CD Ratio Analysis:Trends and Implications

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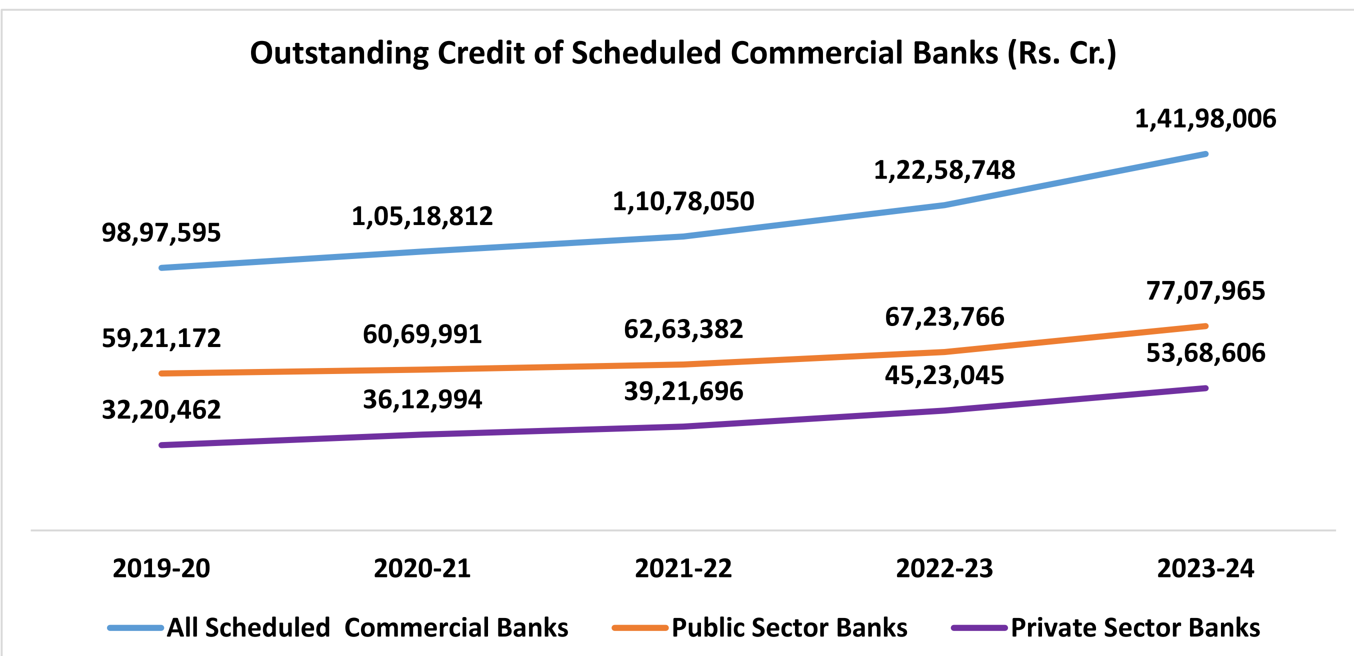
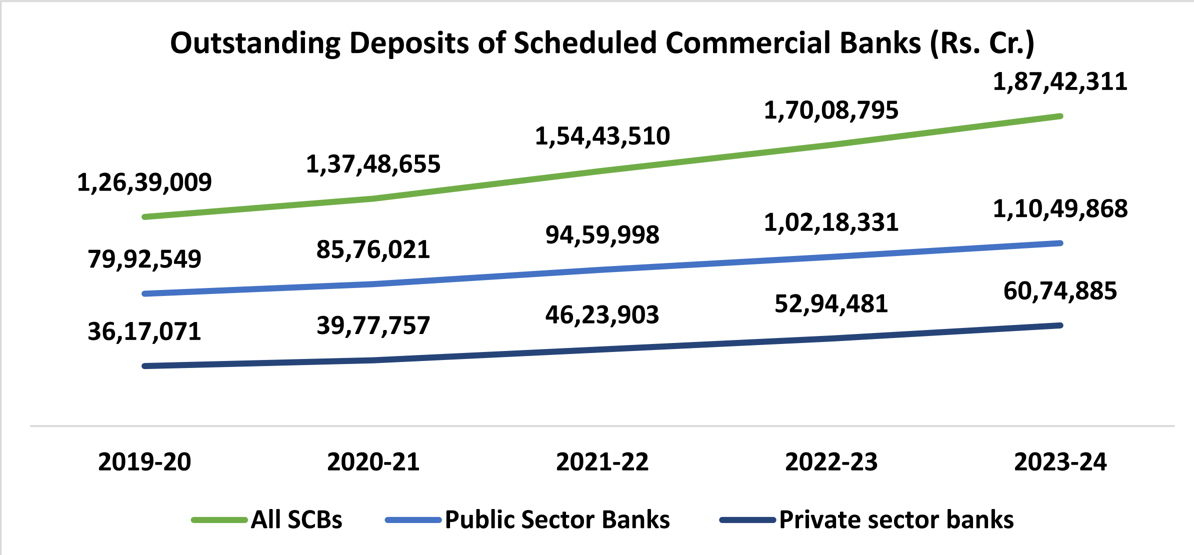
Background

