Azadi Ka Amrit Mahotsav

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SBI Research

Prelude to MPC Meeting: October 7-9, 2024

Money in Inflation Targeting framework evolves endogenously in tune with the structural changes in the economy as well as the evolution of the payment system landscape with credit creating deposits and not bank reserves…Stable Money Supply and Lower Reserve Money now coexist with digitization…. Cost of deposits likely to stay higher with growing layers of financial intermediation….RBI rate action could be independent from Fed.. Possibility of growth slowing down incrementally & increasing geopolitical risk might prompt a rewording of communication from RBI

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Executive Summary….1/3

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- Deposit growth is finally outpacing credit growth at least on a year to date /YTD basis as incremental growth in credit is lower by a sharp Rs 7.5 trillion but deposits lower by Rs 2.7 trillion. **On a yearly basis, however the gap between credit and deposit growth still persists though now down to only 220 basis points and is the lowest since credit and deposit growth had started diverging since FY23**
- Notwithstanding the narrowing of the gap, the continued argument in some quarters over last few years that the slowdown in deposit growth is a result of contraction in money supply growth as a result of lower reserve money growth is a reflection of misplaced wisdom and unfortunately escape the intellectual rigour of monetary economics
- **in principle, while it is true that growth in reserve money /RM has slowed down markedly over the last 2 years, the same cannot be said about the growth in broad money that has remained largely in sync with nominal GDP growth**
- With India moving over from a monetary aggerate framework to a flexible inflation targeting (FIT) framework in 2016, interest rate and not monetary aggregates, is the key instrument of policy. **Money in this framework evolves endogenously in tune with the structural changes in the economy as well as the evolution of the payment system landscape with credit creating deposits and not bank reserves. In FIT framework, systemic liquidity is the most relevant metric than reserve money for achieving the specified short-term rate**
- The evolution of the payment landscape has also ensured that the link between reserve money growth and money supply through the money multiplier route has become agnostic with a steady increase in money multiplier as currency deposit (as also reserve deposit ratio declining) with significant digitization since pandemic. A lower growth of reserve money is thus now consistent with a stable money supply growth

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- Retail digital payment continue to grow, which is due to the continuous innovations. For example, the auto-replenishment of FASTags and National Common Mobility Card (NCMC) under the e-mandate framework for recurring transactions is likely to boost the NETC and card transactions, respectively. CiC to GDP ratio declined to 12.07% in FY24 from 14.37% in FY21. The volume of digital payments is projected to increase threefold to reach 481 billion transactions in 2028-29
- Thus the apparent inability of central banks like RBI to control base money and money multiplier in a financial ecosystem characterized by new business models and evolving technology is resulting in newer innovations **within the broader markets with increasing layers of disintermediation as money is returning to banks through round tripping**
- As an example, the TREPS market volume is now double the combined values of Repo and uncollateralized Call/Notice/Term. The interest earned through TREPS fares much better than similar yields offered by banks on short duration deposits, incentivizing MFs to incrementally side with TREPS while banks benefit through ultra flexibility, pledging securities and borrowing for short duration, helping in ALM management. **The hesitation on part of many banks to source bulk deposits locking in for a longer time frame as expectation of Mint street taking a pivot grows also bodes well for the TREPS market**

Executive Summary…..3/3

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- The TREPS money seems to reflect mostly the AUM of liquid funds with MFs from Corporate India recording handsome gains at the bottom of the balance sheet, while the capex plans have been tepid in comparison, mirroring the global volatility / tensions…any future increase in capex could change the dynamics

- **The growing layers of financial intermediation and rapid digitization is likely to keep cost of funds and hence deposit rates higher for longer….Thus** the increasing calls for banks to innovate novel products and features in deposits to lure the average savers back into their fold does not take into account the time proven efficacy of either the efficient market hypothesis or the theory of rational investors presumably…**the post tax return for bank deposits does not cut much ice for a large swathe of these rational investors**…If banks are not able to pedal up their post-tax returns (***for no fault of theirs***) component to this 'aware' populace their Safety and Liquidity propositions might be defeating such very purpose in a risk-on scenario..**A level playing tax regime for bank deposits in accordance with other asset classes is now a must**

- Elsewhere, RBI may disassociate from the recent interest rate developments in the US and may take independent view on the domestic rates based on evolving conditions…CPI is expected to remain below 5.0% in the remaining months, except for Sep'24 because of unfavourable base effect….for the full year FY25, CPI inflation is likely to average to 4.5%-4.6% and will remain In the RBI's targeted range of 4-6%

- First cut likely in Dec 2024 / Feb 2025…any disintegrated rate cut and change in stance could front load market movements one way up… **We however believe a possibility of growth slowing down incrementally with the leading indicators showing a declining momentum and increasing geo political risk might prompt a rewording of communication from RBI highlighting the need to have a balanced growth inflation balance**

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Global Developments

Global economy is weathering the aggressive restraint of monetary policy, but how long?

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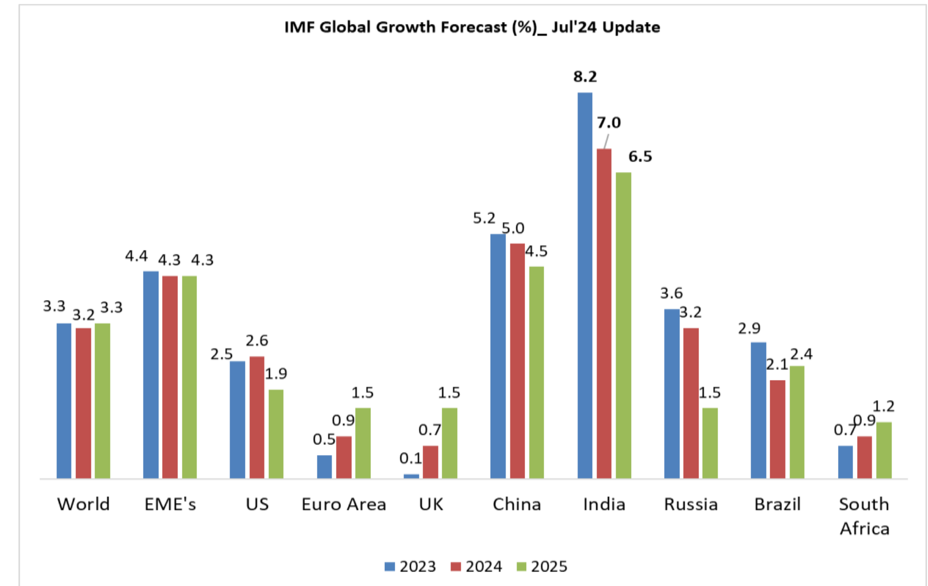
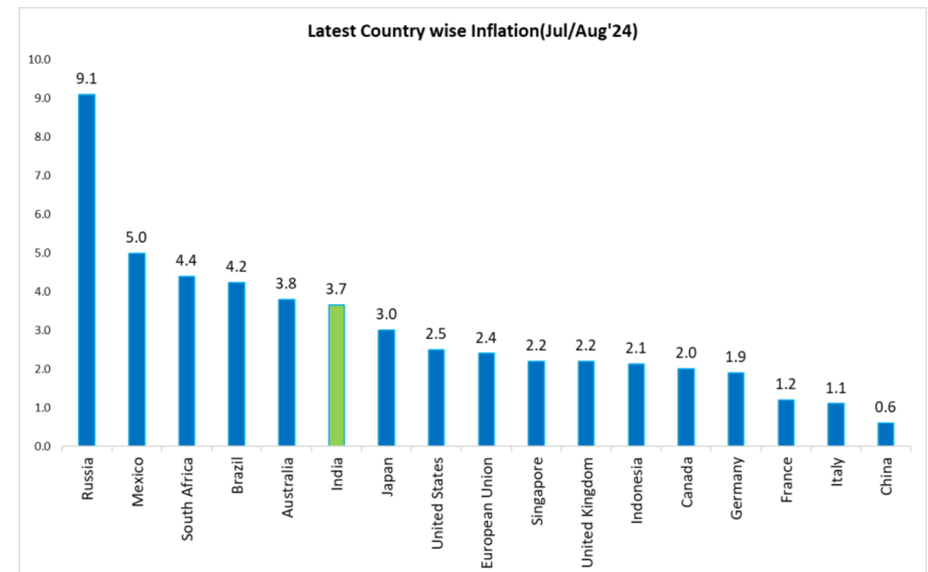
- Global growth remains resilient, and inflation has further declined in major economies
- Global growth is expected to stabilize in the range 3.2%
- Growth was robust in the United States, the United Kingdom, Canada and Spain. Domestic demand has buoyed activity in Brazil, India, and Indonesia.
- Inflation continued to decline in most OECD countries, partly due to further declines in food price inflation
- Inflation is now at or close to target in about four-fifths of OECD economies
- Labor market pressures have continued to ease but not uniformly.
  - The number of job vacancies has fallen steadily from peak levels observed during the pandemic





