

## Slowdown in Bank Deposit Growth

### Why in News?

Latest data from the Reserve Bank of India (RBI) showed that deposits grew at a lower rate than the bank credit growth rate signifying higher loan-deposit ratio.

### What is loan-deposit ratio?

- **Recent findings** - RBI data shows that Indian banking system has a high loan-deposit (LD) ratio of **about 77.2%**.
- **LDR** - It is the ratio of the total amount of loans given out by the bank to the total amount of deposits held by the bank.

*Deposits refers to which the customers keep with the bank and get interest for. Credit refers to which the bank lends to customers at an interest rate charged from them.*

- **Role** - It is used to assess a bank's liquidity by comparing a bank's total loans to its total deposits for the same period.
- It also helps to ensure that banks are not overexposed to risk.
- **Determining factors** - There are several factors like the economy, interest rates, and the bank's lending policies.
  - For example, during an economic recession, banks may become more risk-averse and tighten their lending policies, resulting in a lower LDR.
- **Measurement** - It is measured and expressed as a percentage.

Lower LDR value	Higher LDR value
<ul style="list-style-type: none"> <li>• It means the <u>bank may not be earning</u> as much as it could be.</li> </ul>	<ul style="list-style-type: none"> <li>• It means that the bank may <u>not have enough liquidity</u> to cover any unforeseen fund requirements.</li> </ul>

- **Impact of high LDR** - As the gap increases between deposits and credit, it creates an asset-liability mismatch for lenders.
- It may potentially expose the system to structural liquidity issues.

### What is the role of capital market in reducing bank deposits?

- **Outflow of household savings from banks** - Households and consumers who traditionally leaned on banks for parking or investing their savings are increasingly

turning to capital markets and other financial intermediaries.

- Over the last year or so, Indian households have increasingly channelled their savings to capital markets.

*While bank deposits continue to remain dominant as a percentage of financial assets owned by households, their share has been declining with households increasingly allocating their savings to mutual funds, insurance funds and pension funds.*

- **Surge of capital markets** - After the Covid-19 pandemic, the Indian capital markets have seen a surge in retail activity through direct (direct trading) and indirect (using mutual fund route) channels.
  - **Economic Survey 2023-24** - The number of demat accounts with rose from 11.45 crore in FY23 to 15.14 crore in FY24 with respect to both depositories NSDL & CDSL.

***National Securities Depository Ltd (NSDL)** is an Indian central securities depository, based in Mumbai. It was established in August 1996 as the first electronic securities depository in India.*

***Central Depository Services Ltd (CDSL)** is the second Indian central securities depository based in Mumbai. It is the largest depository in India in terms of number of demat accounts opened.*

- **Rise in retail participation** - It was more substantial and steadier through the indirect channel via mutual funds.
  - The **net AuM (assets under management)** of the mutual fund industry grew by 6.23% as of July 2024.
- The mutual funds segment presently has about 9.33 crore systematic investment plan (SIP) accounts through which investors regularly invest in schemes.
- **Easier investment process** - Higher returns and *robust digital infrastructure* which has eased the investment process
- **Rapid smartphone penetration** - It have facilitated the *entry of more retail investors* into capital markets.

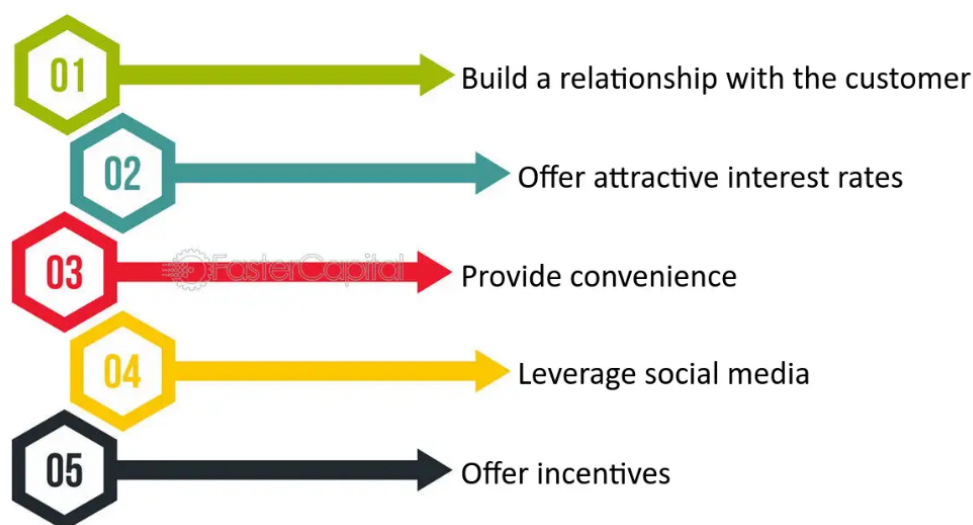
### **What are the measures taken?**

- **Guidelines** - The government and the RBI have asked lenders to focus more on deposit mobilisation through innovative products.
- They urged banks to garner more deposits by leveraging their wide branch network and offering innovative products.
- **Special retail deposit schemes** - It was launched by lenders such as State Bank of India, Bank of Baroda, Bank of India, Bank of Maharashtra, RBL Bank and Bandhan Banks.
- **Amrit Vrishti** - It was launched by SBI, a scheme that offers 7.25% interest on

deposits for 444 days.

- **Monsoon Dhamaka** - It was launched by Bank of Baroda, a deposit scheme, offering interest rates of 7.25% for 399 days and 7.15% for 333 days.

## Strategies for Improving LDR



### What lies ahead?

- Banks can offer *higher interest rates on deposits*, launch promotional campaigns, and providing excellent customer service.
- Banks need to take the old-fashioned route to *bring back focus on mobilising small deposits* and not just big deposits to reverse the flagging deposit growth rate.
- Policymakers can also attempt to encourage savers to shift their investments from other asset classes to bank deposits.

### References

1. [The Indian Express| Reason for Slower Bank Deposit Growth](#)
2. [Investopedia| Loan Deposit Ratio \(LDR\)](#)