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Banks' CD ratio to rise further as loan growth seen outpacing deposit growth

Anshika Kayastha/ January 05, 2023

Banks' credit-deposit (C-D) ratio is seen rising further going ahead as loan growth is expected to continue to outpace deposit growth, even as banks scramble to accrue deposits by offering higher rates.

Banks' C-D ratio has been increasing since November 2021 to touch 74.8 per cent as of December 2, expanding 480 bps from a year ago. However, it remains below the pre-pandemic level of 75.9 per cent as of February 2020, CARE Ratings said.

During 2021-22, as credit growth picked up and deposit growth moderated, the incremental C-D ratio reached a four-year high, RBI said in a recent report.

Currently, the incremental C-D ratio for several banks is over 100 per cent, bankers said, adding that it is expected to rise further primarily due to two reasons — credit growth will continue to outpace deposit growth, and higher rates do not necessarily translate to higher deposit accretion across banks.

“From March 2020, deposits have grown by 26-27 per cent and credit 25-26 per cent till September, so liquidity has almost normalised in that period. But now there is not much more time you can carry on with this kind of difference in deposit and credit growth rates,“ said Krishnan Sitaraman, Senior director and Deputy chief ratings officer at CRISIL Ratings. He pegged deposit growth for FY24 slightly lower than the expected loan growth of 15 per cent.

Over the 12 months ended December 2, credit grew 17.5 per cent or ₹19.5 lakh crore whereas deposits grew 9.9 per cent or ₹15.7 lakh crore in absolute terms.

“While the CD ratio right now is not alarming, it will be if the deposit gathering activities don’t pick up pace now,” said Jindal Haria, Director-Financial institutions at India Ratings and Research.

Banks are also being very stingy in increasing deposit rates and are doing so only in some buckets, he said, adding that this is why it is also important to evaluate how much of the deposit accretion is plain rollovers and how much are new deposits.

A significant part of the funding gap so far has been met by the mobilisation of CDs, which stood at ₹2.72 lakh crore as of December 2 compared with ₹0.63 lakh crore a year ago, as much of the credit demand has also been for shorter tenure retail and personal loans of 1-3 years.

“There is a little bit of decline in LCR (liquidity coverage ratio) across, but the other modes of borrowing will take care of the requirements for 3-6 months, such as inter-bank or CDs. They can provide some more fuel, so the CD ratio might go up a little more” Haria said, adding that banks are also issuing infrastructure and tier-I bonds which should help with funding requirements.