Geopolitical risks and central banks rate actions

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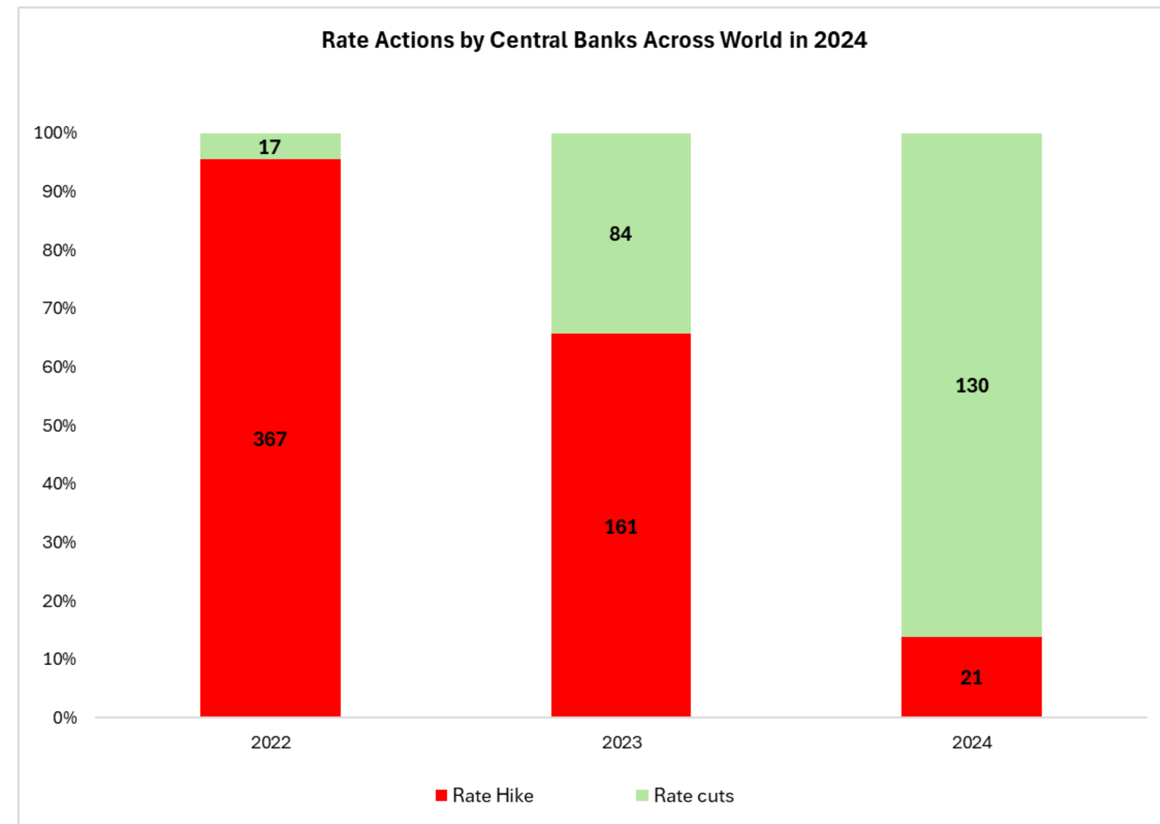
- Central bank rate action towards accommodation gained further strength from last assessment
- Fed, EURO Zone and Canada have cut rate is major development since the last assessment
- Total rate cuts since last assessment has increased from 108 to 130
- In China policy accommodation may accelerate with rising trade protectionism and slower domestic growth
- Geopolitical risks remain high and the escalation in Middle East and the most recent Iran Israel flare up can impact energy and freight prices
- Faster disinflation, continued fiscal support and improvements in productivity are expected to buffer against geopolitical tensions and supply disruptions



RBI response function to Fed rate cut

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- The aggressive rate cut by Federal Reserve has important bearing on RBIs own decision on interest rates. Although this not explicit, fall in dollar rates impact the domestic inflation through international prices.

- The recent minutes of the RBI MPC do indicate discussions on possible Fed rate actions. The reference to Fed action is explicit in June 5 to 7, 2024 minutes and August 6 to 8, 2024 minutes. Further only on member has considered Federal Reserve action into its assessment for domestic rates.

- Taking these views two possible direction emerge:
  - RBI may disassociate from the interest rate developments in the US and may take independent view on the domestic rates based on evolving conditions.
  - Domestic conditions are paramount and with robust growth higher than potential output, case of pause exists

MPC Minutes statement	Possible clue for future
Third, is the belief, widespread in financial markets that India cannot cut before the US Fed. But the US has its own special problems that do not apply elsewhere. Many other central banks are cutting rates. The fall in India's current account deficit, index inclusion and ratings upgrade add to the many reasons that make interest differentials with the US less important. India's inflation differential with the US is also narrowing again. [June 5 to 7, 2024]	RBI may disassociate from the interest rate developments in the US and may take independent view on the domestic rates based on evolving conditions.
The Fed in indicating a cut in its September meeting, pointed out that since monetary policy acts with a lag they can't afford to wait until they reach their inflation target before cutting. That lag may be responsible for the sharply adverse August jobs report that has stoked recession fears and created market volatility. [August 6 to 8, 2024]	Domestic conditions are paramount and with robust growth higher than potential output, case of pause exists. This is further supported by the fact that impact of weak dollar on international prices and its pass through on Indian economy may evolve in coming days.

Digitization and Endogeneity of Money

Role of Monetary Aggregates in Inflation Targeting Framework

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- Evolution of India's monetary policy can be broadly divided into two regimes: (i) Prior to Inflation Targeting (IT) Framework, and (ii) Post IT framework
- Before the adoption of IT, during the 1950s and 1960s monetary policy assumed a developmental role of meeting the credit needs of the economy as identified under the five-year plans. Monetary policy during the 1970s and 1980s was constrained by fiscal dominance, automatic monetisation of budget deficits and excessive growth of monetary aggregates
- However, the abandonment of policy regimes with monetary aggregates as operating and/or intermediate targets in the 1990s, for example, was candidly described by John Crow, former Governor of the Bank of Canada**: "*We did not leave the monetary aggregates; they left us*"**
- In the IT framework, the central bank targets inflation, through policy rate to bring price stability, with due consideration to the objective of growth. So, the central bank don't target monetary aggregates like M0, M3 etc, but uses interest rate as the instrument variable. In an IT framework money evolves endogenously in tune with the structural changes in the economy as well as the evolution of the payment system landscape..**bank credit creates deposits and not reserves**

Credit creates Deposits and hence it is futile to harp on Reserve Money to bolster Money Supply

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- To test relationship between credit & deposits we used the yearly data from 1953-2024 (72 years).
- The results indicate that there is a uni-directional causality between ‘Credit & Deposits’. In other words, credit granger cause deposits and hence a decline in credit will lead to decline in deposits going forward. It is thus imperative for credit growth to sustain, and this could happen only if the investment cycle continues

Null Hypotheses	F-Stat	P-Value
H0: Deposits does not Granger cause Credit	15.13	0.184
H0: Credit does not Granger cause Deposits	**3.38**	**0.001***
*Significant at 1%		

Liquidity decides rate action in Post-IT period and justifiably so….

A historical analysis of various indicators indicate that while the average growth of both Reserve Money (RM) and M3 has declined in post Inflation Targeting (IT) regime, the money multiplier exhibited increase reflecting behavioral changes…Also Money Supply growth in IT regime largely in consonance with nominal GDP growth

Once the MPC sets the repo rate, the day-to-day liquidity management operations of the RBI is geared towards aligning the weighted average call rate (WACR) to the policy repo rate. **In this process, systemic liquidity becomes the more relevant metric than reserve money for achieving the specified short-term rate**

Various Bankining & Monetary Indicators since 2009-10 (YoY%)

