Credit growth not exuberant, shows economic strength: Das

'Loan-deposit growth gap due to base effect; high-frequency indicators in green zone'

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The wide gap between the credit and deposit growth rates was on account of their respective statistical bases, and high loan growth reflected the fundamentals of the Indian economy, Reserve Bank of India (RBI) Governor Shaktikanta Das said at the *Business Standard* BFSI Insight Summit on Wednesday.

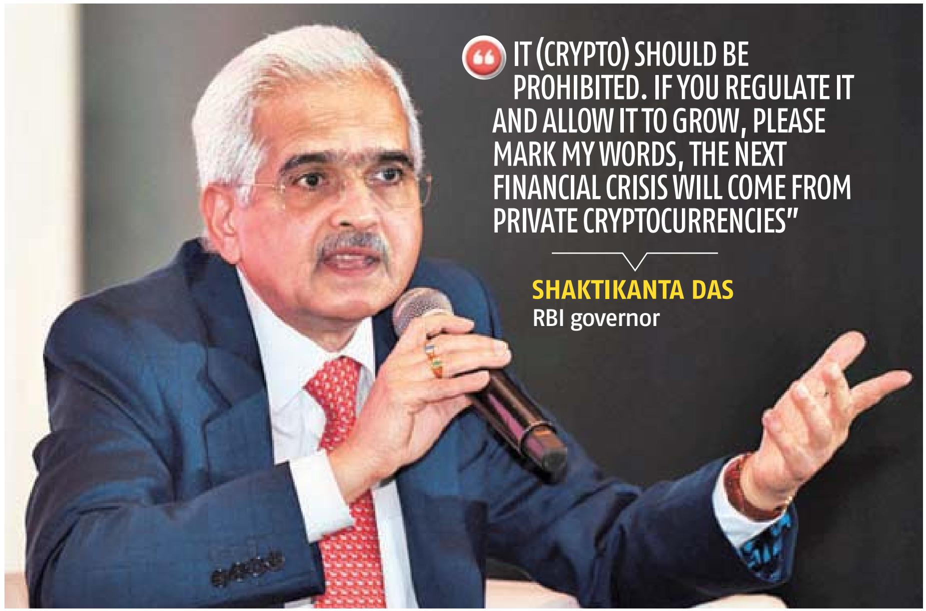
"Just as the credit growth looks very high because of a low base of the previous year, deposit growth looks pretty low because of the base effect of the previous years," Das said during a fireside chat.

According to the latest data released by the RBI, bank credit was growing at 17.5 per cent as on December 2, while deposit growth was lagging at 9.9 per cent. During the same period a year ago, credit was growing at 7.3 per cent and deposit at 9.4 per cent.

In absolute terms, loan growth in the past year was ₹19 trillion, and deposit accretion ₹17.4 trillion, Das said. "So, considering all these factors, I think credit growth at present is certainly far, far away from what you call exuberance."

According to the governor, growth numbers are reflective of the underlying fundamentals of the economy, apart from the pent-up demand for credit in the past two years. The weighted average lending rate on fresh loans, he said, had gone up by about 117 basis points, while the weighted average deposit rates had risen by 150 basis points. "I think deposit rates are picking up, and they may even go up a little bit more."

On private cryptocurrencies, the RBI reiterated its stance. Das said those assets, without any underlying security, posed a threat to financial stability.



RBI Governor Shaktikanta Das speaks at a fireside chat during *Business Standard* BFSI Insight Summit 2022 on Wednesday

PHOTO: KAMLESH PEDNEKAR

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"I would still hold that it should be prohibited. Countries have been taking different views, but our view is that it should be prohibited. If you regulate it and allow it to grow, please mark my words, the next financial crisis will come from private cryptocurrencies."

Talking about inflation forecasting, Das said the RBI regularly fine-tuned its price forecasting models amid sudden developments. What was important from the monetary policy perspective was the direction and speed of inflation, not the number itself. "Monetary policy is based on the direction of inflation, the broad speed of inflation rise or inflation decline."

In its December review, the monetary policy committee (MPC) of the RBI raised the repo rate by 35 basis points, taking the cumulative rate increase in 2022 to 225 basis points. The rate of Consumer Price Index (CPI) -based inflation in November was 5.88 per cent – for the first time within the RBI's tolerance band of 2-6 per cent in 2022 but above its 4 per cent target for a 38th straight month.

Das expressed confidence in the resilience of the Indian economy, highlighting that several high-frequency indicators used by the RBI were in the "green zone". However, he voiced his concern over the impact a global economic slowdown might have on India's exports, and gross domestic product (GDP) growth as a result.

India's GDP grew 6.3 per cent in the July-September quarter, down from 13.5 per cent in the previous three-month period.

General elections in the country are due in the middle of 2024. Next year's Union Budget will be the last full Budget before that. Governments tend to present populist Budgets before an election, making it challenging for the central bank, particularly when inflation is sticky and close to the upper end of its tolerance band.

Asked if monetary policy making would be challenging in an election year, Das clarified that election would not be a factor. "... the fact that there is an election – because in India an election happens every year, there is a combination of states also undergoing elections. So, election is not a concern so far as monetary policy making is concerned. Monetary policy will do whatever is in the best interests of the economy," Das said, adding the government was equally serious about controlling inflation. The governor said the RBI had significantly deepened its supervision over the past three to four years in order to safeguard the banking sector. "Bank failures happen in the United States, too. There are cases of bank failures; it happens, everybody takes it. In India, the failure of a bank is just not acceptable to the public or anyone... everybody looks to the RBI. So it is our responsibility as the regulator and supervisor of the banking system to ensure the banking system is stable, robust and ready to cater to the emerging requirements of the Indian economy," he said. Das listed several ways in which the central bank had intensified its regulatory approach while ensuring the process was constructive and dialogue-based. "We are now looking at business models of banks. For example, if we find that unsecured retail loans are rising very fast and occupy a larger space in the entire lending portfolio of banks, we immediately flag our concern to the bank but don't interfere," he said.