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CREDIT-DEPOSIT RATIO IN INDIA: AN EXPLORATION

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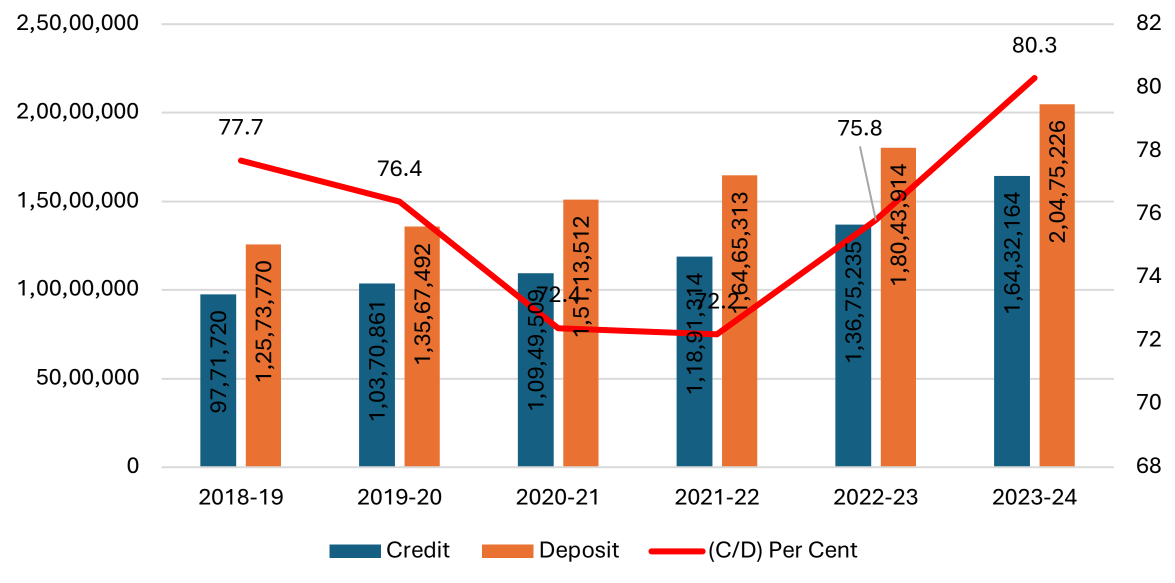
The Scheduled Commercial Banks (SCBs) struggled to mobilise large deposits, whereas the growth of the credit remained at a much faster pace compared to that of the deposits during the last two financial years. Outstanding credit disbursed by SCBs was at the highest level in 2023-24 amounting to ₹1,64,98,006 crore, whereas in percentage terms, the growth of Credit-to-Deposit (C-D) ratio rose from 75.8 per cent to 80.3 per cent. According to the RBI April 2024 Bulletin, during March 2024, the Incremental Credit-Deposit Ratio (ICDR) remained around 95.94 per cent, whereas on 8th March 2024 this was at 92.95 per cent.

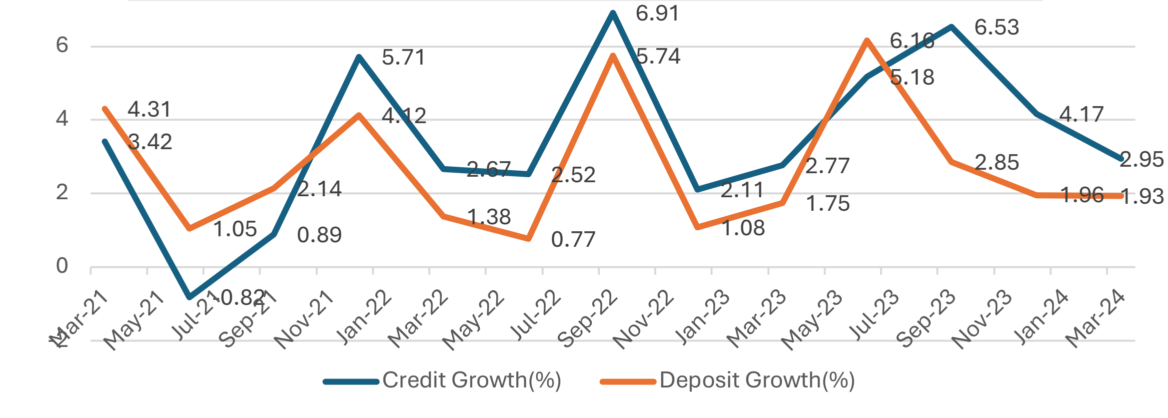
Chart 1: Credit-Deposit Ratio Trends [(2018-19 to 2023-24) (Amount in Crore)]



Source: RBI, CMIE.

