

Credit Growth to Slow, May Narrow Credit-Deposit Growth Gap

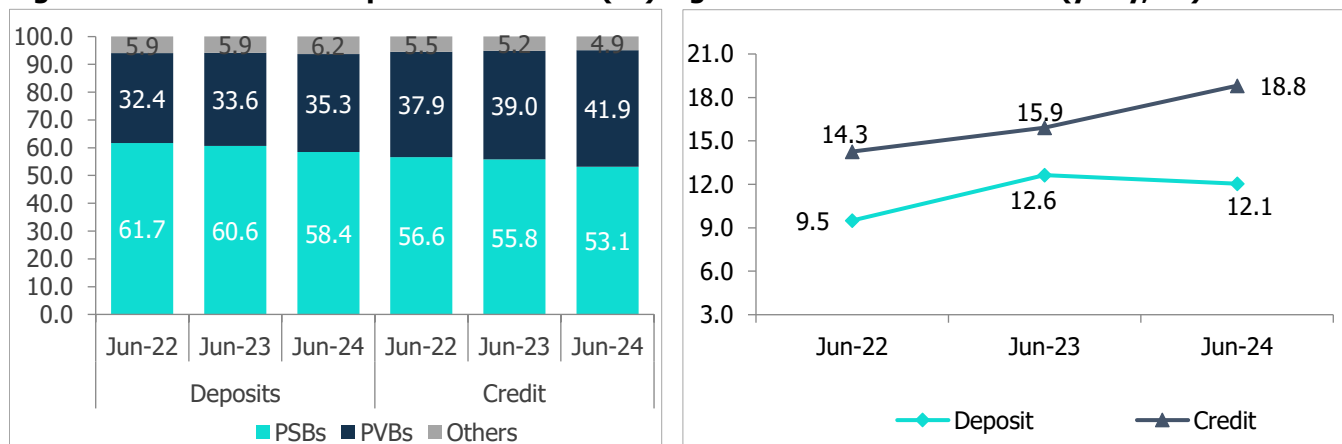
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Synopsis

- Scheduled Commercial Banks' (SCBs) credit offtake rose by 18.8% (y-o-y) in Q1FY25. In absolute terms, credit expanded by Rs 26.4 lakh crore from June 2023 (including additional credit of approx. Rs 5.4 lakh crore infused by the merger). This growth has been driven by increasing demand for personal loans and MSMEs, along with merger impact. The southern region outperformed other regions with a y-o-y growth of 20.9%.
- Deposits witnessed a slower (compared to credit) growth at 12.1% (y-o-y), due to term deposits being counterbalanced by a higher base effect and slower CASA growth. In absolute terms, deposits expanded by Rs. 22.3 lakh crore from June 2023. The metropolitan region saw the highest growth, at 12.6% in Q1FY25 compared to Q1FY24.
 - As term deposits witnessed a rise in interest rates, the growth for term deposits stood at 16.6%. However, CASA saw a moderate growth of 5.7%.
- The Credit to Deposit (CD) ratio rose by 457 bps y-o-y at the end of June 2024, reaching 80.4%. This increase is majorly due to higher credit growth driven by merger impact.

SCBs Credit Offtake Continues to Outpace Deposit Growth

Figure 1: Share in Total Deposits and Credit (%) **Figure 2: SCBs Growth Trend (y-o-y, %)**



Note: Data excluding RRBs; Source: RBI

As of June 30, 2024, credit outstanding touched Rs 167 lakh crore, registering a growth of 18.8% y-o-y compared to 15.9% in Q1FY24, with private banks continuing to gain market share. (driven by HDFC merger impact)

Outstanding deposits reached Rs 207.5 lakh crore as of June 30, 2024, registering a 12.1% growth y-o-y. Term deposits saw a double-digit growth of 16.6%, significantly outperforming CASA, which stood at 5.7%. Overall, deposits of PVBs saw higher double-digit growth of 18.0%, whereas PSBs witnessed single-digit growth of 8.0%.

Figure 3: Absolute Growth: June 2024 vs. December 2023.