Bank credit demand remained strong over the past two fiscal years, leading banks to gather substantial deposits to address this demand. Nevertheless, these efforts were insufficient to satisfy the high credit demand, resulting in a continuous increase in the credit-deposit (CD) ratio. Further, banks also kept increasing their investments in securities. As a result, banks had to turn to alternative funding sources, including market borrowings to meet the increased credit demand.

Trend of Credit & Deposits



- Outstanding credit disbursed by Scheduled Commercial Banks (SCBs) was at the highest level in 2023-24 amounting to Rs. 1,41,98,006 Crore.
- Public Sector Banks (PSBs) had a larger share of this pie with credit disbursed amounting to Rs. 77.08 lakh crore compared to the credit disbursed by Private sector Banks (PVBs) at Rs. 53.69 lakh Crore.



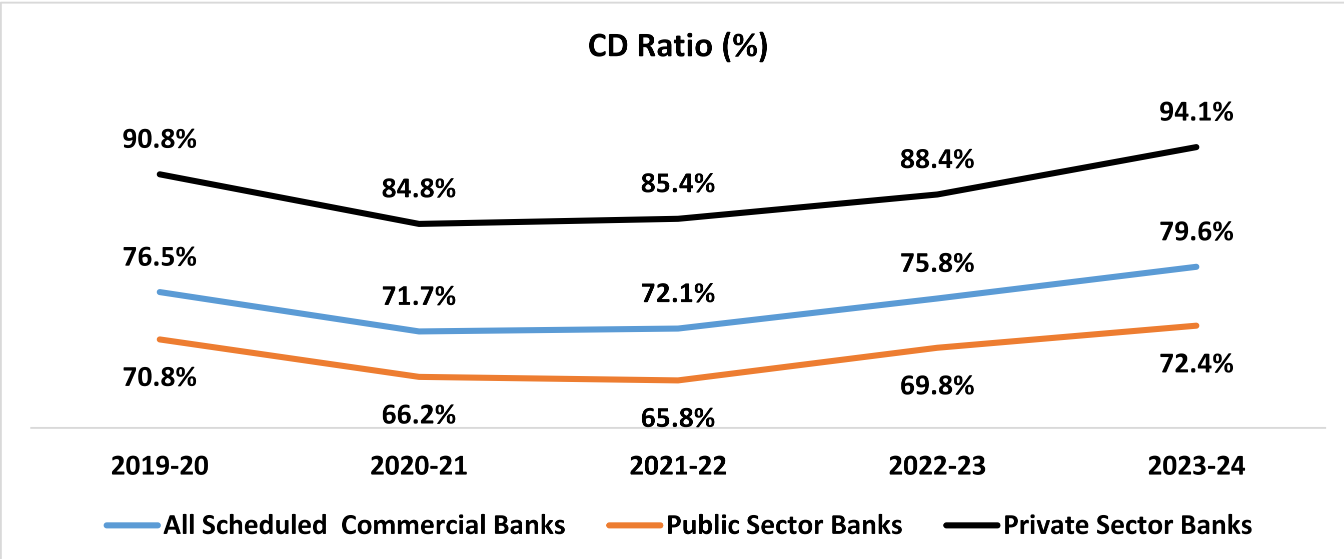
- Deposits also grew to a two decade high of Rs. 1,87,42,311 Crore in 2023-24.
- In terms of deposits as well, PSBs were ahead of PVBs with outstanding deposits amounting to Rs. 1,10,49,868 Crore vis-à-vis Rs. 60,74,885 crore of outstanding deposits with PVBs.
- However, in terms of YoY growth in both credit and deposits, PVBs outpaced PSBs every year.

