

Banks trim gilts to power loan book as deposits lag

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MUMBAI

Banks have been liquidating their holdings in government securities in order to finance credit growth at a time deposits remain hard to come by, Reserve Bank of India (RBI) data showed.

Banks are mandated to hold at least 18% of their net demand and time liabilities (NDTL)—the net total a bank owes its customers and other banks—in government papers and other approved securities. They typically keep an additional 10 percentage points more in such securities.

The statutory liquidity ratio (SLR)—the percentage of aggregate deposits invested in liquid assets—of the banking sector was 26.5% on 17 October, down from 27.3% on 18 October 2024, RBI data analysed by *Mint* showed.

The SLR holdings were 26.7% of the NDTL on 19 September. Given that the NDTL was at ₹259.8 trillion on 17 September, a 10-basis point decline allows banks access to almost ₹26,000 crore in funds. “Some banks have offloaded invest-

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ments to fund credit growth when deposit growth has not kept pace,” said Madan Sabnavis, chief economist at Bank of Baroda.

Sabnavis said a clutch of lenders has been liquidating SLR investments in the past, at least for FY25. “We found instances when we look at the investment portfolio and lending portfolio of some banks,” he said.

According to Sabnavis, one reason bank investments in government securities have not grown at the same pace as before could be that there had been open market operations (OMO) in the beginning of the financial year for a couple of months. Under OMO, the central bank infuses liquidity in exchange for government securities from banks. “Since banks had surplus SLR, they obviously did extinguish these securities,” he said.

Bank deposits are still growing at a slower rate than credit. While deposits grew 9.5% year-on-year as of 17 October, non-food credit growth was 11.3%, per data from the RBI. In



Deposit growth weakening as funds hit capital markets. MINT

the previous fortnight—3 October—deposits grew 9.9%, whereas non-food credit growth stood at 11.2%.

Non-food credit excludes loans given to the Food Corp. of India, the main agency that procures, stores and distributes food grains in the country.

In a report on 20 October, analysts at Care Ratings said that deposit growth had fallen below the double-digit threshold for the third consecutive fortnight on 3 October. Fresh data showed that this is now true for four consecutive fortnights.

Bankers said the chase for deposits is a systemic issue. India faced one of its worst deposit crises last year, with deposit growth significantly lagging credit growth. This led to caution from the central bank and then RBI governor Shaktikanta Das said in July 2024 that households and consumers who typically park funds with banks are increasingly turning to the capital markets and other financial intermediaries. While the gap has narrowed and even converged a few months ago, it has been short-lived.

An industry expert said that the credit-to-deposit ratio for fresh loans and deposits does not show that banks are deposit-starved, but growth needs to pick up in the second half of the financial year. “Although the incremental credit-to-deposit ratio for banks appears to be comfortable at 67% for the current year (year-to-date), it is higher than 60% seen at the same time last year,” said Anil Gupta, senior vice-president and co-group head of Icra.

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