

# Banks show healthy rise in deposit growth but stagnated credit growth

By [Pratik Bhakta](#), ET Bureau | Updated: Feb 03, 2017, 06.45 PM IST

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*This growth was spurred by conversion of cash and currency into deposits as the government banned 500 and 1000 currency notes.*

MUMBAI: [Demonetisation](#) has helped to boost [deposit growth](#) even at a time when [banks](#) have reduced the interest rates on term deposits.

Deposits rose 13.9% or Rs 12.7 lakh crore to Rs 105 lakh crore against a 10% rise reported last year, according data released by the Reserve Bank of India.

This growth was spurred by conversion of cash and currency into deposits as the government banned 500 and 1000 currency notes.

People were forced to deposit their old high value currency notes with banks over the months of November and December of last year and at the same time the central bank was releasing cash at a slow pace.

While deposits grew, [credit growth](#) has not shown any pick up as it has remained muted at around 5% with the total outstanding bank credit standing at Rs 74 lakh crore.

As a result banks were forced to park surplus funds in government bonds which helped lower yields which in turn has helped government raise cheaper funds.



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“The surplus liquidity in the banking system, created by demonetisation, will lower borrowing costs and increase the access to credit. This will boost economic activity, with multiplier effects,” said Arun Jaitley, finance minister during the Union Budget speech on Wednesday.

The pace of deposit growth can slow down in the coming months with more and more new currency

coming back into the system. Currency in circulation rose for the third straight week to Rs 10.2 lakh crore as of January 27.