Credit			Deposits		
Group	Credit O/s Jun-24 (Rs. Lakh-Cr.)	Abs. Growth from Dec-23 (%)	Group	Dep. O/s Jun-24 (Rs. Lakh-Cr.)	Abs. Growth from Dec-23 (%)
PSB	88.7	5.4%	PSB	121.3	4.2%
PVB	70.0	5.4%	PVB	73.4	7.3%
Others	8.2	8.7%	FB	12.8	13.2%
SCB	167.0	5.6%	SCB	207.5	6.7%

Deposits growth when compared from to December 2023 has outpaced credit growth. Driven by PVBs, the growth can be attributed to innovation and higher lending.

Credit

Figure 4: Bank group-wise outstanding credit

Credit	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Growth %	
Bank Group	Rs lakh crore					Vs Dec-23	YoY
PSB	78.4	80.7	84.1	87.6	88.7	5.4	13.2
PVB	54.8	64.1	66.5	68.7	70.0	5.4	27.7
FB	5.3	5.4	5.4	5.7	5.8	7.5	10.1
SFB	2.0	2.1	2.2	2.4	2.4	11.6	20.5
All SCB	140.5	152.3	158.2	164.3	167.0	5.6	18.8

Note: Data excluding RRBs; Source: RBI

- PVBs reported a credit growth of 27.7% (17.8% excluding merger) compared to 19.2% last year. In absolute terms, PVBs' credit expanded by Rs 15.2 lakh crore, reaching Rs 70.0 lakh crore in Q1FY25 over a year ago.
- PSBs reported a healthy rise of 13.2%, compared to 14.2% over the same period last year. In absolute terms, credit expanded by Rs.10.3 lakh crore to Rs. 88.7 lakh crore in Q1FY25.
- PVBs have gained market share by 290 bps y-o-y, reaching 41.9%, due to operational flexibility, investments in technology and merger impact.

Region

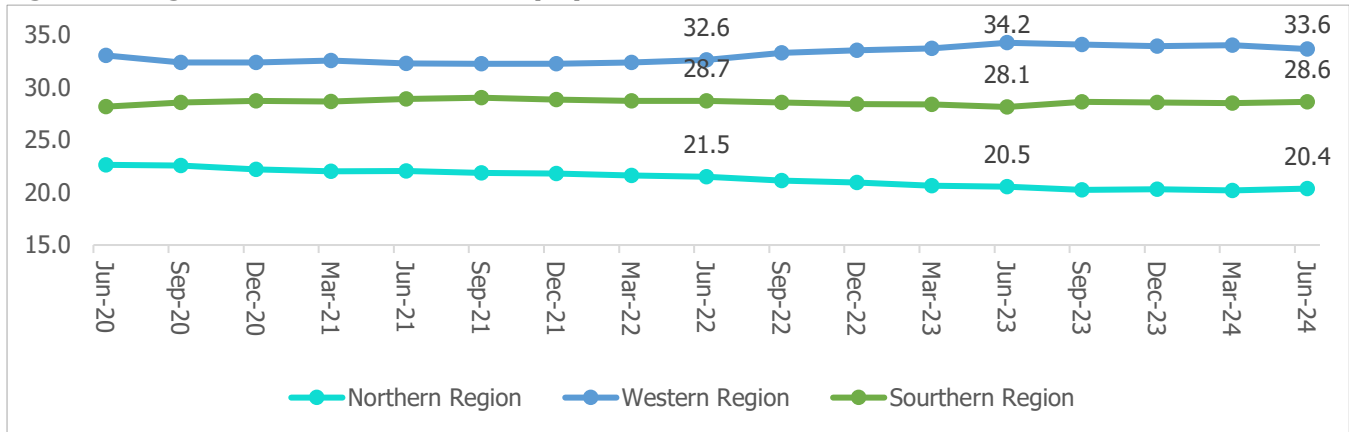
Figure 5: Region-wise Outstanding Credit

Credit	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Growth %	
(Region)	Rs lakh crore					Over Dec 23	Y-o-Y
Northern	28.9	30.8	32.1	33.2	34.0	6.0	17.8
North-Eastern	1.6	1.7	1.7	1.8	1.8	5.2	16.1
Eastern	10.0	10.6	11.0	11.6	11.7	6.1	17.6
Central	12.5	13.8	14.5	15.1	15.4	6.7	23.8
Western	48.1	51.9	53.6	55.9	56.2	4.7	16.8
Southern	39.5	43.6	45.2	46.8	47.8	5.8	20.9
Total	140.5	152.3	158.2	164.3	167.0	5.6	18.8

