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Will savers earn higher interest income?

BY [GAYATRI NAYAK](#) & [SAIKAT DAS](#), ET BUREAU | NOV 29, 2018, 10.52 PM IST

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Domestic savers could get higher interest incomes as [Indian banks](#) must stump up more cash for garnering fresh deposits, which are now being outpaced by credit advances to willing borrowers in an expanding economy.

[Fresh credit](#) to deposit ratio is at 122% as of November 9, compared with 90% a year ago, show the latest data from the Reserve Bank of India ([RBI](#)). That ratio points to a likely increase in deposit rates amid a quickening expansion in loans.

The data mean that for every incremental Rs 100 collected in deposits, banks are lending Rs 122, drawing down from their holding of government bonds. Hence, lenders have to raise the share of deposits to meet credit demand.

Fresh investments to deposit ratio has come down to 31% from more than 100% a year ago.

RBI data also indicate the widening gap in the credit - deposit growth, with credit expanding at close to 15% YoY and deposits climbing at 9%. The trend implies that banks are also relying on borrowed funds to meet credit demand.

“The increasing wedge in the credit - deposit growth...is leading to an increase in the market rates for the wholesale deposit even as moderation in the G-sec yields has happened last month,” said B Prasanna, group executive and head of markets, ICICI Bank. “The continuation of this wedge would lead to further pressure on the deposit rates. This has led to an increasing spread for deposit rates and, consequently, lending rates over the risk-free rate.”

Many private and public sector banks, including most valuable lender [HDFC Bank](#), have started raising deposit rates. On Wednesday,

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the country's largest lender, State Bank of India, also offered more for one-year and two-year term deposits.

Wholesale deposit rates have also gone up by about 75-100 bps in the last six months. The upward movement in deposit rates has led to an increase in [MCLR](#) of various banks by about 50 basis points.

In addition to an increase in the MCLR, the spread over MCLR for various categories of loans is also going up, resulting in an increase in the overall rates in the banking system.

“Ideally, credit creates new deposits, and there lies the role of commercial banks,” said Soumyajit Niyogi, associate director at India Ratings and Research. “The current high divergence is an outcome of leakages in the system owing to the heavy upsurge of cash in circulation. Nevertheless, banks are likely to stay light on SLR bond holding, with a greater thrust on deposit mobilization.”

Banks have to park 4% as cash with the RBI under its cash reserve ratio requirements, and mandatorily invest 19.5% in government bonds under statutory liquidity ratio requirement out of every Rs 100 they raise as deposits. This means that banks are left with Rs 76.5 for onward lending.

The outstanding credit deposit ratio is 77% compared to 73% last year, pointing to an increasing demand for funds.

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