

Bank deposits surge, but not because common man saved more; check whose money it is

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Bank deposits are on steep rise, but common man's savings have little role to play in it, as the coronavirus-led lockdown washes away people's income. The deposits in the bank grew by 11.3 per cent as of 5 June 2020 compared to the previous fortnight. The sudden surge in bank deposits is due to a rise in overall borrowings of both the central and state governments, rather than increased savings, India Ratings and Research (Ind-Ra) said in a report. Increased borrowings of Rs 1.63 lakh crore by the central government, as well as the state governments borrowings of Rs 37,000 crore during the fortnight ended 5 June could weigh on liquidity, ratings agency [Care Ratings](#) said in a report.

Credit off-take slows

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While the bank deposits are on a rise, the growth of credit off-take from the banks has almost halved. The credit growth was nearly at half the level during the last two fortnights at 6.3 per cent and 6.2 per cent respectively, compared to a year-ago level of 12.7 per cent and 12.3 per cent. Sentiment related to risk aversion in the banking system coupled with the extended lockdown in the highly impacted regions due to COVID-19 are the main reasons behind low credit off-take from banks, Care ratings added.

Even after the Reserve Bank of India sharply cut the repo rate in the last few MPC meetings, the uncertainty mounting on the economy has prevented borrowers from taking loans from banks. Under Prime Minister [Narendra Modi's](#) 'Atma Nirbhar Bharat' economic stimulus package, Finance Minister Nirmala Sitharaman announced bank guarantees and credit schemes worth lakhs of crores of rupees.

Here's how it hits banks

With a high deposit growth compared to the credit off-take, banks' liability to pay interest has also increased, which is affecting the operating margins of scheduled commercial banks (SCBs). The banks have been cutting deposit rates to protect margins, as the banking system remained in

the liquidity surplus of over Rs 3.8 lakh crore during the fortnight ended 5 June. Meanwhile, it is also expected that liquidity in the banking system will remain in a surplus position as the growth in bank deposits is expected to be higher than the growth in the bank credit off-take in the near-term.



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