.

The banking sector witnessed a deposit growth of 12.9 per cent while some of the large banks reported single digit growth in deposits.