It may be observed from the following Chart (***Chart2***), that there was a much higher growth of credit of the SCBs compared to the growth of deposits, even as per the Quarter-on-Quarter(QoQ) basis. The growth of credit outpaced the growth of deposits during the period FY 19 to FY 24.

Chart 2: Credit & Deposit Growth Quarter-on-Quarter [QoQ](%)



Source: RBI, CMIE.

Deposits grew at an average of 9.5 per cent during the pre-Covid period (January 2015 – February 2020), while it grew by 10.4 per cent during the post-Covid period (March 2020 – August 2024), implying an average growth of 9.9 per cent during the past decade (January 2015 – August 2024). Similarly, bank deposits increased 10.8 per cent year-on-year (yoy) as of August 9, 2024, which is better than the medium to long-term average growth.

The household financial liabilities rose substantially from 2021-22 from ₹ 9,01,356 crore to ₹ 15,82,177 crore, especially the borrowing from financial corporations increased significantly. The borrowings from the banking sector increased from ₹ 776470 crore to ₹ 1216350 crore. The same increased from NBFCs, HFCs and insurance companies. Hence, an unusual increase in household liabilities was observed.

Flow of Financial Assets and Liabilities of Households					
₹ crore : 2018-19 to 2022-23					
	2018-19	**2019-20**	**2020-21**	**2021-22**	**2022-23**
Financial liabilities	7,71,245.0	7,74,691.7	7,81,717.4	9,01,356.3	15,82,177.0
Loans (borrowings) from financial corporations	7,70,563.9	7,74,557.6	7,82,184.7	9,00,923.7	15,82,143.3
Banking sector	6,04,376.2	5,09,822.8	6,40,473.6	7,76,470.2	12,16,350.1
Other financial institutions	**1,66,187.7**	**2,64,734.8**	**1,41,711.1**	**1,24,453.5**	**3,65,793.1**
Non-banking financial companies (NBFCs)	92,859.0	2,50,652.0	86,979.0	21,432.2	2,39,895.9
Housing finance companies (HFCs)	65,220.9	6,322.6	51,776.2	98,466.8	1,17,017.0
Insurance companies	8,107.8	7,760.2	2,955.9	4,554.5	8,880.3
Loans (borrowings) from non-financial corporations (pr	135.1	135.1	134.4	135.1	135.0
Loans (borrowings) from general government	546.0	-1.0	-601.7	297.4	-101.3

Source: RBI, CMIE.

According to the NSE data, individual investors were strong buyers of Indian equities for the fifth year in a row, taking the total net investments between FY21 and FY25 (as of July 31st, 2024) to ₹ 3.8 lakh crore. It is interesting to note that the proportion of individual investors under 30 years old rose steadily, with their share in the registered investor base growing from 22.6 per cent as of FY19 to 39.9 per cent as of FY25 (as on July 31st, 2024). This trend demonstrates an increasing interest in equity markets among young investors. During the same period, the share of investors aged 30-39 remained relatively stable, while the share of those over 40 declined.

The mismatch between assets and liabilities in general and credit deposits in particular evoked widespread debates and discussions. While increased lending generally leads to more deposits through the credit multiplier effect, reduced liquidity led to shrinking deposit pools reflected in the fact that 77.2 per cent loan–deposit (LD) ratio of the Indian banking system as of August 9, 2024 was higher than 77 per cent for the tenth straight month. But the transforming dynamics are reflected in the fact that there was no tightness in the banking sector as manifested by an average Liquidity Adjustment Facility (LAF) deficit of 0.3 per cent of net demand and time liabilities (NDTL) and a stable weighted average of call rate (WACR).