Note: Data excluding RRBs; Source: RBI

- In terms of regional performance, the central region reported the highest growth at 23.8% y-o-y, reaching Rs. 15.4 lakh crore, followed by the southern and western regions growing 20.9% and 16.8%, respectively. The North Eastern region saw the lowest growth of 16.1%.

Figure 6: Regional Market Share Trend (%)



Note: Data excluding RRBs Source: RBI

- The Western region continues to account for the largest share, standing at 33.6% as of June 30, 2024. This is driven by strong GDP contribution also cities like Mumbai, Pune, and Gandhinagar which are major economic centres hosting numerous financial institutions, corporate headquarters, and industries.

Population

Figure 7: Population Group-Wise Outstanding Credit

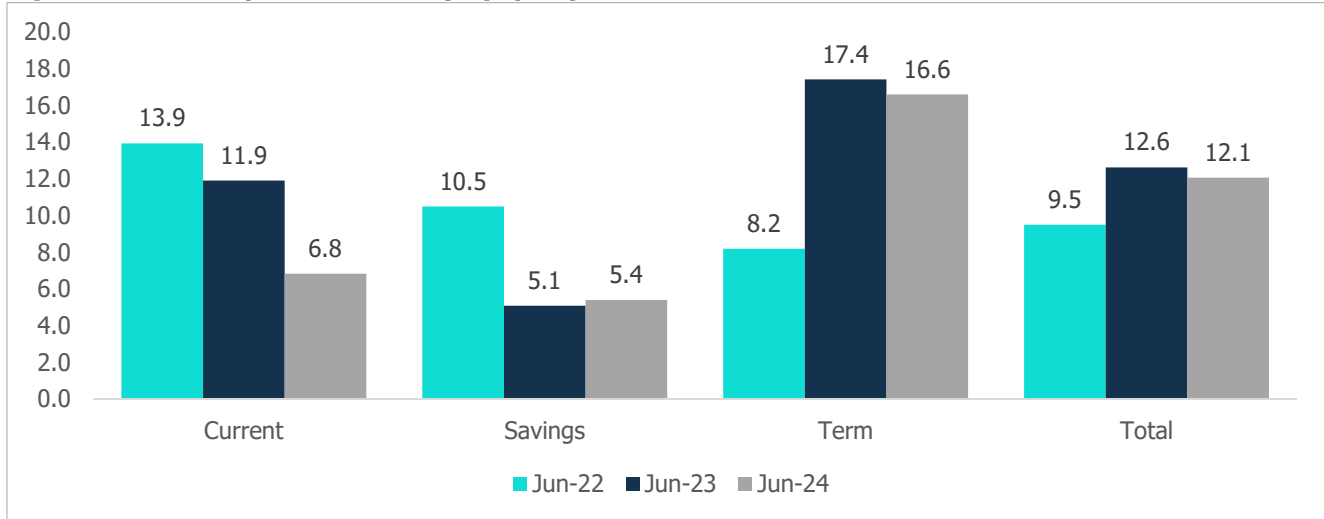
Credit	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Growth %	
(Population Group)	Rs lakh crore					Over Dec 23	YoY
Metropolitan	87.1	93.2	96.4	100.0	101.2	5.0	16.2
Urban	23.9	26.9	27.9	29.2	29.9	7.1	25.3
Semi-urban	18.7	20.6	21.6	22.6	23.0	6.6	22.9
Rural	10.8	11.6	12.3	12.5	12.8	4.2	18.1
Total	140.5	152.3	158.2	164.3	167.0	5.6	18.8

Note: Data excluding RRBs Source: RBI

- In terms of credit market share, the urban segment gained highest market share, increasing by 93 bps to 17.9% in Q1FY25, followed by semi-urban segment by 46 bps to 13.8%. The rural segment (market share of 7.7%) saw a moderate drop of 5 bps, whereas the metropolitan segment (held the largest market share of 60.6%) lost market share by 134 bps.
- The credit demand from the metropolitan group is expected to rise further due to the anticipated capex build-out by corporates and improvement in their utilisation.

