Keep eye on macroeconomic scene: RBI to banks

Central bank expresses concerns over deposit growth lagging high credit offtake

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The Reserve Bank of India (RBI) discussed with banks the decade-high credit growth in wake of slower deposit mobilisation, in meetings with managing directors and chief executive officers (MD & CEOs) of public and private sector banks on Wednesday.

RBI Governor Shaktikanta Das, Deputy Governor MK Jain, and other senior central bank officials met public and private sector bank chiefs separately before the review of the monetary policy scheduled on December 5-7. According to sources, central bank officials wanted to understand from banks the sustainability of the high growth in credit.

"It was an indication that banks should be cautious on credit growth," said a banker. According to the latest RBI data, bank credit has grown 17.9 per cent year-on-year (YoY), a 10-year high, for the fortnight ended October 21. During the same period, deposit growth has grown 9.5 YoY, resulting in a credit-deposit growth gap of 840 basis points.

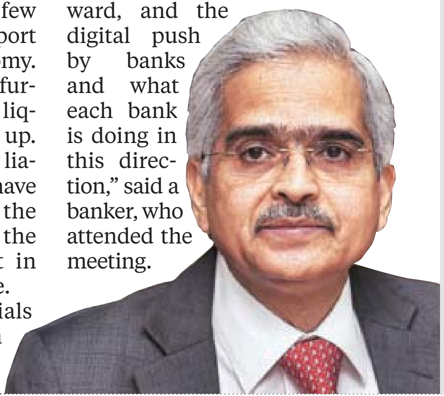
The loan demand has been robust in the current financial year despite the sharp increase in interest rates. The RBI has increased the policy repo rate by 190 basis points (bps) since May this year. High interest burden on borrowers can result in delinquencies. "He [Das] advised the banks to remain watchful of the evolving macroeconomic situation, including global spillovers, and take mitigating measures proactively so that the potential impact on their balance sheets is minimised and financial stability risks are contained," a statement from the RBI said on the interaction with bank chiefs.

"Among other matters, issues relating to lagging growth in deposits vis-à-vis credit growth, asset quality, investments in IT infrastructure, adoption of new-age technology solutions, functioning of Digital Banking Units (DBUs), etc. were also discussed," the statement said.

Most banks have raised interest rate on term deposits in the last few weeks to raise resources to support high credit demand in the economy. Rates are expected to move up further in the coming months as liquidity in the system has dried up. The transmission of rates to the liabilities segments is expected to have a bearing on the margins of the banks going forward but for the time being the improvement in margins is expected to continue.

Bankers said the RBI officials also inquired about collection efficiency and recovery from borrowers, and also about the stress level in the system. Inflation has been persistently high and interest rates have gone up substantially in a brief period. Bankers were also asked to give their outlook on the interest rate scenario.

"The discussions entailed views of all the banks on the interest rate outlook, the stress level in the system, the sustainability of credit growth, the expected credit growth going forward, and the digital push by banks and what each bank is doing in this direction," said a banker, who attended the meeting.



SBI SEES 14–15% CORPORATE CREDIT GROWTH IN FY23

India's largest lender State Bank of India expects corporate loans to grow at a pace of 14 per cent to 15 per cent this financial year and at about 12 per cent on average over the next two years, a top executive from the bank said on Wednesday. Demand for corporate loans is being driven by improved capacity utilisation, higher working capital and to a small extent, by a shift in demand from bond markets to bank loans, SBI Managing Director Swaminathan Janakiraman said. The bank has seen a 21 per cent increase in corporate credit in the July–September quarter.

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