Particulars	FY	Growth Rates						Ratios			Average daily Liquidity (Rs trillion,+ve surplus)	Rate Action (times)
		Reserve Money	M3	Credit	Deposits	Inflation	Nominal GDP growth	MM(M3/RM)	BR/DD	CIC/DD		
Pre-IT	2009-10	17.0	16.9	16.9	17.2	3.8	15.5	5.20	0.46	1.11	1.0	Cut:11, Hike:13
	2010-11	19.1	16.1	21.5	15.9	9.6	19.9	4.97	0.52	1.31	-0.8	
	2011-12	3.6	13.5	17.0	13.5	8.9	14.4	5.05	0.62	1.50	-1.6	
	2012-13	6.2	13.6	14.1	14.2	9.9	13.8	5.40	0.54	1.58	-1.1	
	2013-14	14.4	13.4	13.9	14.1	9.4	13.0	5.64	0.52	1.60	-0.6	
	2014-15	11.3	10.9	9.0	10.7	5.9	11.0	5.73	0.51	1.62	-0.2	
	2015-16	13.1	10.1	10.9	9.3	4.9	10.5	5.66	0.52	1.68	-0.1	
IT & Demonetisation & Aftermath	2016-17	-12.9	10.1	8.2	15.3	4.5	11.8	6.27	0.49	0.96	0.3	Cut:2 Hike: 2
	2017-18	27.3	9.2	10.0	6.2	3.6	11.0	6.16	0.44	1.23	0.3	
Post-IT	2018-19	14.5	10.5	13.3	10.0	3.4	10.6	5.68	0.45	1.31	0.2	Cut:6 Hike:6
	2019-20	9.4	8.9	6.1	7.9	4.8	6.4	5.57	0.44	1.41	1.3	
	2020-21	18.8	12.2	5.6	11.4	6.2	-1.2	5.48	0.35	1.43	4.7	
	2021-22	13.0	8.8	8.6	8.9	5.5	18.9	5.22	0.41	1.42	6.5	
	2022-23	7.8	9.0	15.0	9.6	6.7	14.2	5.13	0.44	1.46	1.5	
	2023-24	5.6	11.6	20.2	13.5	5.4	9.6	5.35	0.40	1.36	-0.1	
Memo: Average												
Pre-IT		**12.1**	**13.5**	**14.8**	**13.6**	**7.5**	**14.0**	**5.38**	**0.53**	**1.49**	**0.8**	-
Post-IT		**11.5**	**10.2**	**11.5**	**10.2**	**5.3**	**9.7**	**5.41**	**0.42**	**1.40**	**2.4**	

Source: RBI; SBI Research,*till FY13 is taken as WPI inflation, from FY13 to FY24 CPI inflation, CIC : Currency in circulation, DD : Demand deposits with banks, BR : Bank reserves (bankers deposits with RBI plus cash with banks), RM : Reserve money, M3 : Broad money

Reserve Money (M0) contraction is due to removal of I-CRR & withdrawal of Rs 2000 notes

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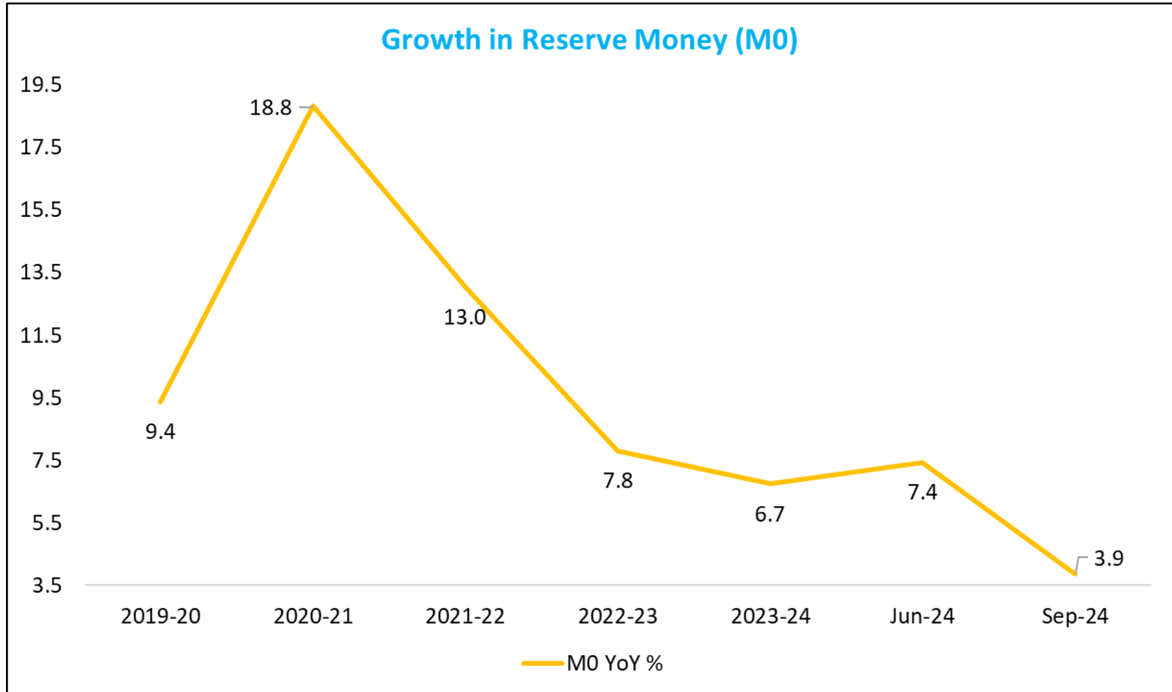
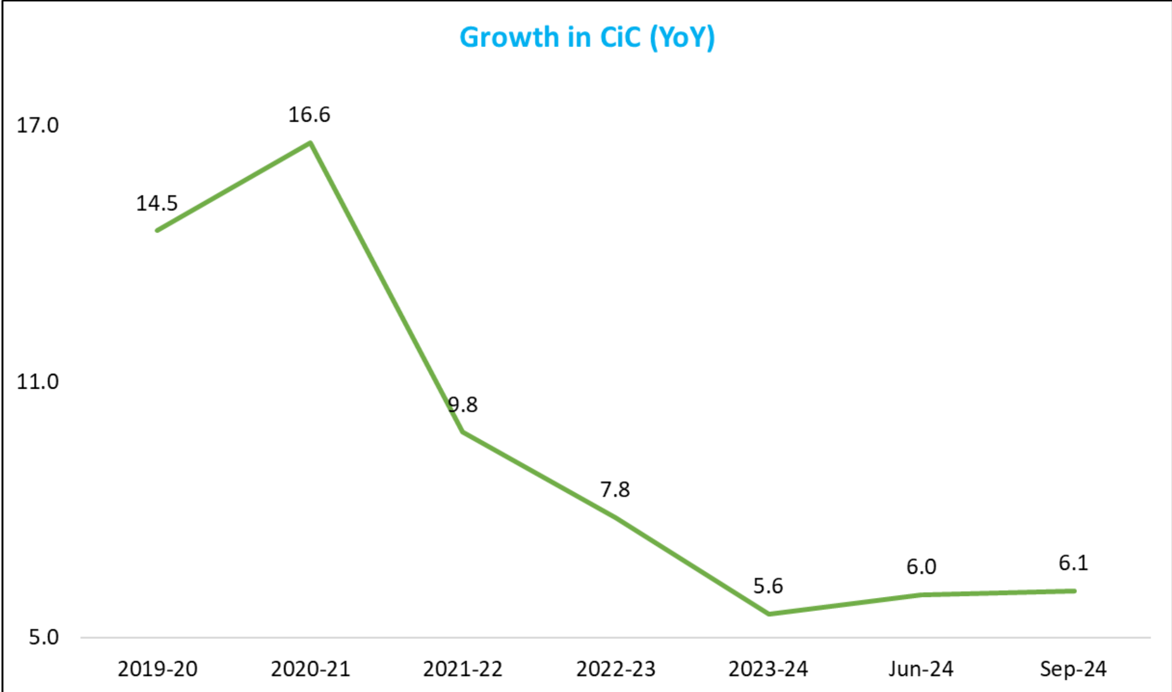
- Reserve money (RM) declined to 3.9% as on 13 Sep’24, compared to 10.5% last year. However, excluding the impact of changes in CRR (I-CRR of 10%), recorded a growth of 5.9% YoY compared to 8.4% a year ago.
- Growth in currency in circulation (CiC), the largest component of RM, increased to 6.1% YoY as on 13 Sep 2024, from 3.0% as on May 17, 2024, on account of the base effect of the withdrawal of ₹2000 banknotes (announced on 19 May’2023), 97.96% of which has been returned to the banking system, mostly in the form of deposits (as on August 31, 2024)





