



## BANK DEPOSITS: ECONOMY

**NEWS:** Bank deposit growth outpaces credit offtake for first time in 30 months

### WHAT'S IN THE NEWS?

Deposit growth in banks has slowed slightly, while credit growth has significantly decelerated due to higher base effects, stricter RBI regulations, and a focus on liquidity stability. These factors, along with increased term deposit rates, have shaped current banking performance and regulatory priorities.

### Year-on-Year Performance :

- **Deposit Growth:** Grew by 11.8%, which is slightly slower than last year's 13.4% increase.
- **Credit Growth:** Slowed significantly to 11.7% compared to 19.7% in the previous year, indicating a deceleration in lending.

### Deposit Expansion in 2024:

- **Since January:** Bank deposits have expanded by 8.6%, which amounts to an increase of ₹17.3 lakh crore over nine months.

## RACE FOR DEPOSITS



### Factors Driving Deposit Growth:

1. **Rising Term Deposit Rates:** Banks have offered more competitive interest rates on term deposits, making these options more appealing to depositors and thus strengthening their funding base.
2. **Focus on Liabilities:** Banks have focused on building their deposit base through tools like certificates of deposits (CDs), although CDs often come with higher costs.



## Fixed Deposit (FD) vs. Term Deposit:

- **Fixed Deposit (FD):** This is a one-time deposit with a set interest rate and fixed tenure. It offers both cumulative (interest compounds) and non-cumulative (regular payouts) options, with interest rates usually higher than regular savings accounts.
- **Term Deposit:** A broader category, covering deposits with specified tenures, including fixed deposits (FD) and recurring deposits (RD). RDs allow flexible, regular contributions instead of a single lump sum, catering to different saving needs.

## Credit Growth Influencers:

1. **HDFC Ltd-HDFC Bank Merger:** Increased the base for credit growth comparisons, impacting year-on-year growth rates.
2. **RBI Regulations:** The Reserve Bank of India has introduced stricter risk weights (up to 150%) on certain loans, like consumer credit and credit cards, and is revising Liquidity Coverage Ratio (LCR) norms. These regulatory changes have moderated banks' lending capacity.

## Liquidity Coverage Ratio (LCR):

- **Effective from April 1, 2025:** This ratio mandates banks to hold a buffer of High-Quality Liquid Assets (HQLA) to manage their 30-day net outflows during times of financial stress, enhancing liquidity preparedness.

## Credit-Deposit (CD) Ratio:

- The Credit-Deposit ratio measures the portion of deposits that banks use to provide loans. As of October 18, 2024, this ratio was around 79%, slightly lower than the 79.5% seen in December 2023.

## Certificates of Deposit (CDs):

- CDs are short-term deposit instruments issued by banks to raise funds quickly. They are time-bound, safe investment options for corporations or individuals and offer a fixed interest rate until maturity.

Source : <https://indianexpress.com/article/business/bank-deposit-growth-outpaces-credit-offtake-9654397/>