Deposits

Figure 8: SCBs Deposits Growth (%), y-o-y



Note: Data excluding RRBs Source: RBI

- SCBs growth in term deposits declined to 16.6% y-o-y in Q1FY25 vs. 17.4% in the year-ago period, due to competitive markets. Despite this slower growth, term deposits outperformed other segments by a wide margin. In absolute terms, term deposits increased by Rs 17.9 lakh crore from June 30, 2023, and reached Rs 126 crore as of June 30, 2024.
- Savings segment witnessed a growth of 5.4% y-o-y in Q1 FY25, compared to 5.1% over the same period last year. In absolute terms, it increased by Rs 3.2 lakh crore in Q1FY25, reaching to Rs 62.9 lakh crore as of June 30, 2024. However, the segment lost market share by 191 bps y-o-y, and held a share of 30.3% of total deposits as of June 30, 2024, as interest rates have remained unchanged. Current and savings accounts experienced sluggish growth compared to the previous year in the same period.

Figure 9: Bank Group-wise Deposits

Deposits	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Growth %	
	In lakh Rs					Vs Dec-23	YoY
PSB	112.3	114.9	116.5	120.9	121.3	4.2	8.0
PVB	62.2	66.5	68.4	73.0	73.4	7.3	18.0
FB	9.0	9.3	9.4	10.0	10.6	13.2	17.8
SFB	1.7	1.8	1.9	2.1	2.2	13.1	31.1
All SCB	185.2	192.5	196.2	206.0	207.5	5.8	12.1

Note: Data excluding RRBs Source: RBI

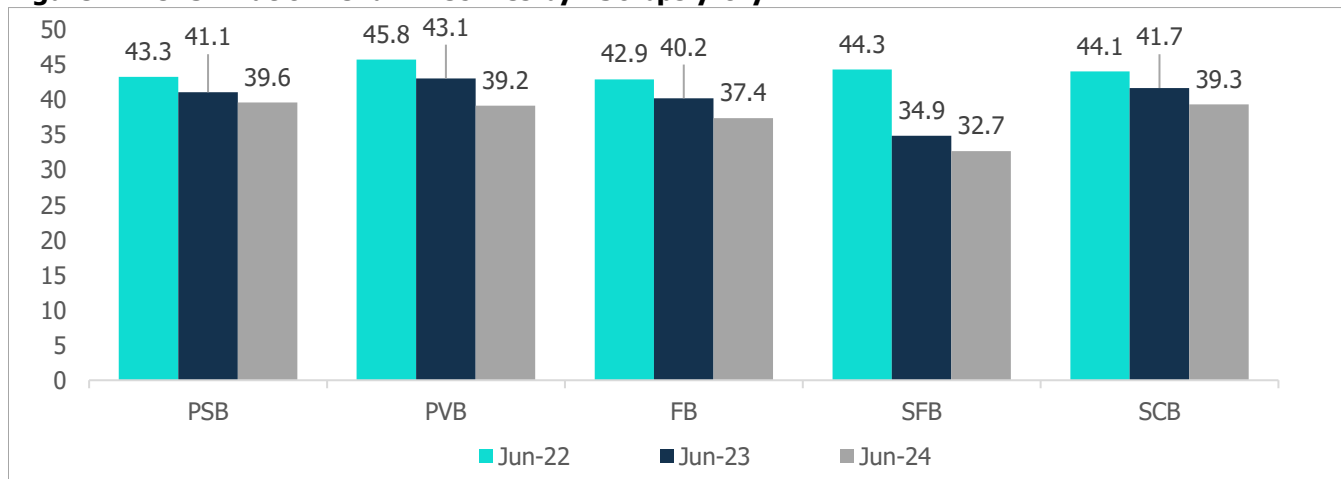
- PVB deposits saw a healthy growth of 18.0% in Q1FY25, as PVBs are aggressively increasing deposits to sustain credit demand, aided by merger effect. Additionally, offering better schemes and services helped them to outperform PSBs (8.0%).
- In terms of deposits market share, PVBs accounted for a 35.4% share, gaining 179 bps y-o-y in Q1FY25, whereas PSBs held a 58.5% share, losing 219 bps y-o-y. PVBs have been continuously gaining market share due to aggressive client acquisition, branch expansion, and merger impact.