RBI manages Liquidity Position to have stable Money Supply (M3) growth

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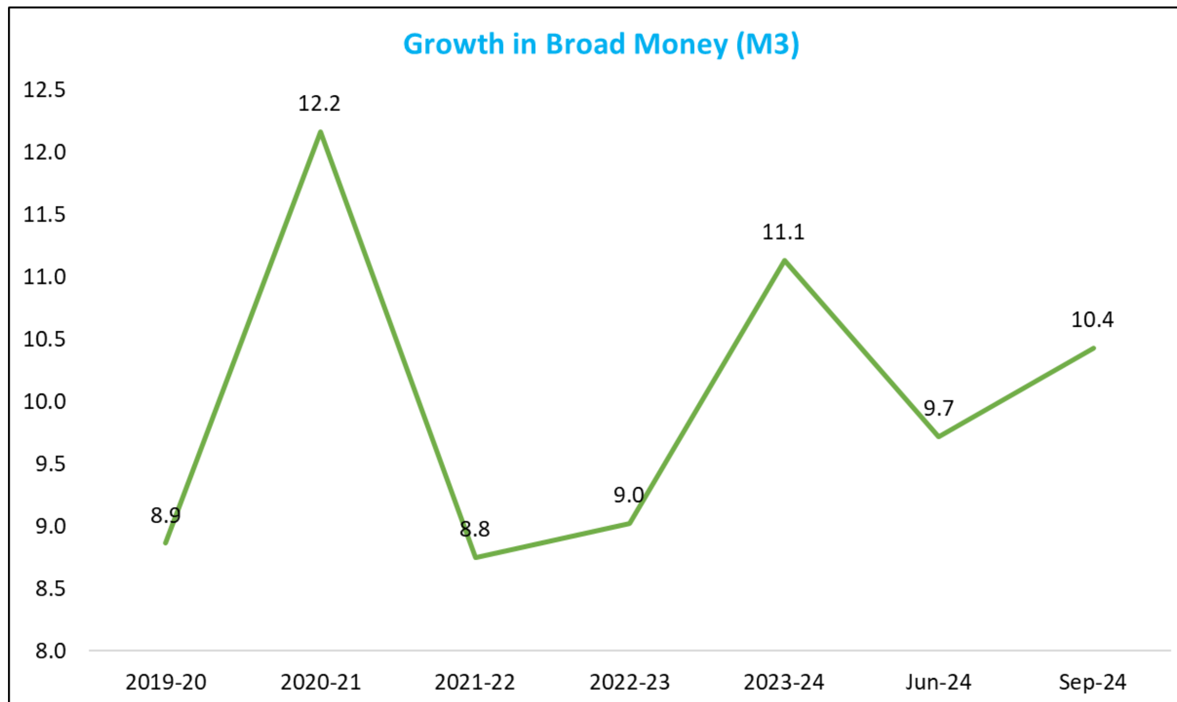
- Money supply (M3) rose by 10.4% YoY as on 06 Sep 2024 (11.1% a year ago), which is higher than the nominal GDP growth
- Government surplus cash balances averages to Rs 2.5 lakh crore in FY25 and RS 3.0 lakh crore in Sep'24. Durable/core liquidity surplus has gone up to Rs 4.28 lakh crore as on 30 Sep with an average of Rs 4.0 lakh crore post last policy



Average Liquidity Position (Rs lakh crore)			
Indicator	FY25 Average	Post policy (08 th aug -till date) average	30-Sep-24
Repo Outstanding	0.69	0.17	0.28
Reverse Repo Total	0.36	0.54	0.01
SDF	0.84	0.92	1.88
MSF	0.07	0.06	0.06
Net LAF (-absorption)	-0.34	-1.13	-1.46
Government Cash Balance (net LAF-core liquidity)	2.97	2.94	2.50
Core Liquidity (-Surplus) system liquidity adjusted with GOI Balances	-3.27	-4.06	-4.28
Ratios	08-Aug-24	30-Sep-24	change in bps
30 Year Gsec	7.03	6.91	-12.70
20 Year Gsec	7.04	6.87	-16.90
15 Year Gsec	7.10	7.10	0.00
10 Year Gsec	6.88	6.75	-12.80
5 Year Gse	6.82	6.67	-15.10
2 Yers Gsec	6.76	6.66	-9.90
364 days Tbill	6.73	6.55	-18.00
182days Tbill	6.71	6.48	-23.00
91days Tbill	6.62	6.40	-22.00
Source: SBI Research, RBI, Bloomberg			

Money Multiplier is increasing

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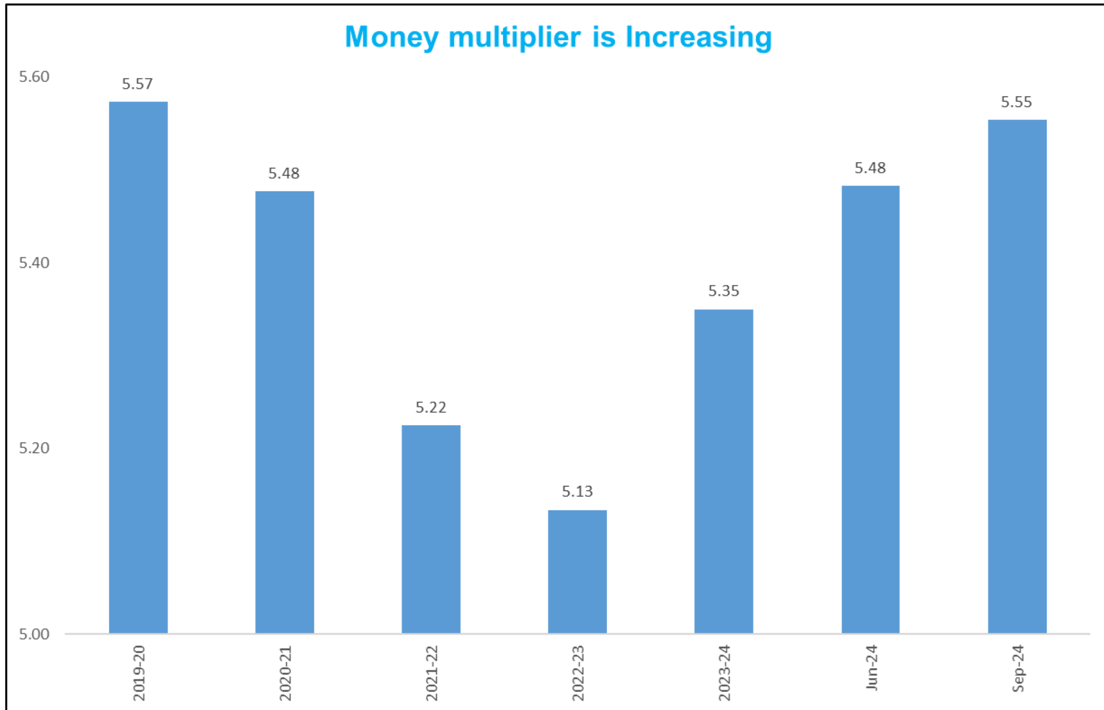
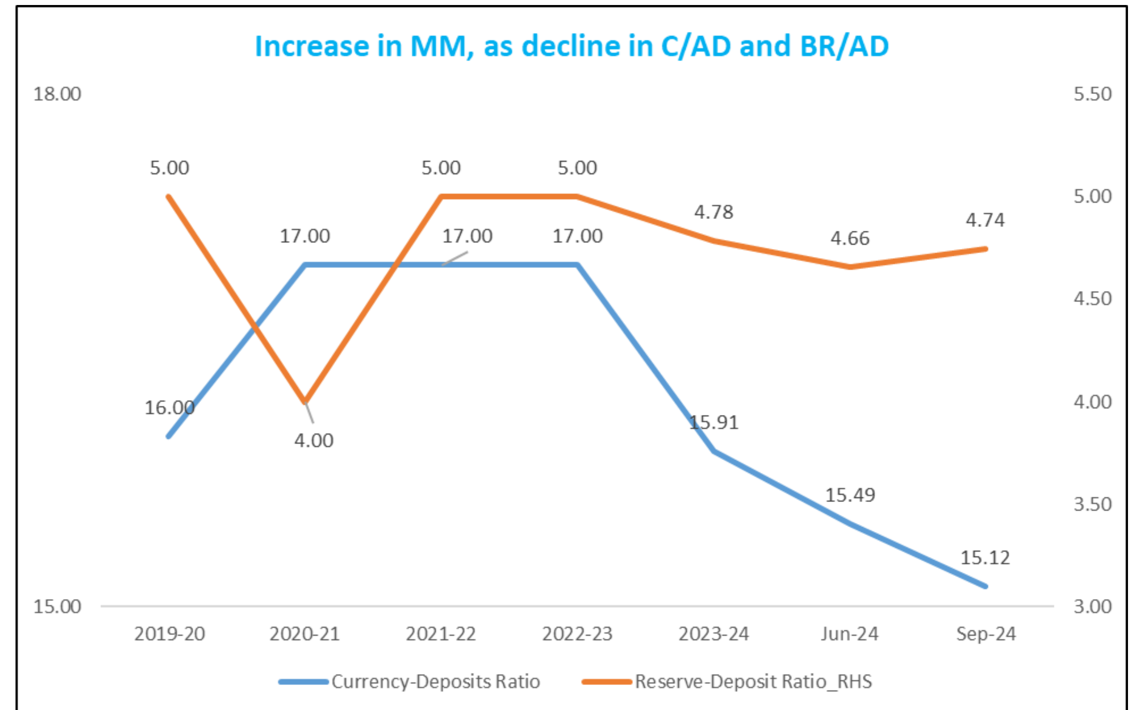
- Money multiplier indicate the amount of money created by banks with the deposits after excluding reserves. In otherwords, if bank give loans it will create deposits
- Despite much lower reserve money (RM) growth in the current year, the relative stability in M3 growth could be attributed to the increase in the money multiplier (M3/RM), which currently stands at 5.6 compared to 5.3 last year.
- **This increase in money multiplier is brought about by the combined impact of the decline in (i) the currency-deposit ratio (C/AD) from 15.9% in March 2024 to 15.1% in Sep 2024; and (ii) the reserve-deposit ratio (BD/AD) from 4.78% to 4.7% during the same period**





