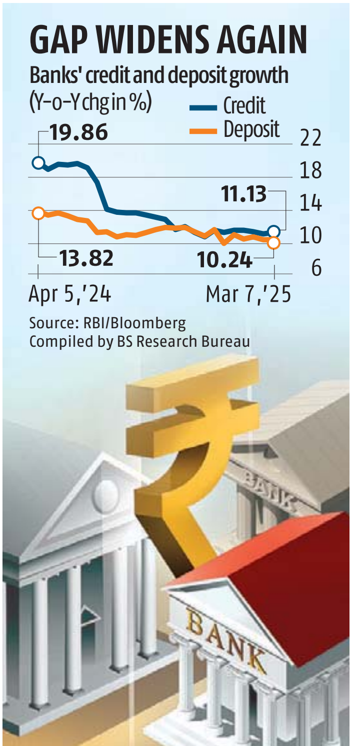
Credit-deposit growth gap widens amid tight liquidity



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Banking credit in the economy grew by 11.1 per cent year-on-year (Y-o-Y) in the fortnight ended March 7, while deposits grew at 10.2 per cent during the same period, leading to a gap of around 90 basis points (bps), according to the latest data from the Reserve Bank of India (RBI).

However, on an absolute basis, deposits increased by ₹2.25 trillion over the previous fortnight, while credit grew by ₹1.38 trillion. As of March 7, outstanding deposits stood at ₹181.28 trillion, while outstanding credit reached ₹225.10 trillion.

With liquidity remaining tight and deposit mobilisation under pressure, banks are refraining from aggressive lending. Many large private banks are focusing on reducing their credit-to-deposit (CD) ratio, leading to a slowdown in credit growth over the past few months.

However, the pace of credit expansion could increase in the coming months with the RBI deferring the implementation of proposed changes, such as the liquidity coverage ratio (LCR) framework, rolling back the increased risk weights on non-banking financial companies (NBFCs), and rationalising risk weights on microfinance loans. Additionally, if the RBI's rate cut translates into lower interest rates on loans, credit growth could get a further boost. But the banking system's liquidity deficit may continue to weigh on credit expansion.

Net liquidity in the system stood at a deficit of ₹2.32 trillion, marking the fourteenth consecutive week of deficit, according to the RBI.

Rating agency Icra has revised its credit growth estimates upwards to 10.8-11.5 per cent for FY25 and 10.4-11.2 per cent for FY26, from its earlier estimates of 10.5-11.0 per cent and 9.7-10.3 per cent, respectively.

"We expect credit growth to be around 11.2 per cent in FY25, with deposit growth at around 10.5 per cent. While a year-end push by banks is anticipated, tight liquidity and pressure on deposit mobilisation leave little room for aggressive lending," said Saurabh Bhalerao, associate director and head, BFSI Research, CareEdge.