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Banks may face problem with shrinking deposits and rising loans

By [Saikat Das](#) & [Gayatri Nayak](#), ET Bureau | Updated: Apr 04, 2016, 08.06 PM IST

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MUMBAI: Indian [banks](#) are facing a peculiar problem - that deposits growth is at a five decade low, and [loans](#) growth is beginning to turn after a five years of continuous fall - probably limiting the fall in borrowing costs as banks may be forced to deposit rates if demand for loans accelerate.

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Banks are reducing the proportion of their government bond holdings to the total deposits as they begin to lend more than previous years, data from the [Reserve Bank of India](#) shows. The so called credit-to-deposit ratio has surged to 77.6%, in March'16, from 76.5% a year earlier indicating that banks are lending a bigger portion of the every Rs. 100 taken as deposit.

If the current trend continues, then even government borrowings could get costlier. As banks reduce the proportion of purchase of government bonds, yields on them could climb and consequently push up costs for even corporates.

"Retail loans have been the largest contributor to bank credit growth in the past one-two years," said Saugata Bhattacharya, chief economist [Axis Bank](#)," said Saugata Bhattacharya, chief economist Axis Bank. "In the last couple of months, corporate working capital borrowings through Commercial Paper have partially reverted to banks (due to falling gap in their respective interest rates)."

Deposit growth fell to 9.9% in the last reporting Friday of FY'16, from 10.7% a year ago, [RBI data](#) shows. But loans grew 11.3% in the last reporting Friday of March, from 9% year ago. The deposit growth rate is the lowest since FY'63. While loans growth has reversed the five year trend in slowing down.

The banking landscape in India has also gone a change with two new banks - Bandhan Bank and IDFC Bank - starting their operations this fiscal. They have together estimated to add about Rs 50-60,000crore to the loan book of the banking sector.

Economists feel if the slowdown in deposits continue along with a pick up in credit demand, there could be pressure on rates. "This year, bank loan growth may improve modestly, but if deposits do not grow commensurately, the funding mismatch may impede rate transmission," said Bhattacharya

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