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Credit growth subdued so far, say bank chiefs

'Stock market swings may draw more funds to deposits'

Our Bureau

Mumbai, June 8

Credit growth in 2006-07 has been subdued so far, compared with last year; and the challenge for banks this year will be deposit mobilisation, said bank chiefs. They were speaking to reporters on the sidelines of a seminar on financial inclusion, organised by Skoch Consultancy.

Dr A.K. Khandelwal, Chairman and Managing Director, Bank of Baroda, said the bank is targeting a credit growth of over 25 per cent this year. Last year, the bank saw a credit growth of 38 per cent.

Though deposit mobilisation will be a challenge, there could be flow of funds into bank deposits as the equity market is subdued. "The upheavals in the

Bankers' perspective

Bank of Baroda target 25 pc credit growth against last year's 38 pc.

Union Bank sees pick-up from big infrastructure investments.

No slowdown in April-May, says Bank of India chief

equity market could open up new opportunities for deposit mobilisation in the banking sector," he said.

Dr Khandelwal also said there was a trend for deposits rates to increase this year. The gap between credit and deposit growth could also narrow due to subdued growth of credit.

Banks were also increasing rates within the Prime Lending Rates and trying to hike the sub-

PLR loan rates, he said.

"Credit growth will be seen more from infrastructure projects and the SME sector in 2006-07," he said.

Mr M.V. Nair, Chairman and Managing Director, Union Bank of India, said credit will pick up in the third quarter. "Substantial investment in infrastructure such as power and airports could see credit growth picking up," he said.

To compete with government savings schemes, banks would offer long-tenure deposits, he said.

Union Bank of India is targeting 20 per cent growth in credit and 25 per cent growth in deposits in 2006-07 against 33 per cent and 19 per cent respectively last year. In the next two to three months, a change in in-

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terest rates is unlikely, Mr Nair added.

However, according to Mr M. Balachandran, Chairman and Managing Director, Bank of India, there has been no credit slowdown in April-May. The bank is targeting 16-17 per cent deposit growth and 25 per cent growth in credit. "Long term deposit becomes an attractive proposition for investors," he said. The bank recently launched long-term deposits offering with over 8 per cent interest and is planning to introduce more yield-enhancing products.

According to a senior official from Punjab National Bank, the surplus liquidity in the banking system is due to the unwinding of bonds under MSS by the RBI.

If credit growth continues at over 30 per cent and deposit growth at 15 per cent, then banks would be forced to draw on their excess SLR portfolio, he said

PRESSURE ON BANKS

Addressing the session, the RBI Deputy Governor, Ms Usha Thorat, said that there was pressure on banks to reduce interest rates, but banks would have to think of sustainable business. "Banks have to recover costs. So there is the issue of how they can do so by lending at lower costs," she said.

The other issues related to financial inclusion include the use of IT, balance of risks and cost, financial literacy and recovery pattern, the Deputy Governor said.