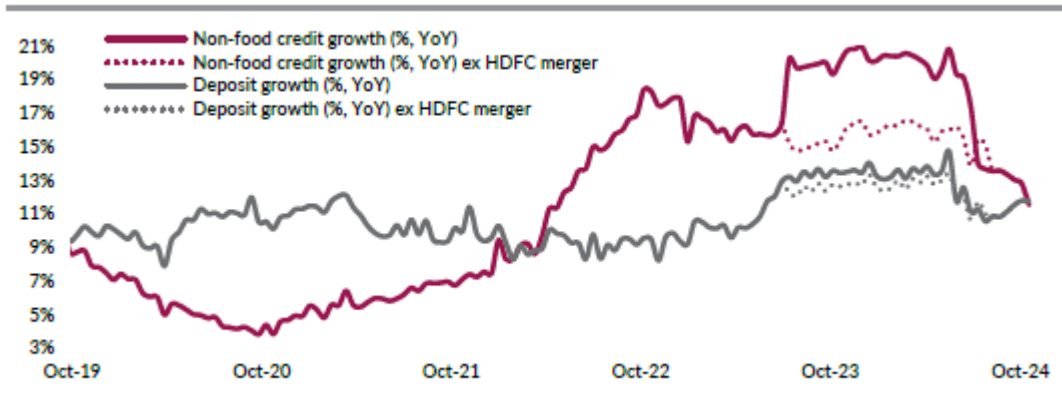


Deposits grow faster than credit for the first time since 2022

India liquidity conditions have eased in the current week on month-end spending, after having tightening to a limited extent on GST collections, strong non-competitive T-bill bids, higher CRR maintained and FX intervention. We continue to expect easy conditions, with large G-sec maturities in the weeks ahead. As we have been pointing out in recent notes, deposit growth has recovered, printing above credit growth for the first time since May'22, with the shift in the RBI liquidity stance. This is likely to reduce pressure on deposits, but response in terms of the weakening credit impulse is awaited.

Exhibit: Credit and deposit growth cross for the first time since 2022



Source: Axis Bank Business and Economic Research

India liquidity conditions ease with month-end spending, CIC limited

India liquidity conditions tightened in the 25 Oct week, with GOI balances boosted by GST collections and heavy non-competitive bids in the T-bill auction, adding to increased CRR maintenance by banks – as expected, this has progressively eased in the current week, with month-end spending. In contrast with past years, festive currency demand has also been relatively muted, with leakage FYTD below Rs. 200 bn (opposed to around 1 tn in earlier years). Slight drain from FX intervention continues, though the bulk of operations appear to continue to be sterilised.

Liquidity conditions to continue to be comfortable ahead

As we noted last week, the shift in the RBI's liquidity stance following that in the MPC stance has halted OMO sales, and has been allowing overnight rates to tend to the bottom of the band. With pent-up government spending continuing and with large G-sec maturities in the coming two weeks, we continue to expect conditions to remain easy going ahead – risks from currency demand are now much lower, though those from FX intervention are still large. Easy conditions are likely to be seen through year-end.

Credit-deposit growth gap negative for the first time since May'22

In our note last week, we noted that continued accretion to liquidity would likely find its way to deposits, with deposit growth recovering even with a faltering credit impulse. This has been furthered to the rate of deposit growth rising to above that of credit for the first time since May'22. With this, the vestigial response to earlier tight liquidity conditions – aggressive deposit mobilisation – is likely to fade, allowing for slackening deposit rates ahead – with spreads on CDs over OIS already having come lower. However, the impact of these conditions on weak credit growth, especially with recovery in the GOI fiscal impulse in H2, will have to be watched.

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