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Banks' reliance on bulk deposits like to increase: Ind-Ra

BY PTI | MAR 11, 2019, 06.46 PM IST

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NEW DELHI: Scheduled commercial banks' reliance on bulk deposits is likely to increase if credit growth is higher than that of deposit, India Ratings and Research (Ind-Ra) said Monday.

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As per the rating agency, the system level credit growth of 12.9 per cent year-on-year continues to outpace deposit growth at 9.3 per cent, thereby intensifying competition for deposits among banks.

This is based on RBI's quarterly statistics on deposits and credit of scheduled commercial banks for December 2018.

In third quarter of this fiscal, state-owned banks have seen credit growth of 8.4 per cent and deposit growth at 4.9 per as compared to the year-ago period, implying that they could also compete to recoup some of the deposit market share loss that they have conceded to private banks over the years.

"With private banks seeing continuing strong credit growth at 22 per cent year-on-year in third quarter of 2018-19, they are likely to solicit deposits even by offering higher rates," Ind-Ra said.

It believes that if credit growth continues to outpace deposit growth, "then scheduled commercial banks' reliance on bulk deposits is likely to increase which could lead to a higher cost of funds along with increasing volatility in the asset-liability structure of banks".

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During April-February 2018-19, deposits raised by banks were up 24.6 per cent as compared to the year-ago period even as the outstanding amount was up only 3.6 per cent at Rs 1.78 lakh crore, it said.

The rating agency said the longer term trend of market share shift from public sector banks (PSBs) to private banks continued to play out in the last 12 months.

Private banks saw an increase of 235 bps to 26.2 per cent and 234 bps to 31.4 per cent in market share in deposits and credit, respectively, in the last one year while PSBs saw a 274 bps decline to 65.7 per cent in deposits and a 253bps decline in credit to 60.9 per cent.

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