YoY growth in Credit Disbursed (%)			
	All Scheduled Commercial Banks	**Public Sector Banks**	**Private Sector Banks**
2019-20	6.3%	2.5%	12.2%
2020-21	5.3%	3.2%	8.5%
2021-22	10.7%	7.4%	15.3%
2022-23	15.8%	14.6%	18.7%
2023-24	**19.1%**	**13.6%**	**27.9%**

YoY growth in Deposits (%)			
	All Scheduled Commercial Banks	**Public Sector Banks**	**Private sector banks**
2019-20	8.8%	7.3%	10.0%
2020-21	12.3%	10.3%	16.2%
2021-22	10.1%	8.0%	14.5%
2022-23	10.2%	8.1%	14.7%
2023-24	**13.4%**	**9.4%**	**20.1%**

- PSBs have been conservative in lending as is visible in the decline in credit growth of PSBs from 14.6% in 2022-23 to 13.6% in 2023-24. During the same period, PVBs increased their credit growth from 18.7% to 27.9%.
- In terms of deposit mobilization as well, while PSBs grew their outstanding deposits by 9.4% in 2023-24 (compared to 8.1% in 2022-23), PVBs witnessed a growth of 20.1% in 2023-24 (compared to 14.7% in 2022-23) in the same segment.

Credit-Deposit Ratio



- Credit growth of PVBs has far outpaced their deposit growth. Credit outstanding of PVBs has also grown at an accelerated pace over the years. As a result, the CD ratio of PVBs has reached 94.1% by end of 2023-24, while the average of all SCBs stands at 79.6%.

Incremental CD Ratio (%)

	All Scheduled Commercial Banks	Public Sector Banks	Private Sector Banks
2019-20	56.0%	25.5%	108.8%
2020-21	33.0%	21.9%	47.8%
2021-22	75.4%	60.7%	89.7%
2022-23	111.9%	118.4%	108.3%
2023-24	108.1%	100.8%	122.8%

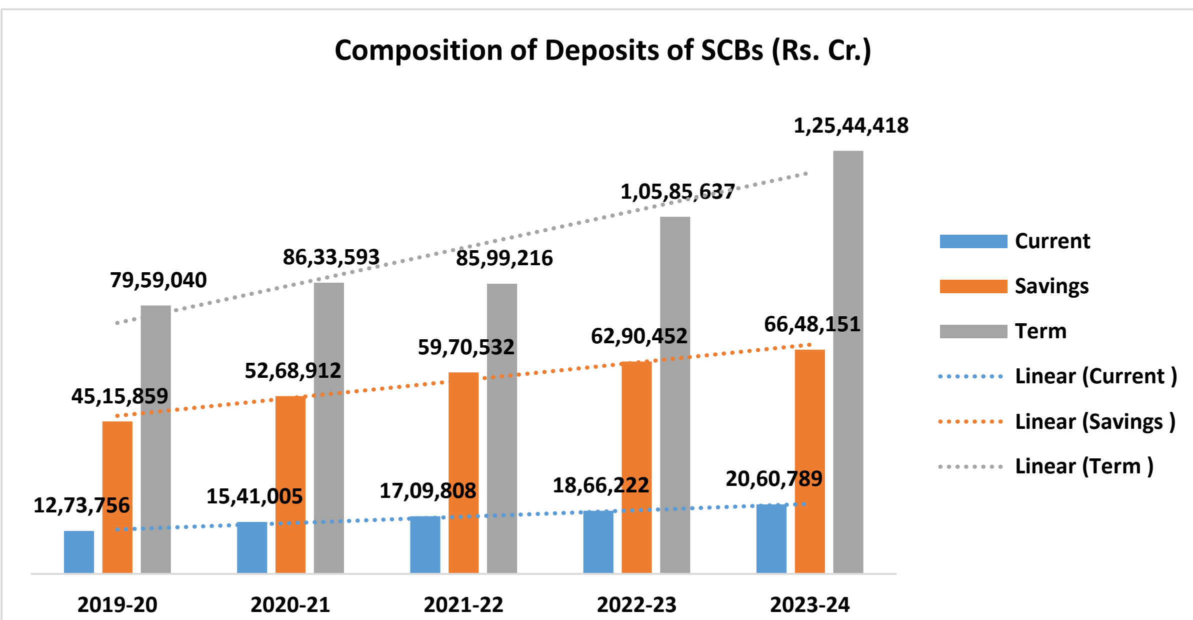
- In terms of the incremental CD ratio, this has exceeded the threshold of 100% over the past two years. Incremental CD stood at its highest in 2023-23 at 111.9% for all SCBs, 118.4% for PSBs and at 108.3% for PVBs. Incremental CD of greater than 100% is unsustainable as it implies that incremental credit growth is outpacing the incremental deposit growth. While PSBs have been able to bring down their incremental CD ratio to 100.8% in 2023-24, PVBs have grown it further to 122.8%.

