CD ratios in India lower than many nations, says Ashima

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The credit-deposit (CD) ratio of Indian banks is lower than several global banks, said Ashima Goyal, Professor at the Indira Gandhi Institute of Development Research, and the current member of the Reserve Bank of India's Monetary Policy Committee.

She said the credit growth of banks is perfectly safe in the context of nominal growth.

"If we are growing at about a nominal growth of 15 per cent, a credit growth of around that is perfectly safe. Overall, in India, credit-deposit ratios are lower than in many countries in the world. Exposure of households and firms is below that in other countries while our governments tend to borrow more," Goyal said at the Global Fintech Fest.

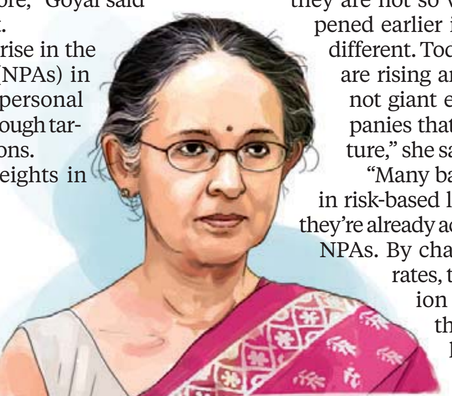
Goyal added that the rise in the non-performing assets (NPAs) in certain areas such as personal credit can be managed through targeted prudential regulations.

By tightening risk weights in sectors where excessive exuberance is observed, the need to raise interest rates across the board can be avoided, allowing other sectors to continue growing. The recent rise in NPAs is less alarming compared to the challenges of the early 2010s. Currently, NPAs are linked to smaller exposures, unlike the large-scale infrastructure loans to major companies that caused significant problems in the past.

"The issue of NPAs rising in maybe some personal credit (spheres). This idea of prudential regulations, you tighten risk weights for particular areas where there seems to be too much exuberance. That means you don't have to raise rates generally so other areas can continue to grow," Goyal said.

"The NPAs that have happened recently, they are not so worrying as had happened earlier in the 2010s. It's very different. Today, the exposures that are rising are very small. They're not giant exposures to big companies that are doing infrastructure," she said.

"Many banks are now engaged in risk-based lending, which means they're already accounting for potential NPAs. By charging higher interest rates, they've built in a cushion to absorb some of these NPAs, so it won't lead to any major disruptions," she added.



RBI Monetary Policy Committee member Ashima Goyal said the rise in NPAs could be managed through targeted prudential regulations