

Banks need to focus on deposit growth to manage liquidity: SBI report

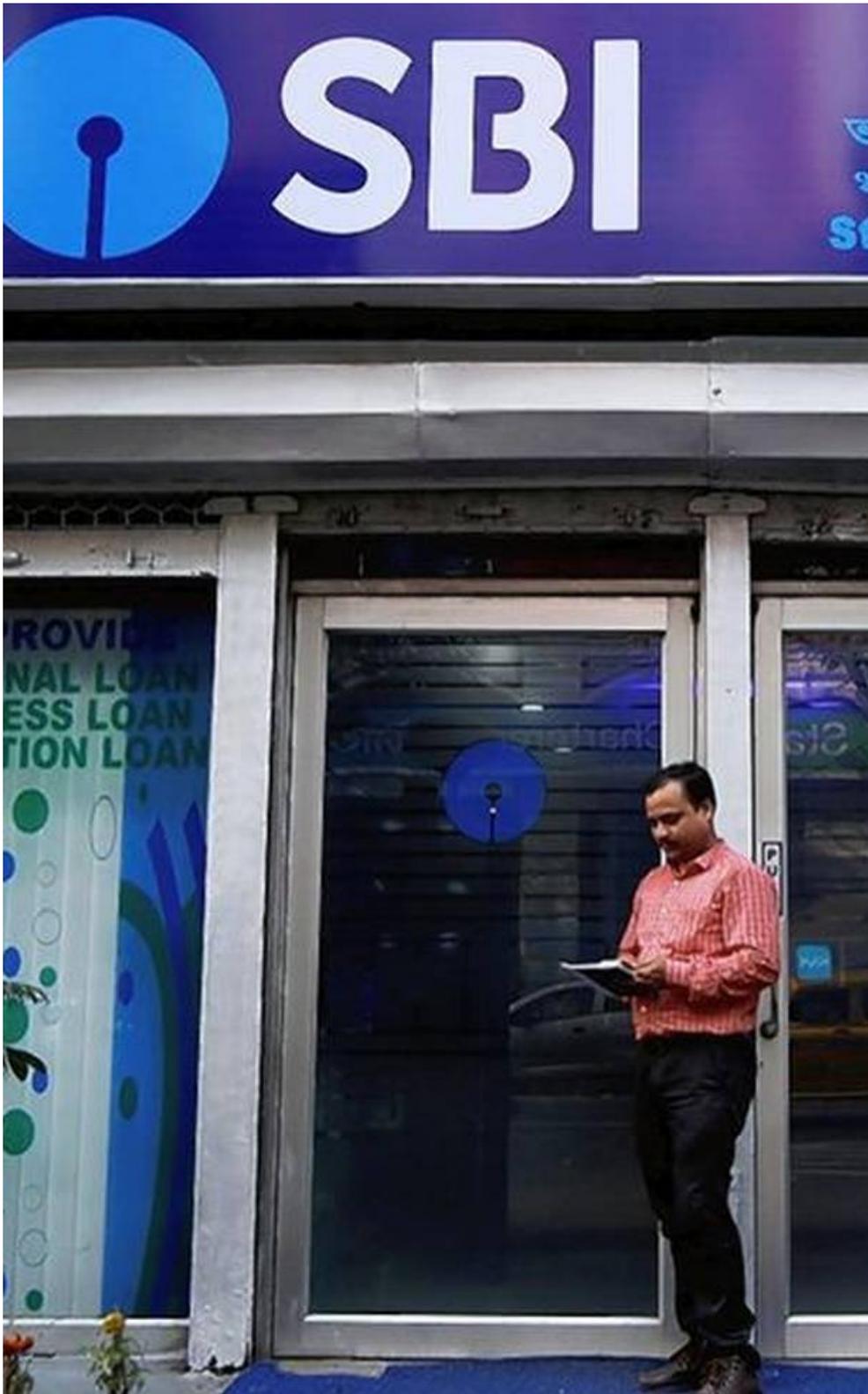
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The widening gap between deposit and credit growth requires build-up of liquidity by focussing on deposit growth, which in turn could lead to hardening of interest rates next year, according to State Bank of India's research report 'Ecowrap'.

The report envisaged the aforementioned scenario in the event of no buyback of securities and the Reserve Bank of India not undertaking aggressive open market operation (OMO) purchase of government securities.

Against the budgeted amount of ₹75,000 crore (revised later to ₹1 lakh crore), borrowings through small savings reached ₹45,396 crore by November 2018, the report said. For FY2018, the government had completed the scheduled borrowing of ₹1.02 lakh crore through small savings scheme.

“The large funding through the National Small Savings Fund (NSSF) is possible in part owing to large interest gap between bank deposits and the small saving rates. However, this may make it difficult for banks to reduce deposit rates and hence lending rates in the near future,”



the report said.

Interestingly, in the last few months, with bank deposit growth significantly lagging bank credit growth, banks have been increasing deposit rates to protect the possibility of deposit flight from banks, it added.

The gap between the small saving interest rate (average of Public Provident Fund and Sukanya Samridhi account rates) and average bank term deposit (greater than one year) still remains around 98 basis points.

“Such widening gap between deposit and credit growth requires banks to manage liquidity by focussing on deposit growth. Thus, it is imperative that we make bank deposits attractive by making it tax-free,” elaborated the report.

For the fortnight ended January 4, on year-on-year basis, the report said the aggregate deposits have registered a growth of 9.9 per cent or ₹10.85 lakh crore and advances have increased by 14.5 per cent or ₹11.85 lakh crore.

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