Trend of Deposits

- Banks hiked deposit rates in order to attract more deposits. The Weighted Average Domestic Term Deposit Rates (WADTDR) on fresh deposits increased to 6.62% by end-March 2024- a substantial 250 bps increase compared to 4.12% as at end-March 2022. As a result, it was the high-cost term deposits that grew in last 2 years.

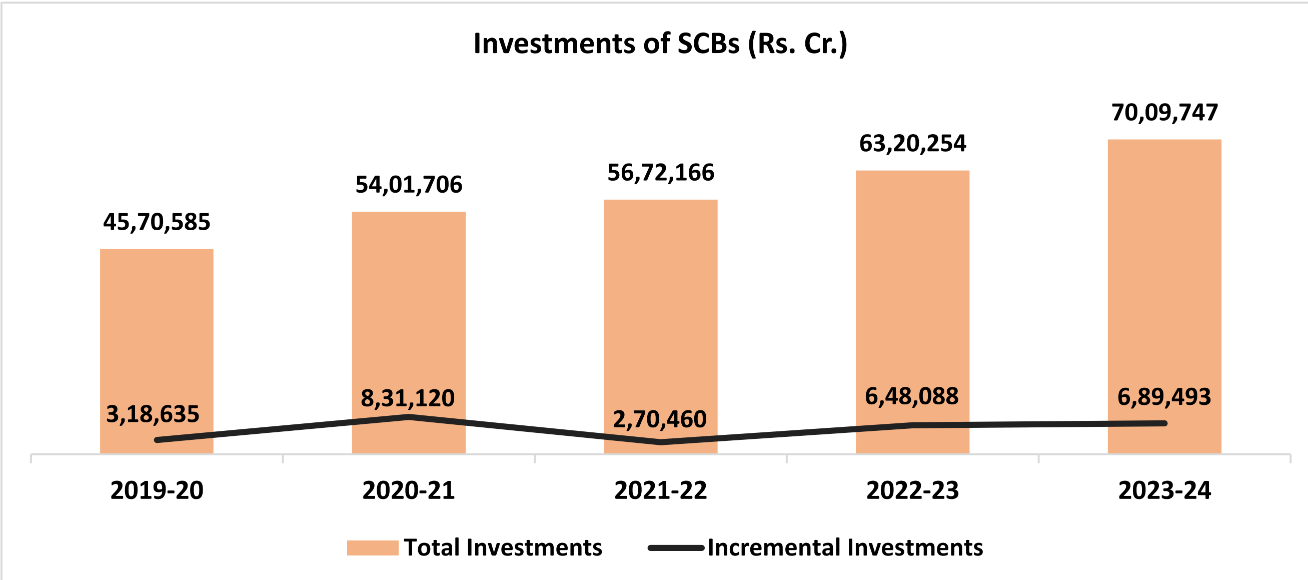
WADTDR of SCBs on Fresh Term Deposits (%)

Month	All SCBs	Public Sector Banks	Private Sector Banks
Mar-22	4.12	4.33	3.01
Apr-22	4.03	4.32	2.98
May-22	4.21	4.52	3.33
Jun-22	4.61	4.86	3.65
Jul-22	4.8	5.11	3.88
Aug-22	5.03	5.35	4.21
Sep-22	5.31	5.67	4.43
Oct-22	5.53	5.83	4.78
Nov-22	5.87	6.26	4.87
Dec-22	6.16	6.52	5.09
Jan-23	6.22	6.59	5.23
Feb-23	6.25	6.64	5.3
Mar-23	6.48	6.82	5.6
Apr-23	6.36	6.68	5.49
May-23	6.32	6.67	5.66
Jun-23	6.34	6.72	5.67
Jul-23	6.34	6.73	5.69
Aug-23	6.33	6.74	5.69
Sep-23	6.32	6.69	5.74
Oct-23	6.31	6.58	5.86
Nov-23	6.34	6.72	5.83
Dec-23	6.49	6.88	5.87
Jan-24	6.43	6.78	5.94
Feb-24	6.44	6.85	5.81
Mar-24	6.62	6.97	5.98



- Over the last 5 years, as shown in the above graph, it depicts that growth in Term deposits is outpacing the growth in Current and Saving Deposits.

Trend of Investments



- Alongside the increase in credit disbursed, total investments of SCBs (SLR & non-SLR securities) also surged during FY23 and FY24. Total investments of SCBs increased from Rs. 56.72 lakh crore in 2021-22 to Rs. 63.20 lakh crore in 2023-24 - an increase of Rs. 6.48 lakh crore. The surge was even greater in 2023-24 when investments by banks in SLR & non-SLR securities increased by Rs. 6.90 lakh crore.