Figure 10: Bank Group- Wise CASA

Deposits	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24		Growth %	
	In lakh Crore					CASA Ratio %	Vs Dec-23	Y-o-Y
PSB	46.2	46.6	47.0	49.0	48.1	39.6	2.3	4.2
PVB	26.8	27.0	27.3	29.7	28.8	39.2	5.5	7.4
FB	3.6	3.8	3.6	4.0	4.0	37.4	9.8	9.6
SFB	0.6	0.6	0.6	0.7	0.7	32.7	13.1	22.7
All SCB	77.3	78.1	78.7	83.5	81.7	39.3	3.9	5.7

Note: Data excluding RRBs Source: RBI

- In absolute terms, CASA rose by Rs 4.4 lakh crore in Q1FY25 reaching Rs 81.7 lakh crore as of June 30, 2024. PVBs and PSBs expanded their CASA by Rs 2.0 lakh crore and Rs.1.9 lakh crore, respectively during the quarter. Overall, CASA rose by 5.7% y-o-y.
- PVBs reported a CASA growth at 7.4% y-o-y in Q1FY25, whereas PSBs reported a slower growth at 4.2%. Aggregate current account saw a growth of 10.5%, while sluggish growth of 5.4% in savings account moderated the overall growth.

Figure 11: CASA Ratio Trend – Declines by 236 bps y-o-y

Note: Data excluding RRBs Source: RBI

- SCBs CASA ratio declined by 236 bps y-o-y and stood at 39.3% as of June 30, 2024, as compared to 41.7% over a year ago due to a rise in term deposit rates which drove higher growth for the term deposit segment. Further, the term deposit saw growth due to a rise in interest rates.
- The competition for deposits is likely to remain intense as banks compete in raising deposits to ensure that deposit growth does not constrain credit offtake.

Regional Deposits

Figure 12: Trend in Deposits- Region Wise

Deposits	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Growth %	
	Rs lakh Crore					Vs Dec-23	Y-o-Y
Northern	39.3	40.7	41.6	42.8	43.7	4.9	11.0
North-Eastern	3.1	3.1	3.2	3.4	3.3	3.6	7.0
Eastern	22.3	23.0	23.4	24.4	24.3	4.1	9.1
Central	23.7	25.0	25.4	26.5	26.5	4.6	11.8
Western	51.8	54.4	55.1	59.5	59.8	8.7	15.6
Southern	45.1	46.4	47.7	49.6	50.0	4.8	10.9
Total	185.3	192.6	196.3	206.1	207.7	5.8	12.1

Note: Data excluding RRBs Source: RBI

- Banks in the western region reported the highest deposit growth at 15.6% y-o-y in Q1FY25 to Rs 59.8 lakh crore vs. Rs 51.8 lakh crore over the year-ago period, followed by Central region which reported deposit growth at 11.8% y-o-y. North Eastern region reported the lowest growth at 7.0%.