Decline in CiC growth accentuated since the pandemic amidst increasing adoption of digital mode of payments

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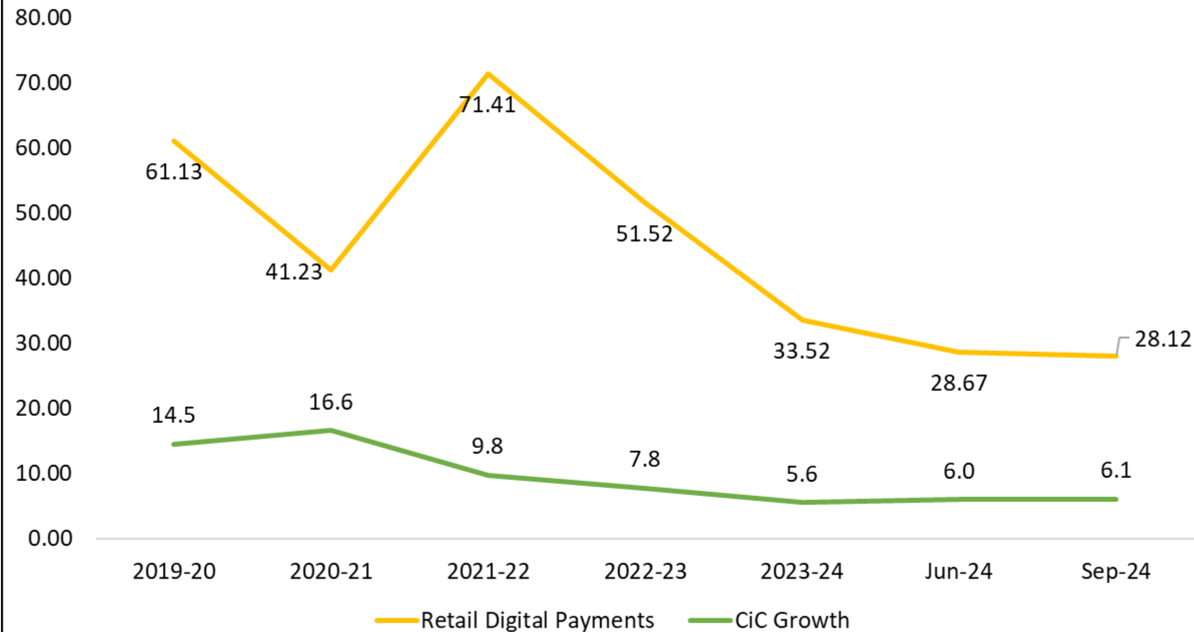
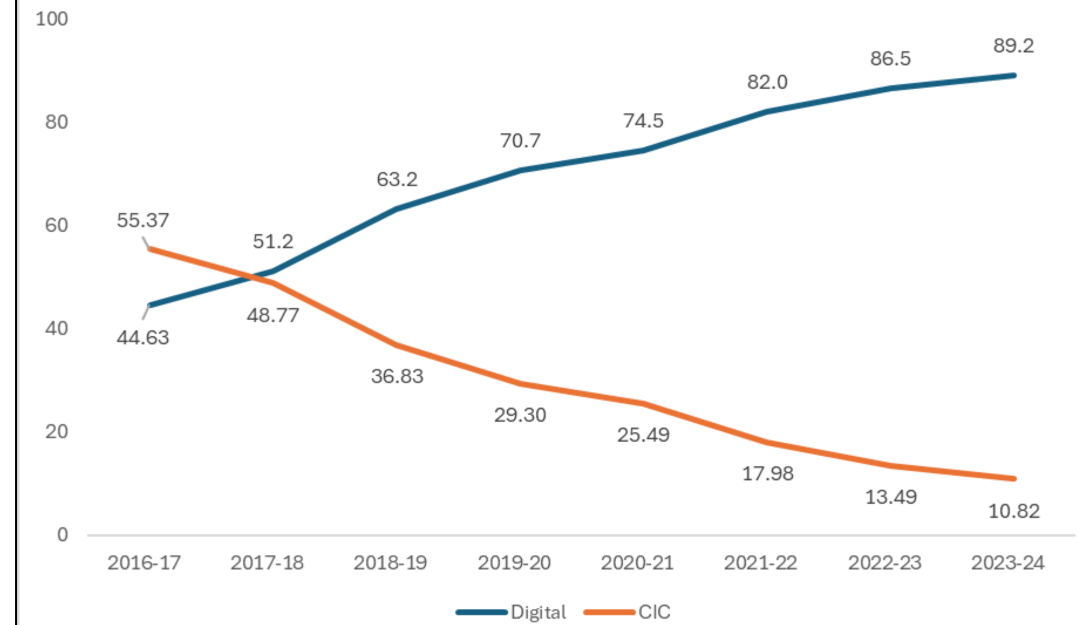
- Retail digital payment continue to grow, which is due to the continuous innovations. The auto-replenishment of FASTags and National Common Mobility Card (NCMC) under the e-mandate framework for recurring transactions is likely to boost the NETC and card transactions, respectively
- CiC to GDP ratio declined to 12.07% in FY24 from 14.37% in FY21
- Looking ahead, with innovations in the ecosystem, new business models and evolving technology, the volume of digital payments is projected to increase threefold to reach 481 billion transactions in 2028-29





Theoretical Underpinnings

- To test the result of UPI transactions on currency in circulation empirically, we carried out a Structural VAR model to find out the of the impact of UPI and Prepaid Payment Instruments (PPI) on the Currency in Circulation (CIC), M0, M3, Money Multiplier (MM), and Bank deposits, individually, with short run constraints.
- The VAR (p) model in its standard form is expressed as:

$$Y_t = \beta X_t + u_t$$

- Where, Y_t is the (2*1) vector of the two endogenous variables and X_t is the lag of endogenous variables u_t is residual of (2*1) vector
- SVAR framework as follows: $e_t = Au_t$ where, e_t and u_t are vectors of residuals obtained from reduced VAR and structural shocks, respectively
- The relationship between VAR residuals and structural shocks in this model is defined as follows: $A = \begin{bmatrix} 1 & 0 \\ A_{21} & 1 \end{bmatrix}$

Digitization and its impact on Monetary Aggregates: SVAR Model (2)

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Data and Results

- Monthly data has been used for all variables in the unit of INR crores, for the period of April 2016 to July 2024, in the SVAR model with UPI as impulse variable
- As expected, the results reveal that the increase in UPI is negatively affecting the CIC, M0 and deposits but it has no significant impact on M3 (which is also insignificant)
- It has also been found that increase in UPI leads to increase in Money Multiplier
- **It has been estimated that every INR Crore increase in UPI leads to decrease in CIC, M0 and SCB deposits by 1.03 crore, 1.09 crore and 0.42 crores respectively**

Response variable	Impulse Variable	Coefficient	P-value
CIC	UPI	-1.03	0.0000*
M0		-1.09	0.0000*
M3		0.01	0.9480
MM		0.22	0.0300*
SCB Deposits		-0.42	0.0000*