Trend of Borrowings

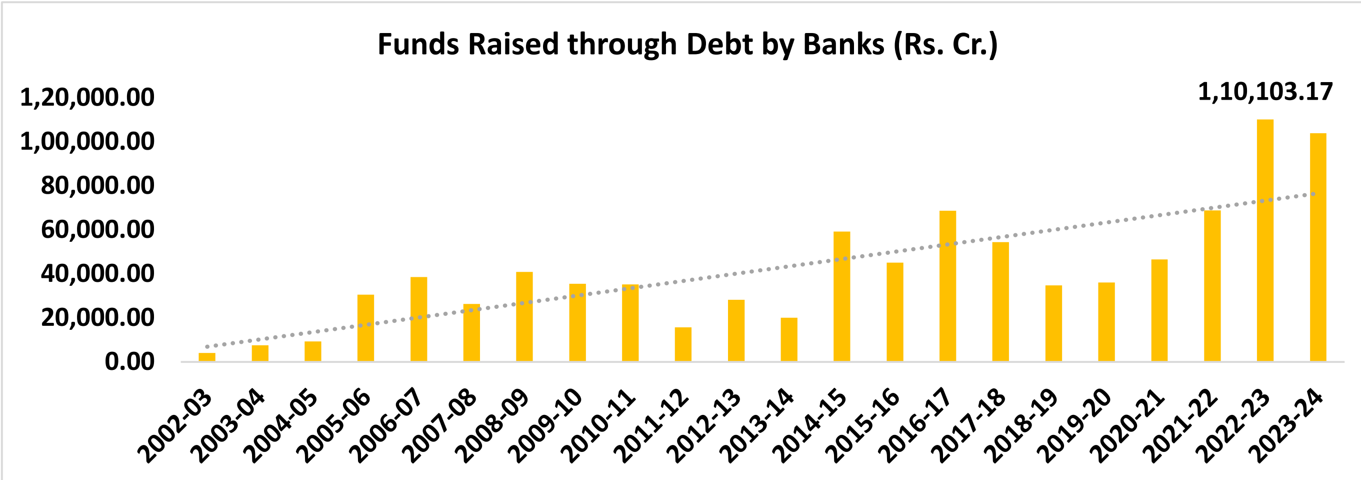
- Along with large deposit mobilization, investments of banks also surged significantly and with credit growth far outpacing the deposit growth, banks resorted to higher borrowings to fulfil the credit requirement. In 2022-23 total borrowings of SCBs grew 62.2% YoY, while in 2023-24 these grew 74.7% YoY. Growth in incremental borrowing was tremendous at 458.5% in 2022-23 and 94.8% in 2023-24.

Total Borrowings of SCBs (Rs. Cr)	
2019-20	30,94,390
2020-21	24,40,250
2021-22	27,45,940
2022-23	44,53,290
2023-24	**77,79,420**

Incremental Borrowings of SCBs (Rs. Cr)	
2019-20	-6,88,110
2020-21	-6,54,140
2021-22	3,05,690
2022-23	17,07,350
2023-24	**33,26,130**

- During 2023-24, outstanding borrowings by SCBs swelled by Rs.3.3 trillion. This comes over an increase of Rs.1.7 trillion during 2022-23. Prior to this, banks had never borrowed in excess of Rs.1 trillion. The highest bank borrowing in the past was Rs.0.7 trillion during 2015-16.

- During 2022-23, banks raised funds through fresh issuances of bonds amounting to Rs.1.10 lakh crore- the highest in over two decades.



Conclusion

- Credit Demand outpaced Deposit mobilization due to which the outstanding credit-deposit ratio of SCBs during 2023-24 spiked to a high of 78.1 per cent from 75.8 per cent in the preceding year. Banks will look after the deposits to meet credit off take in the coming quarters. This may lead to the elevated interest rates for deposits.
- In the current year, credit demand is expected to slow compared to last year. RBI has imposed restrictions to curb the sustained high growth in unsecured loans and loans to NBFCs. Incremental loans increased Rs 2.79 Lakh Crore upto 14th June as compared to Rs 3.48 lakh Crore a year ago. But at the same time, deposit mobilisation is also unlikely to be as robust as last year. This would also restrain the growth in credit disbursals. Banks dependence on alternative sources of funding during 2024-25 is likely to continue though it is expected to be lower than the preceding two years. So due to both base effect and low expectation regarding demand for credit and deposit mobilization, high CD ratio of SCBs is not a cause of concern as going forward itis expected to be range bound.

Sources: - CMIE Economic Outlook, PNB Economic Research

For any feedback or valuable suggestions: *Reach us at* ***eicsmead@pnb.co.in***

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