Population Group

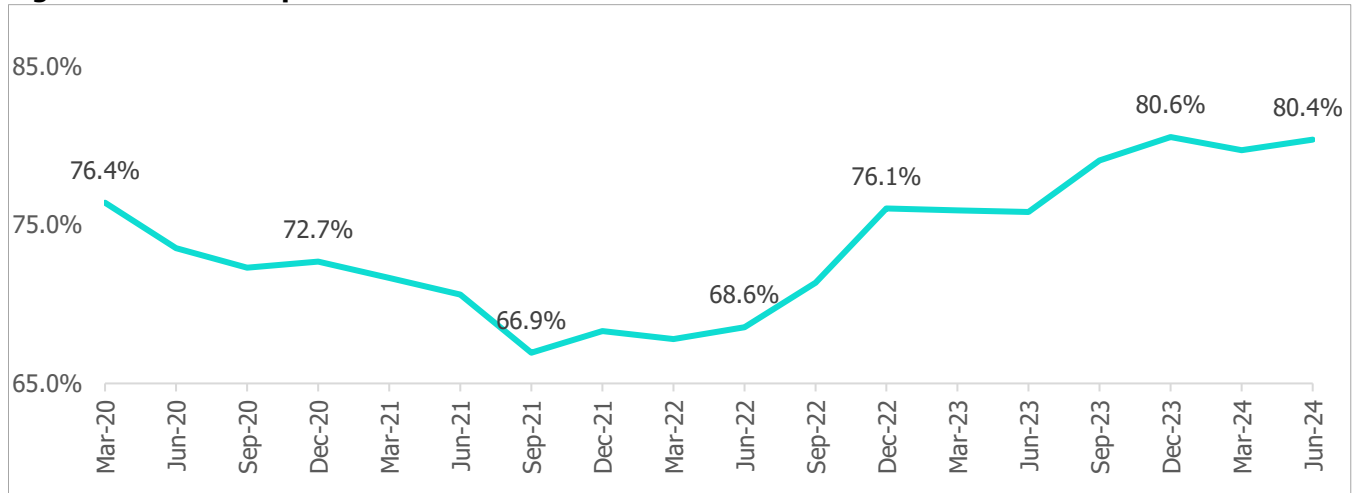
Figure 13: Population group Wise Deposits

Deposits	Mar-20	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Growth %	
Pop. Group	Rs lakh crore					vs Mar 20	y-o-y	
Metropolitan	68.7	100.0	104.3	106.1	112.0	112.6	63.9	12.6
Urban	29.1	39.9	41.4	42.3	43.9	44.4	52.6	11.2
Semi-urban	22.0	28.7	29.6	30.3	31.8	32.1	46.2	11.8
Rural	13.1	16.7	17.2	17.7	18.4	18.6	42.6	11.6
Total	132.8	185.3	192.6	196.3	206.1	207.7	56.4	12.1

Note: Data excluding RRBs Source: RBI

- Banks in the metropolitan segment reported the highest y-o-y growth at 12.6%. The region has been performing well since Q4FY21 and gaining market share. The higher growth in metropolitan region coinciding with higher growth in western region indicates a likelihood of large deposits being received in the form of corporate investments.
- The semi-urban and rural regions saw a robust deposit growth at 11.8% and 11.6%, respectively. The urban region reported the lowest deposit growth (within the population group) at 11.2%. Metropolitan gained market share by 24 bps and reached 54.2% as of June 30, 2024.