* 5% level of significance

Digital Payments & Monetary Aggregates

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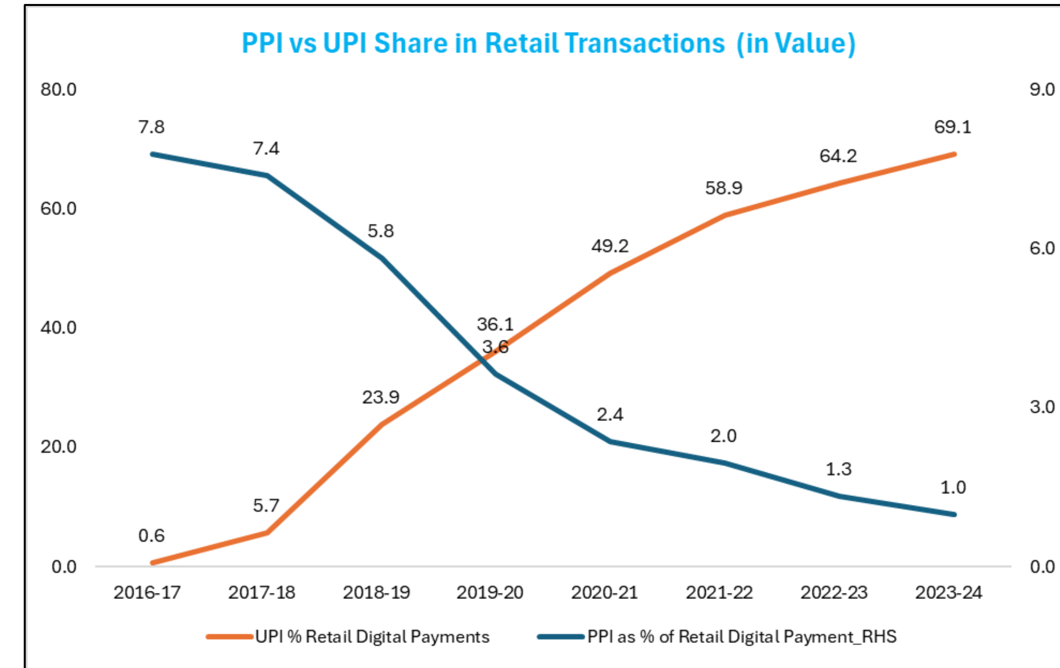
- The increasing usage of digital channels have 2-impacts; (i) Substitution of cash; and (ii) PPI/E-money/Coins etc
- The substitution of cash (central bank money) is replaced by UPI/IMPS etc (commercial bank money).
- Though, all the money transacted through UPIs are from the deposits of the banks and counted in money supply aggregates. While, the money stored in e-wallets are not considered in any of the money supply aggregates of M0, M1, M2 or M3.
- For example, consumer prefers to use e-money (or PPI in the case of India) vis-à-vis currency. Though, e-money might be used mainly for small value transactions and thus could be used to substitute central bank notes and coins at least partially.
- The increased use of pre-paid instruments will change the composition of both reserve money as well as monetary base and has further impacted central bank's control of money supply.



CHANGING CONTOURS OF LIQUIDITY FLUX….

How Money Markets are being coerced into a Paradigm Behavioral Change…

The TREPS MARKET & the growing layers of financial disintermediation….

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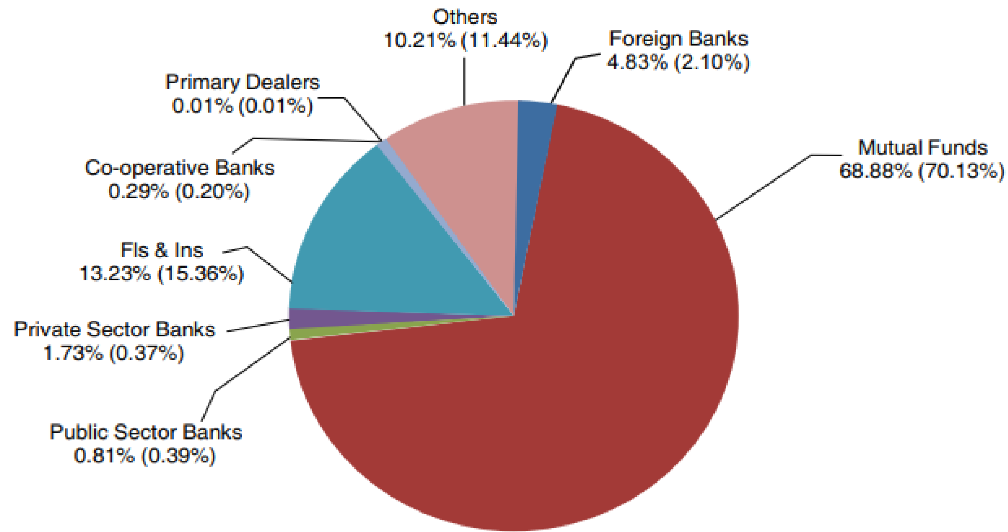
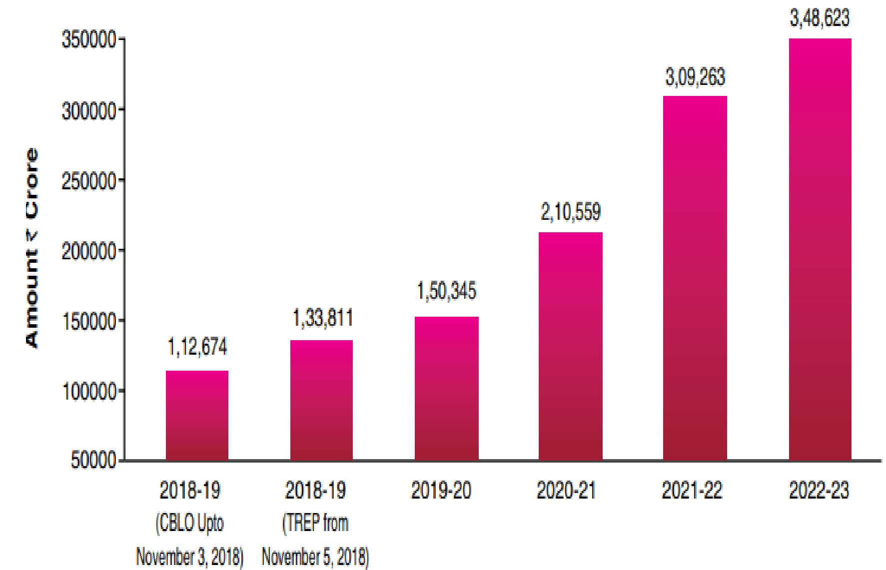
- There is growing interpretation by market experts of banks borrowing through TREPS who satiate their credit appetite. however, may at best be grossly misleading
- TREPS provides to MFs enhanced liquidity and the operational flexibility to manage the bouts of liquidity on a daily basis, coupled with superior returns and thus TREPS is a natural for short-term borrowing by various market players. Insurance companies make the second largest cohort after MFs as lenders. The interest earned through TREPS fares much better than similar yields offered by banks on short duration deposits, incentivizing MFs to incrementally side with TREPS while banks benefit through ultra flexibility, pledging securities and borrowing for short duration, helping in ALM management
- Between FY2019-2023, TREPS volume grew ~2.6 times. The average volumes have surged in recent months (~3.29 lakh cr) as select banks (mostly private banks) have been pushing the credit growth disproportionately. **The incremental C/D ratio of PVBs stood at a whooping 297% in Q1FY25 while for PSBs it stood at a mere 87%**
- AUM of MF Income/Debt Oriented Schemes (short duration) stood at ₹11.64 lakh cr (Aug'24), against ₹7.19 lakh cr on March'20. Within the cohort, the AUM of liquid funds with MFs has risen to ₹ 5.10 lakh cr from ₹ 3.35 lakh cr during the intermittent period, flummoxing the pooled funds aggregators who have benefitted from Corporate India recording handsome gains at the bottom of the balance sheet, while the capex plans have been timid in comparison, mirroring the global volatility / tensions.
- The investment playbook of both bank groups shows PSBs having a marked presence in SDLs (where the interest differential vis-à-vis CG sec is on the higher side), while PVBs have most of their money parked in CG securities. **PSBs are borrowing at lower cost through mechanisms like TREPS, keeping a CD ratio that aligns with regulatory scripture for a healthy and optimal benchmark and invest in assets that bring eschewed risk-reward gains in their favour….efficient treasury management..**
- However, there is a growing danger of disintermediation as money returns to banks through round tripping, keeping the lower bounds inelastically rigid and increasing the cost of funds. The hesitation on part of many banks to source bulk deposits locking in for a longer time frame as expectation of Mint street taking a pivot grows also bodes well for the TREPS market but the longevity, as also secular growth can't be a given as credit offtake driven by capex offtakes makes a comeback..

Liquidity Begets Liquidity…But the underlying costs may not be smooth in the long term

Category wise TREPS Lending (% in FY 2022-23)





*CBLO segment of the money market was discontinued and replaced with TREP with effect from November 5, 2018.
Figures in bracket above for different Market participants represent corresponding figures for the FY 2021-22.

