

Deposit growth close to double digits first time in 18 months

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The growth in bank deposits inched close to double digits for the first time in over a year during the fortnight ended January 4, showed provisional data released by the Reserve Bank of India (RBI) on Wednesday.

The value of deposits with the banking system stood at Rs 120.34 lakh crore at the end of the fortnight, up 9.91% year-on-year (y-o-y).

During the comparable period a year ago, deposit growth stood at a mere 4.45%.

The double-digit growth in deposits eluded banks for nearly one-and-a-half years as households' savings fell and inflows into mutual funds ate into

banks' share of savings. The last time the banking system recorded a more than 10% growth in deposits was during the fortnight ended August 4, 2017, which saw a 10.27% rise.

The pick-up in deposit growth coincides with a recent weakening in flows into equity mutual funds. Flows into equity funds slowed in the past few months, even as monthly contribution of systematic investment plans (SIPs) continued to remain strong.

According to market participants, the slowdown of inflows into mutual funds was due to weak returns from equity funds and banning of upfront commission by the markets regulator.

Equity mutual funds witnessed inflows of Rs 4,442 crore in December, the lowest in the past 27 months. Equity funds include equity funds, arbitrage funds and equity linked saving schemes (ELSS).

Non-food credit continued to grow steadily during the fortnight ended January 4, rising 14.47% y-o-y to `92.66 lakh crore, higher than Rs 92.10 lakh crore on October 12 and Rs 81.51 lakh crore a year ago. Non-food bank credit had recorded a 12% y-o-y growth in the year-ago period.

Bankers now sound increasingly optimistic about growth trends in credit offtake. State Bank of India chairman Rajnish Kumar told reporters after the bank's Q2FY19 results that it had seen a credit growth of 11.11% during the quarter. "We have returned to double-digit growth on the domestic front. Our credit growth is in line with the guidance for 10-12% credit growth for the financial year 2018-19," he had said.

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Analysts agree that much of the growth in fresh loans is being driven by small-ticket retail loans in the absence of fresh investments by corporates. In a recent note, Kotak Institutional Equities said the medium-term outlook for the corporate loan growth remains weak, given the ongoing deleveraging of large corporate borrowers and lack of large-ticket capex.

However, some bankers say that corporate growth is looking up, too, even as lenders are cautious on the quality of borrowers.

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