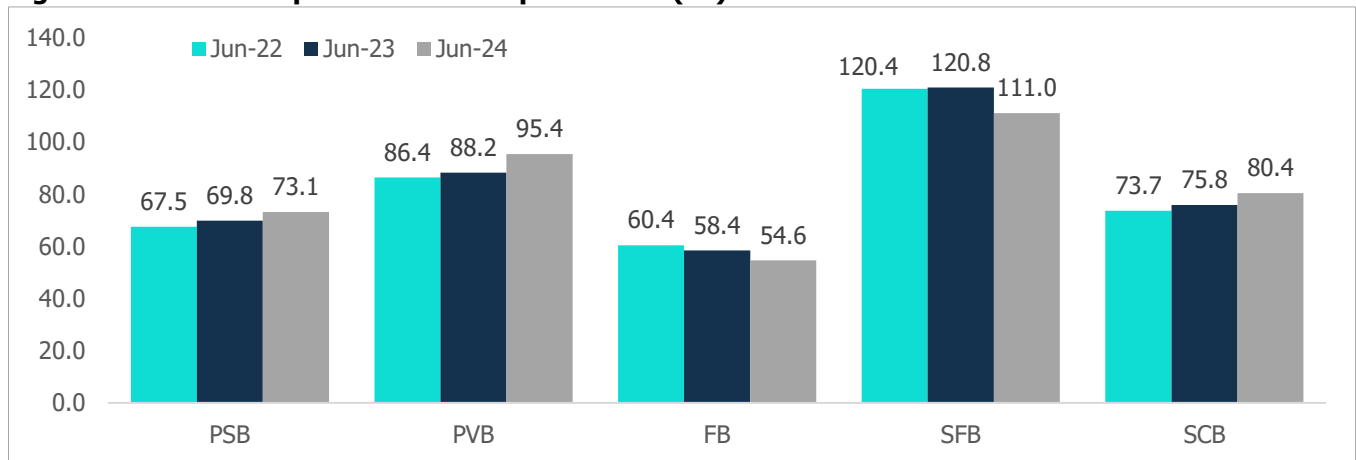
Figure 14: Credit-Deposit Ratio Trend



Note: Data excluding RRBs Source: RBI

- The Credit to Deposit (CD) ratio has been increasing since October 2021, as credit growth started picking pace PVBs and SFBs being the biggest drivers. Tightened liquidity and stringent LCR norms have further impacted towards higher CD ratio. However, slower deposit mobilisation drove the CD ratio around 80%, currently stood at 80.4% as of June 2024 rising by 457 bps compared to Q1FY24.

Figure 15: Bank Group-Wise Credit Deposit Ratio (%)



Note: Data excluding RRBs Source: RBI

- The CD ratio of PVBs is remarkably high at 95.4%. We expect some moderation in the same over the ensuing periods given the attention this aspect has been receiving from various stakeholders.

Figure 16: Region-wise Credit Deposit Ratio (%)

Regional Group	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Northern	73.4	75.8	77.1	77.5	77.9
North-Eastern	50.9	53.1	54.4	53.2	55.2
Eastern	44.7	46.0	47.2	47.4	48.1
Central	52.5	55.1	57.0	56.9	58.1
Western	92.9	95.3	97.4	94.0	93.9
Southern	87.7	94.0	94.7	94.4	95.6
Total	75.8	79.1	80.6	79.7	80.4

Note: Data excluding RRBs Source: RBI

Figure 17: Population-wise Group Credit Deposit Ratio (%)

Population Group	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Metropolitan	87.1	89.3	90.8	89.3	89.9
Urban	59.9	64.9	66.1	66.6	67.5
Semi-urban	65.1	69.6	71.2	71.1	71.6
Rural	65.0	67.6	69.6	67.9	68.8
Total	75.8	79.1	80.6	79.7	80.4

Note: Data excluding RRBs Source: RBI

Concluding Remarks

- In Q1FY25, credit offtake has continued to outpace deposit growth. This can be attributed to merger impact, base effect as earlier in the pandemic, deposit growth had outpaced credit. In Q1FY25, credit O/s of PVBs saw a robust growth of 27.7%, and that of PSBs by 13.2%. PVBs outperformed PSBs in Q1FY24, which is expected to continue due to the aggressive acquisition of clients and the offering of higher interest rates on deposits.
- SCBs deposit and borrowing rates are expected to expand due to a lagged effect compared to the repo rate, strong underlying credit demand, lower liquidity in the banking system, and the spread in credit and deposit growth widened.
- In Q1FY25, there was a y-o-y as well as sequential moderation in NIM. NII growth moderated y-o-y across the board as cost of funds continued to rise, exerting pressure on NIM. We expect the trend to continue in coming quarters.
- Many banks, particularly private sector banks (PVBs), have lowered their credit growth forecasts, whereas public sector banks (PSBs) have mostly kept their projections steady. Additionally, the ongoing slowdown in unsecured retail lending and reduced corporate credit uptake will further affect overall credit growth in the banking sector. Although the gap between deposits and credit growth has decreased from its peak in November 2022 to September 2024, the high incremental loan-to-deposit ratio (LDR) and regulatory scrutiny on both LDR and liquidity coverage ratio (LCR) will lead to further moderation in loan growth. Consequently, we anticipate the credit-deposit growth gap to shrink to less than one percentage point over the fiscal year 2025.
- Deposit growth although improving has lagged credit growth for FY24 and consequently is anticipated to play a leading role in FY25 as banks take further efforts to shore up their liability franchise and ensure that lagging deposit growth does not constrain the credit offtake. Further with rate cuts anticipated in the later part of FY25, some amounts might flow back into the banking system thereby improving the CASA ratios to a certain extent. Hence, based on GDP forecasts and management expectations.

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