LANGUID PACE C-D ratio moving up again; while reduced lending to NBFCs, slowing retail offtake hit credit, deposits are facing higher base effect and slower CASA mobilisation

Bank Credit Growth Slows, But Continues to Outstrip Deposits

Our Bureau

Mumbai: Credit growth continued to outpace deposit growth even as both have slowed over previous years, according to the latest data released by the Reserve Bank of India.

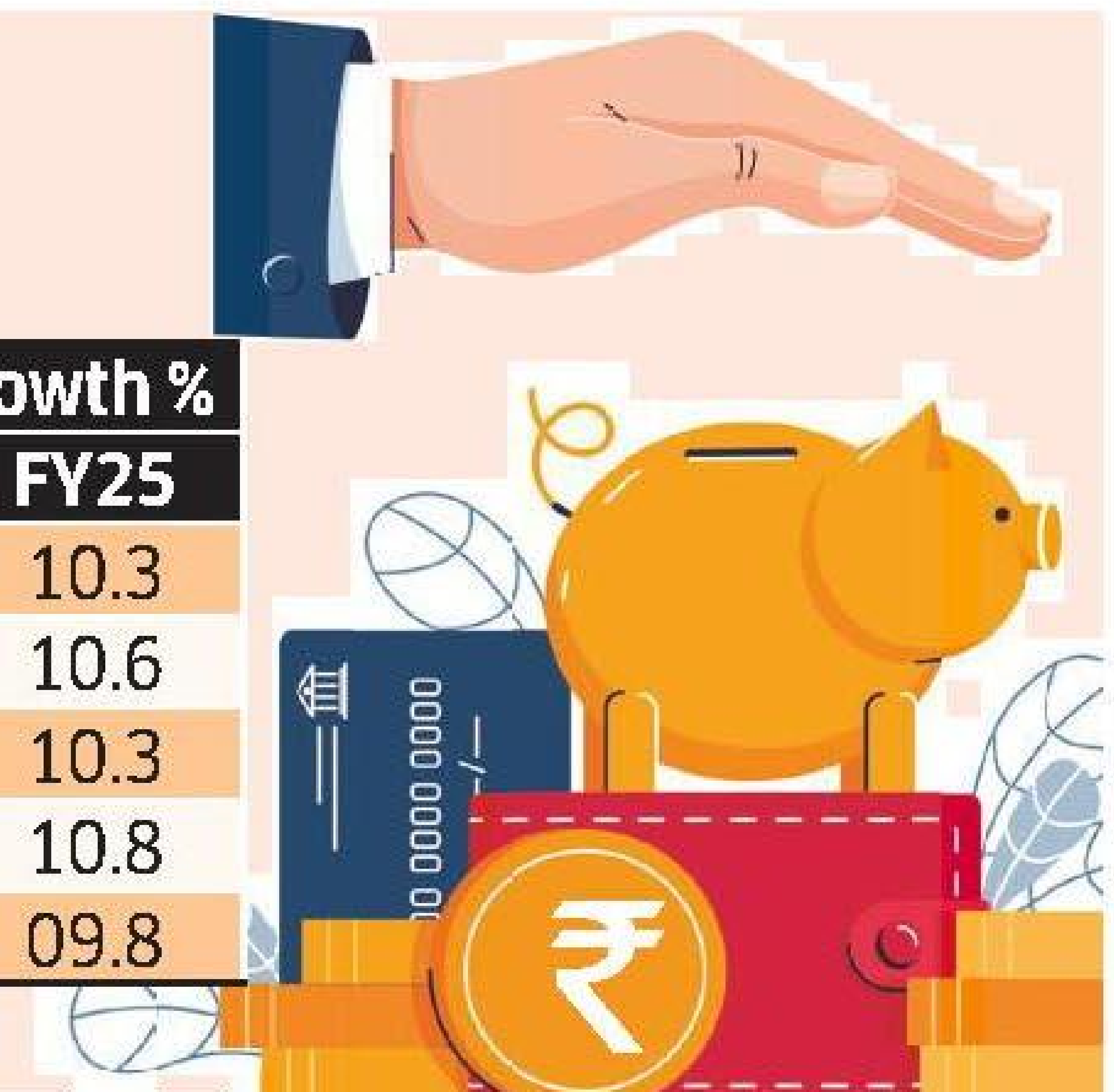
Outstanding bank deposits amounted to ₹222 lakh crore as of February 21, up 10.3 % year-on-year compared to 13.1 % in the same period a year ago according to the latest weekly statistical supplement released by the central bank.

Outstanding bank credit on the other hand amounted to ₹179.9 lakh crore as of February 21, up 11% y-o-y compared to 20.5% growth in the same period a year ago. Data shows that deposit growth lagged credit growth as increasing term deposits driven by rising interest rates were counterbalanced by a higher base effect, and slower CASA growth.

Inching Up

	Credit growth %		Deposit growth %	
	FY24	FY25	FY24	FY25
Feb-21	20.5	11.0	13.1	10.3
Feb-07	20.3	11.3	13.6	10.6
Jan-24	20.3	11.4	13.2	10.3
Jan-10	20.3	11.5	13.1	10.8
Dec-27	20.0	11.2	13.3	09.8

Source: RBI



Credit deposit ratio, which was seen easing, is now moving up again and stood at 79.1% as of February 21. This increase can be attributed to deposit growth lagging credit offtake, according to analysis by Care Ratings.

The yoy slowdown in credit offtake is due to reduced lending to NBFCs, which dropped from 15.6% in January 2023 to 7.7% in January 2024

Also overall retail loans which was driving the banking sector's loan book since Covid-19 in 2020, has grown more than half the pace of previous year at 11.8 % yoy in January 2024 compared to 28.6 % growth in January 2023.

Since November 2023, tightening of prudential norms through higher risk weights has impacted banking lending to segments like loans to NBFCs, unsecured lending and credit card outstanding.

Additionally, the stress in unsecured retail lending and microfinance segments has affected overall credit growth in the banking sector according to Care Ratings.

Ratings firm Icra has revised its credit growth estimate downward to 10.5-11.0% for FY25 from its earlier estimate of 11.6-12.5%. In its recent report, the ratings firm highlighted that with the banks focusing on reducing their credit-to-deposit ratio and reducing their exposures to unsecured retail and non-banking financial companies (NBFCs), the overall credit growth has moderated in the past few months.