Source: CCIL, SBI Research

Deposit accretion has seen a wedge between PSBs and PVBs…so has been the push to C/D ratio

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PSBs Business Growth (₹ in crore)

YEAR	Current	Saving	CASA	Term	Total	Credit	C/D ratio	CASA TO TOTAL DEP
Mar-18	507849	2630930	3138779	4557663	7696442	5543261	72.0%	40.8%
Mar-19	522374	2781243	3303617	4688932	7992549	5921172	74.1%	41.3%
Mar-20	536792	3018696	3555489	5020532	8576021	6069991	70.8%	41.5%
Mar-21	653315	3432297	4085612	5374386	9459998	6263382	66.2%	43.2%
Mar-22	681692	3793560	4475252	5743079	10218331	6723766	65.8%	43.8%
Mar-23	690365	3959287	4649652	6400216	11049868	7707965	69.8%	42.1%
Mar-24	754561	4146351	4900912	7187687	12088599	8755324	72.4%	40.5%
Jun-24	671185	4137324	4808509	7321543	12130052	8791319	72.5%	39.6%

Pvt. Banks Business Growth (₹ in crore)

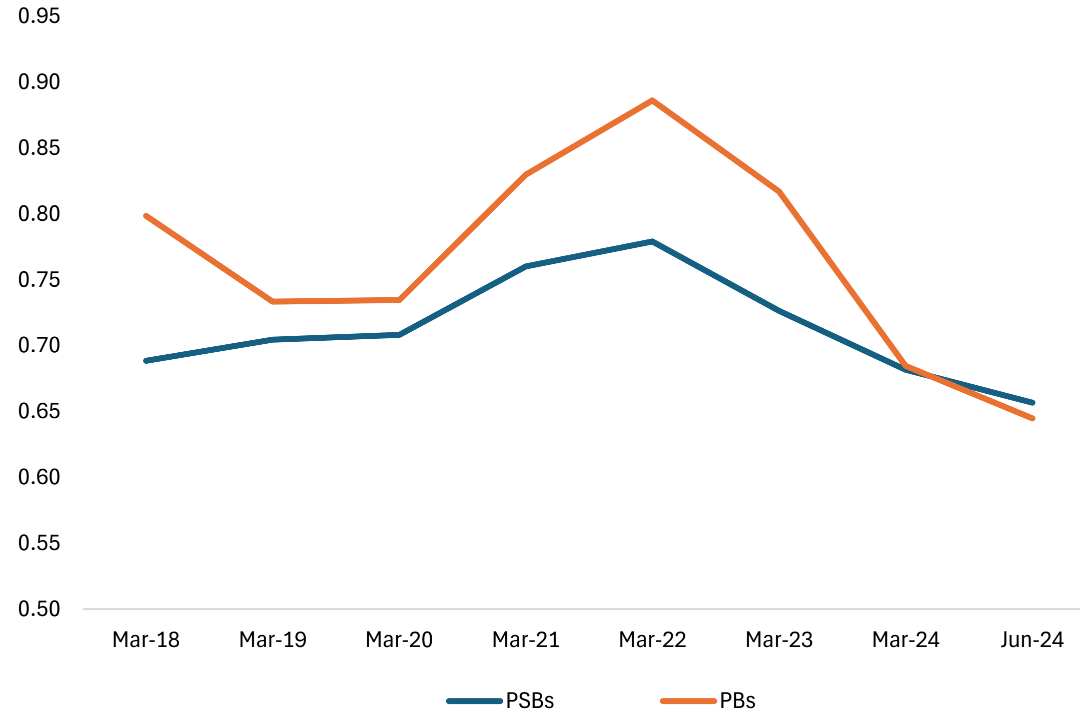
YEAR	Current	Saving	CASA	Term	Total	Credit	C/D ratio	CASA TO TOTAL DEP
Mar-18	415664.3	873513.8	1289178.1	1614122	2903300.3	2558820	88.1%	44.4%
Mar-19	485287.0	1045334	1530621.0	2086450	3617071.3	3298236	91.2%	42.3%
Mar-20	512502.7	1172420	1684922.9	2292834	3977756.8	3606192	90.7%	42.4%
Mar-21	641487.8	1455741	2097229.1	2526674	4623902.9	3916994	84.7%	45.4%
Mar-22	741016.6	1746692	2487708.4	2806773	5294481.4	4509489	85.2%	47.0%
Mar-23	844222.2	1887637	2731859.1	3343026	6074884.8	5356436	88.2%	45.0%
Mar-24	944925.9	2020242	2965168.3	4330224	7295392.4	6848126	93.9%	40.6%
Jun-24	859554	2018806	2878360.0	4463226	7341586.0	6985325	95.1%	39.2%

PSBs	Incremental Dep	Incremental Cr	I-CD ratio
Mar-18	198467.9	338330.2	170.5
Mar-19	346511.4	377910.9	109.1
Mar-20	583472.4	148819.2	25.5
Mar-21	883977.1	193391.2	21.9
Mar-22	758332.6	460384.1	60.7
Mar-23	831537.3	984198.8	118.4
Mar-24	1038730.9	1047358.8	100.8
Jun-24	41453.0	35994.9	86.8

PVBs	Incremental Dep	Incremental Cr	I-CD ratio
Mar-18	432478.9	442016.0	102.2
Mar-19	713361.1	739415.9	103.7
Mar-20	360685.4	307957.0	85.4
Mar-21	646146.1	310801.5	48.1
Mar-22	670578.5	592495.0	88.4
Mar-23	780403.4	846947.0	108.5
Mar-24	1220507.2	1491689.7	122.2
Jun-24	46194.0	137199.5	297.0

Source: SBI Research

Ability to mobilise non-stable deposits is converging for all banks (types)



Wt. Avg. RoI on Term Dep.

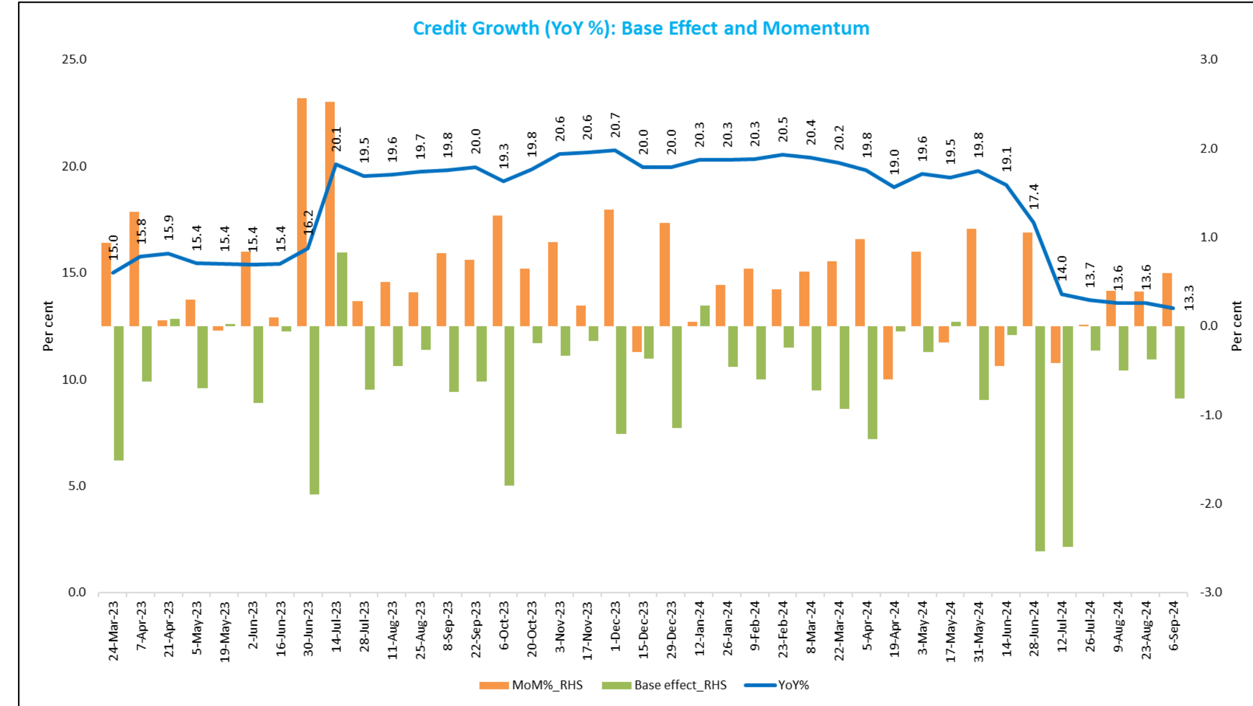
YEAR	1 to 3 yrs.	Above 5 yrs.	Over 3 yrs. & upto 5 yrs.
2017-18	6.58	6.48	6.50
2018-19	6.75	6.75	6.75
2019-20	5.60	6.05	6.05
2020-21	5.10	5.30	5.38
2021-22	5.10	5.25	5.33
2022-23	5.45	5.73	5.63
2023-24	6.55	6.75	6.45

