

Sudden spike in bank deposits in Jan-May on account of rise in borrowings, not savings: Report

By: PTI

Published: June 18, 2020 5:55 PM

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The sudden spike in bank deposits in the past few months is on account of a rise in overall borrowings of both central and state governments and not due to an increase in savings, according to a report.

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During January-May 2020, aggregate deposits in the banking system grew Rs 7.05 lakh crore as compared with Rs 4.65 lakh crore in the corresponding period last year.

Bank credit, however, grew by only Rs 2.2 lakh crore during January-May 2020, against Rs 2.84 lakh crore during January-May 2019.

“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,” the report said.

It added that while deposit accretion has been strong, a shift in the profile of the banks accruing them is noticed with depositors focussing on quality and safety to differentiate between banks.

Among its rated banks, AAA-rated lenders have witnessed an increase in the deposit accretion rate, both on quarter-on-quarter and year-on-year in the fourth quarter of 2019-20, whereas new-age private banks, regional banks and small finance banks (SFBs) have mostly slowed down.

“This has created a divide in the banking segment deposit rates,” it said.

Though almost all banks have reduced their deposits rates, the slide is much sharper in the public sector and large private sector banks, creating a wider spread between the top banks and others.

The deposit rate differential is also reflected in the large spread in marginal cost of lending-based rates (MCLR) of these banks, which should help in acquiring better credits while protecting their margins once credit demand picks up, it said.

“Lesser flexibility in terms of attracting deposits at lower rates implies that small and low-rated banks will either face the challenge of sacrificing margins to compete with large banks or have to on-board low rated customers which will increase their risk profile,” the agency said.

It said the defining factors for deposit accruals in the country’s banking system are — franchise, geographical spread (branches), rate of interest offered, impact of technology and customer segmentation and service orientation.

Traditionally, banks competed on franchise, geographical spread and customer service levels for accrual of deposits, however with the emergence of new-age private banks and SFBs, factors such as rate of interest offered, technology and digital offering and customer service have gained importance.

“Banks with large operations, strong retail and granular current and savings account profile would continue to gain deposits in the near term at the cost of other private banks as the redistribution of deposits could continue,” it said.

The agency further said the puzzling fact is that the deposit growth has been robust in spite of a massive rise in cash in circulation, which is leakage in the deposit base.

Following the nationwide lockdown that stalled most of the economic activities, cash in circulation has risen strongly by around Rs 3.5 lakh crore during the first five months of 2020, the highest in the past two decades (barring remonetisation period in 2017).

The report said this has mostly been caused by precautionary holding of cash and government disbursements being at the bottom of the pyramid.



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