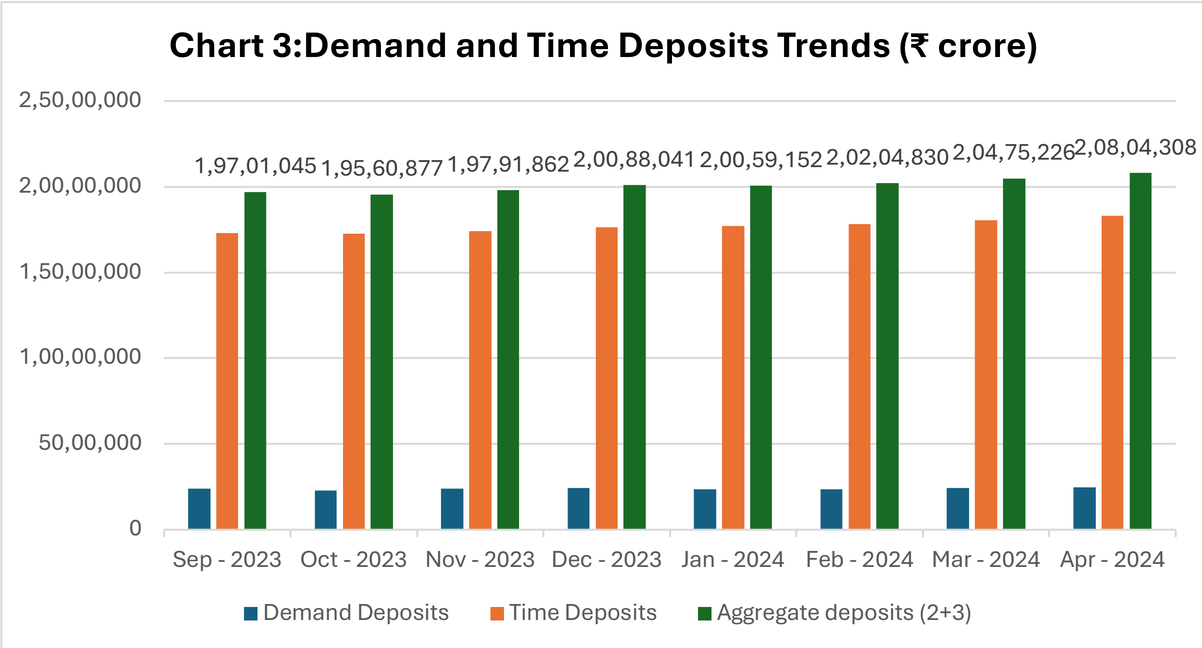
The LD ratio had peaked in September 2013 at 78.8 per cent, and the recent peak was 78.2 per cent in March 2024. In the past 15 years, there were three episodes, including the recent episode, where LD ratios rose to 77-78 per cent levels.

In this context, there are two divergent points of view. This is because some experts hold that the argument that the retail investors or others resort to other avenues (e.g. mutual funds (MFs), stocks), where potential returns could be very high, e.g. mutual funds (MFs) is specious because of redemptions, and the money kept in the banking system. However, there are two challenges here.

First, there is a possibility that the proportion of amount kept in such alternative investments can be higher for a sustained period than coming back into the banking system in the form of deposits. Secondly, if investors simply keep on changing their investments from one form to another instead of redeeming their money from a pool of stocks/MFs), they re-invest further in derivatives/options and other such sophisticated financial instruments.

Interestingly, in a similar vein as argued above, a survey by FICCI and the Indian Banks' Association (IBA) found that customer's search for higher yielding investments and the ability to lock those interest rates for a longer period led to a behavioural shift from low-cost to high-cost deposits, hence increasing the lender's deposit costs.[1] The term-deposits gained momentum due to higher/lucrative rates compared to their current account-savings account (CASA) deposits, hence, reducing the latter.

Further, the incremental change in the share of household's bank deposits remained marginal at 63~61 per cent during 2018-2024. There was, however, an increase in corporate deposits amid the improvement in corporate profitability.[2] According to the RBI data of March 2024, the Government's aggregate share was ₹ 2009387 crore, whereas the share of the current account (CA) remained at ₹ 203882 crore, the share in the savings account (SA) remained at ₹747637 crore and term deposit (TD) share remained at ₹1057868 crore.



Source: RBI.

The survey revealed an increased credit flow to the infrastructure sector in long-term loans, which can be attributed to the government's capex push. The non-food credit disbursements also expanded.

From the quarterly data (QoQ), it is observed that the credit towards personal loans, especially credit card loans increased relatively substantially, despite certain regulations imposed by the RBI in this regard. Another reason for low deposit growth seems to be the substantial cash holdings by the governments with the RBI especially during the election season.

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[1] "Banking system may face liquidity challenges: FICCI-IBA Survey" (11 September 2024) The HinduBusinessLine.

[2] "Banks A/C for Deposits" (10 Sept 2024) The Economic Times.

In the current context, even in rural sector/underdeveloped areas, people prefer to place their earnings in different asset classes (even we cannot eliminate investments in loosely regulated avenues like crypto like platforms, other money-guaranteed plans, ponzi schemes, etc). Further, as argued elsewhere, the pace of deposit accumulation was slower than in retail lending, particularly in unsecured lending like loans against credit cards, etc.

Substantial cash is still used in the unorganised sector with the result that the growth of business in this sector does not lead to an accretion in bank deposits, e.g., real estate related additional/unaccounted payments in the form of cash. Faster growth of activities in the parallel economy constrains the growth of deposits.

Scheduled Commercial Banks' (SCB's) borrowings from other sources/forms also increased substantially, e.g., infrastructure bonds, that might be lucrative in terms of return for long-term investors. Moreover, since such borrowings are free from regulatory requirements like CRR, SLR, etc., there is a need to make deposits more attractive with certain innovative features/product innovation, restructuring of interest rates, aggressive advertisements of such attractive features, etc. Given the multiplicity of alternative investment options today, deposit mobilisation requires focused efforts for sound and sustainable development of the banking sector.