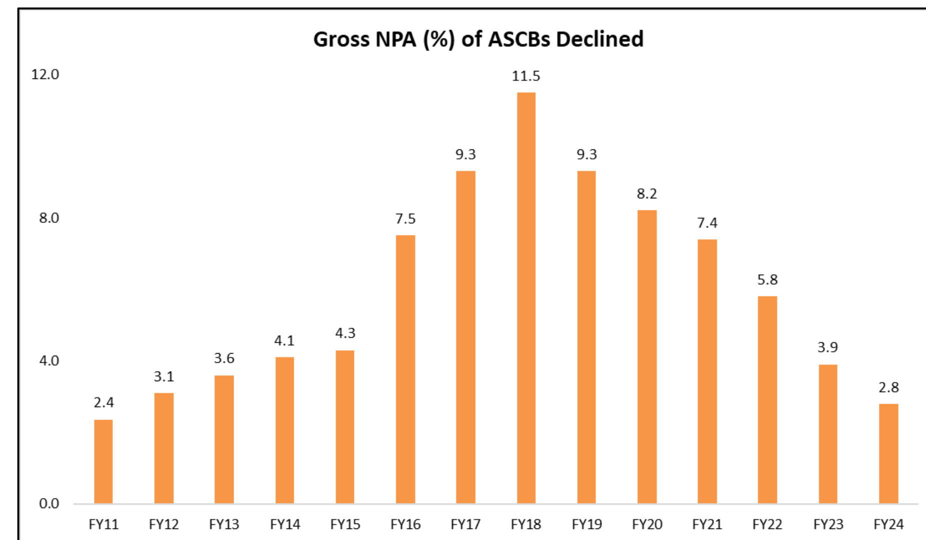
Source: SBI Research

Domestic Economy

Bank credit growth continues to outpace deposit growth on the back of sustained momentum of demand

- Bank credit growth continues to outpace deposit growth on the back of sustained momentum of demand. In the Current FY so far (till 06 Sep), ASCBs deposits grew by 11.1% YoY compared to last year growth of 13.7%, while credit grew by 13.3% YoY compared to last year growth of 19.8%. On YTD/incremental basis, deposits grew only by 5.2% (Rs 10.7 trillion), compared to last year YTD growth of 7.5% (Rs 13.4 trillion). Credit grew by 3.7% YTD (Rs 6.14 trillion), compared to last year growth of 10.0% (Rs 13.6 lakh crore)
- Bank credit growth appears to be moderating after RBI's move to curb the growth of unsecured lending. However, the domestic banking system remains resilient, bolstered by strong buffers, robust earnings and the ongoing strengthening of balance sheets.
- By looking the trend growth, both deposits and credit may grow in the range of 11-13% during FY25.
- **The graph indicates that credit grew at a robust pace driven by momentum even as favourable base effect is waning**





Monsoon slightly above normal, however higher spatial variation

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- The cumulative southwest monsoon was 8% above the LPA this year so far (Jun 1 to Sep 30), as against 6% below the LPA a year ago. Cumulative rainfall consistently remained above the normal LPA since mid-July, unlike last year when it tapered off during the latter half of the monsoon season
- During the current monsoon season so far, 21 out of the 36 meteorological sub-divisions recorded normal rainfall. The number of sub-divisions receiving excess/large excess rainfall increased to 12 in the current year from 4 a year ago, which is reflected in the higher spatial variation in rainfall across the country vis-à-vis last year
- Also, an analysis of a decade data of major states indicate that the states which were predominantly in deficit mode during 2015-2019 are receiving good rains in 2020-2024 period. However, the deficit states are still receiving deficit rains
- Total sown area stood at 110 million hectares (as on September 20, 2024), which is 1.5% higher than last year and 1% higher over the normal area as on date. Except cotton, area under all major crops has increased over last year

5 year Average (% deviation from normal)		
State	**2015-2019**	**2020-2024**
Telangana	-2%	35%
Gujarat	0%	30%
Rajasthan	16%	26%
Tamil Nadu	2%	23%
Andhra Pradesh	6%	19%
Maharashtra	3%	16%
Karnataka	-5%	11%
Madhya Pradesh	5%	9%
Chhattisgarh	-2%	4%
Haryana	-27%	4%
India	-4%	3%
West Bengal	-7%	-1%
Uttarakhand	-12%	-2%
Odisha	-2%	-3%
Bihar	-12%	-11%
Punjab	-13%	-12%
Jharkhand	-14%	-13%
Uttar Pradesh	-21%	-13%
Kerala	-7%	-14%

Source: IMD; SBI Research

CPI expected to remain within RBI target in FY25..though currently looking higher

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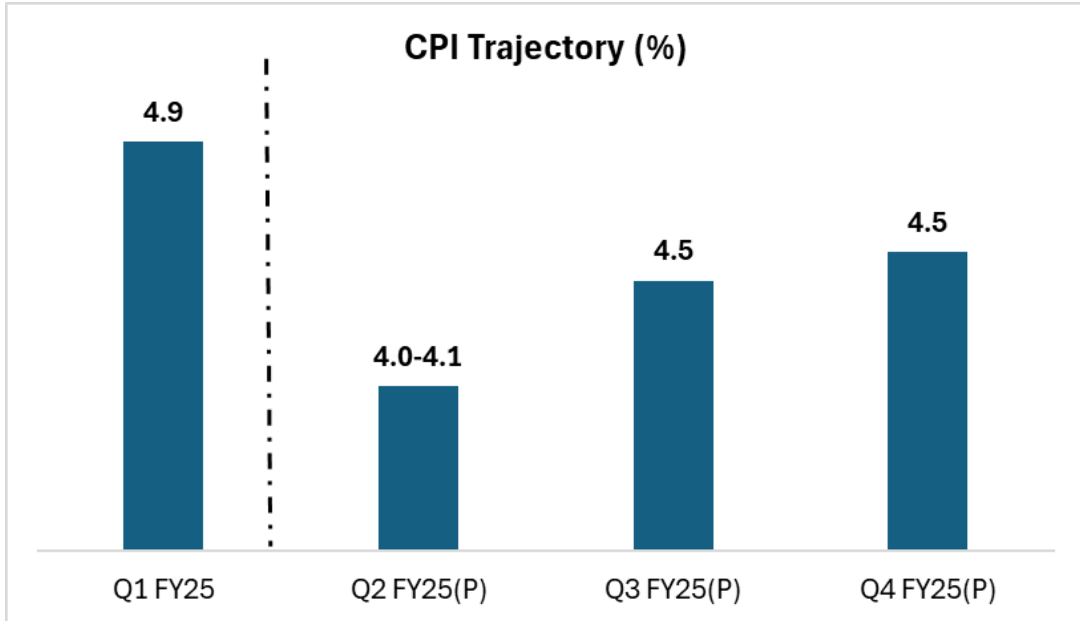
- India's CPI inflation came at 3.65% yoy in August as against 3.60% yoy in the previous month. This is the second lowest in the last five years
- CPI is expected to remain below 5.0% in the remaining months, except for Sep'24 because of unfavourable base effect
- However, for the full year FY25, CPI inflation is likely to average to 4.5%-4.6% and will remain In the RBI's targeted range of 4-6%



Final Thought

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- So, what will be the RBI's policy look like:

Indicator	Our View
Global Economy and RBI	Global growth remains resilient and inflation has further declined in major economies Labor market pressures have continued to ease. The number of job vacancies has fallen steadily from peak levels observed during the pandemic RBI may however disassociate from the interest rate developments in the US and may take independent view on the domestic rates based on evolving conditions
Stance & Repo Rate	We believe the stance should continue to be withdrawal of accommodation First cut and change in stance likely in Dec 2024 / Feb 2025…We however believe a possibility of growth slowing down incrementally with the leading indicators showing a declining momentum and increasing geopolitical risk might prompt a rewording of communication from RBI highlighting the need to have a balanced growth inflation balance
Measures to augment liquidity	There is an apparent inability of central banks like RBI to control base money and money multiplier in a financial ecosystem characterized by new business models and evolving digital technology…money multiplier is now more a function of behavioural aspects notably in an inflation targeting regime…. systemic liquidity becomes the more relevant metric than reserve money for achieving the specified short-term rate. However, Government cash balances being not a part of financial ecosystem (JIT) coupled with newer innovations within the broader markets with increasing layers of disintermediation will keep cost of funds perpetually higher….RBI will attune liquidity to emerging needs….

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Contact Details:

Dr. Soumya Kanti Ghosh

Member, 16th Finance Commission &
Group Chief Economic Advisor
State Bank of India, Corporate Centre
Nariman Point, Mumbai - 400021
Email: soumya.ghosh@sbi.co.in
gcea.erd@sbi.co.in
Phone:022-22742440
:@kantisoumya