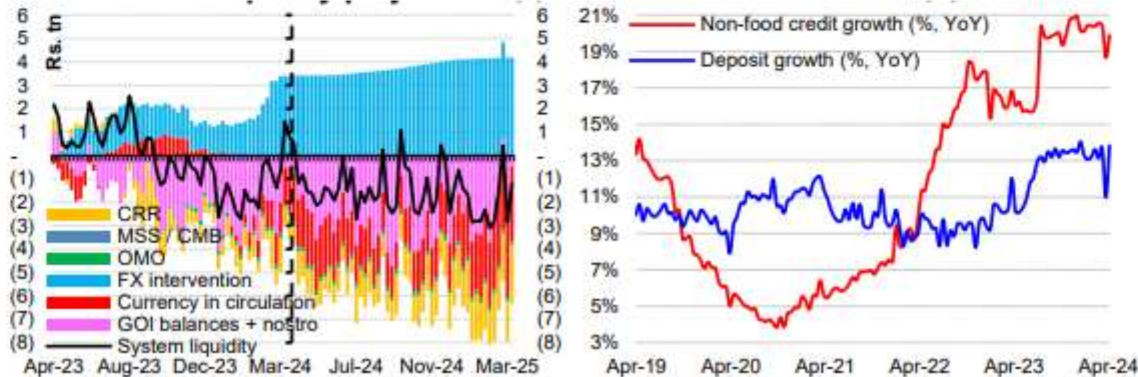
April 19, 2024

India Data Liquidity and Banking

India liquidity remained easy through much of April as expected, though overnight rates were around the repo level likely given holidays and prudent management through VRRR. Credit growth ended the year at 19.9%, with deposit growth at 13.8%. Liquidity is likely to tighten May onwards given the pattern of government receipts and spending, while fading of the pre-HDFC base is likely to see credit growth slow to around 13% later in the year – with upside risks should large industries raise funds

Exhibit: India liquidity projections (L) and transmission of rates (R)



Source: Axis Bank Business and Economic Research

Liquidity remains comfortable in April as expected, but rates supported

We expected liquidity to turn to surplus in April given pent-up government spending – this is the pattern of back-loaded consumption we have noted in the TSA/CAN/SNA just-in-time accounting era, coupled with normal levels of market borrowing. With excise not collected in April, some tightening has been seen from seasonal demand for currency notes, but conditions remain in surplus. However, despite the surplus, overnight rates have been close to the repo rate for much of the month – despite anecdotes of very quick drawdown of CASA in favour of MFs. This is thought to be a consequence of multiple holidays in the month. Rates were below the repo rate this last week, but the move was arrested by use of VRRR to absorb liquidity.

Credit growth ends FY24 at a torrid 19.9%, deposit growth 13.8%

India non-food credit growth dipped below 20% after 10 consecutive fortnights, but settled at 19.9% (16.1% excluding effects of the HDFC merger), with some volatility given usual year-end effects and the shift of 2 in reporting days. Until the first week of April, credit for FY24 was at Rs. 2.8 tn (2.3 tn excluding effects of the HDFC merger), well above the 2 tn for FY23. Deposits rose heavily in the fortnight, given government spending from tight levels after GST collections in March. Until 5 April, deposits for FY24 were higher Rs. 2.6 tn (2.4 tn excluding effects of the HDFC merger), well above the 2 tn increment in the previous year – this was driven by limited demand for currency notes as well as accretion to FX reserves. SLR was at 27.2% of NDTL as on 5 April.

Liquidity to tighten May onwards, HDFC base in credit vanishes later

Liquidity conditions are expected to tighten with tax collections starting April GST as well as excise in May and June, along with June advance tax. With spending likely to be limited given the post-TSA pattern, liquidity will likely tighten despite the lower amount of G-sec issuance. This will likely drain deposits once again, pushing back on strong credit growth, though numbers will likely seem less large as the pre-HDFC base fades away by mid-July. We expect credit growth to slow to 13%, similar to deposit growth, given limited avenues for increase in both, liquidity or deposits through FX reserves accretion. However, credit growth has so far been driven without significant increases in large industry – were these to raise funds for investment, growth might remain high for longer.

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