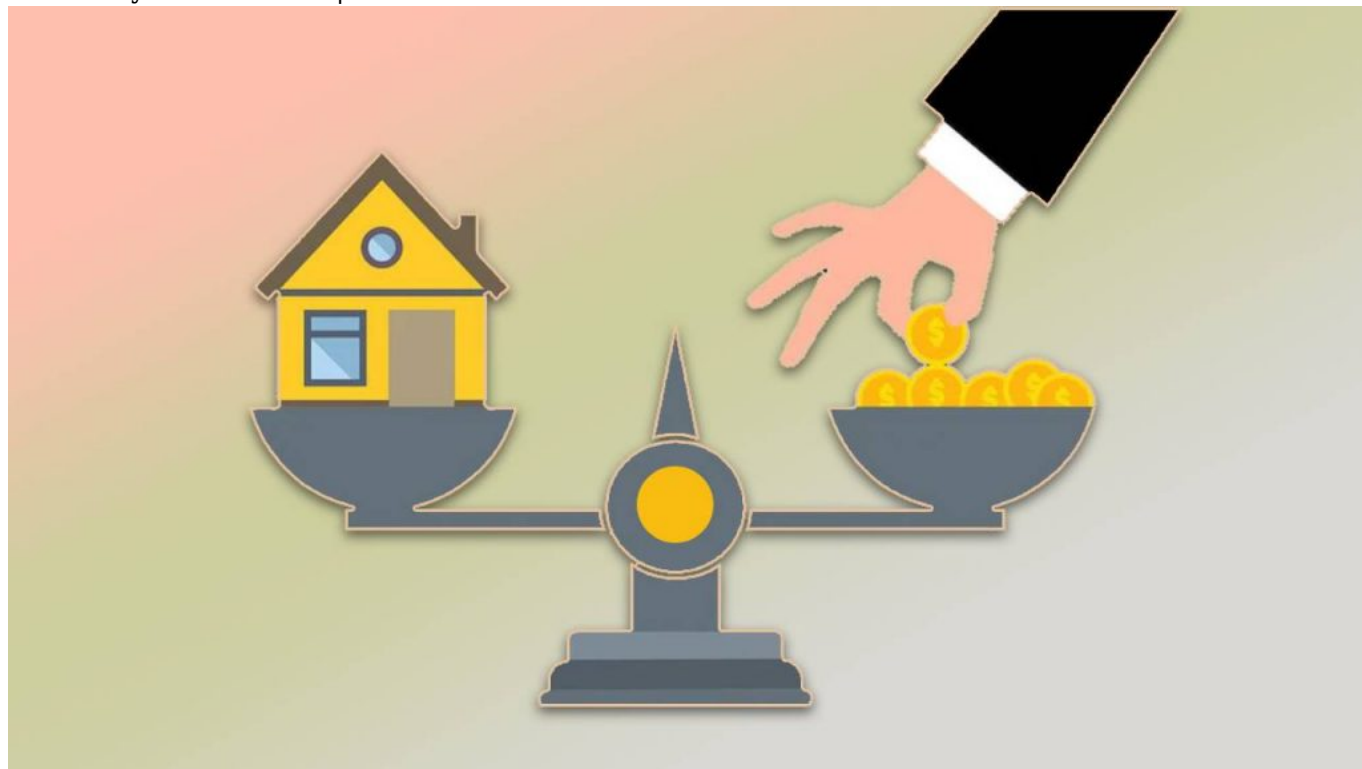


Lagging Growth in Deposits

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Topic- Indian Economy [GS Paper-3]

Context- Recently, the RBI has raised concerns over the lagging growth in deposits in relation to credit growth, asset quality, and adoption of new-age technology solutions.

Key Highlights

- Reserve Bank of India stated that the domestic macroeconomic outlook can be best characterised as resilient but sensitive to formidable global headwinds.
- The present Global headwinds are emanating from three sources i.e.
 - Russian actions in Ukraine impacting energy supplies and prices (especially in Europe)
 - Economic slowdown in China because of frequent lockdowns due to its zero-Covid policy,
 - Increased cost-of-living because of resulting inflationary pressures.
- Thus, monetary policies across the world, especially of advanced economies, are being tightened, spurring concerns about financial stability risk in emerging and developing economies.

Deposit and Credit Growth

- Banks' credit-disbursing bandwidth is determined by its reserves.
- More importantly, demand for credit grows with greater economic activity.
- As per the RBI, aggregate credit demand domestically bears an "uneven profile" in the

present context.

- Urban demand appears robust and rural demand which was muted has also started acquiring some strength recently.
- Commercial bank credit growth too has been surging, which is led by services, personal loans, agriculture and industry, in that order.
- This reflects the increasing preference for bank credit for meeting working capital requirements.
- As per the RBI's latest data for scheduled commercial banks, aggregate deposits have grown 8.2% in comparison to 11.4% on a year-over-year basis whereas credit off-take has jumped 17% in comparison to a 7.1% increase on a YoY basis.
- As per CRISIL it is not that deposit growth has fallen materially, but credit growth has risen in the last few quarters.
- During the COVID 19 pandemic, owing to lower economic activity credit growth was on a lower trajectory.
- With economic activity returning to normalcy, the credit growth has picked up especially in the previous three quarters.

Banks' Asset Quality

- The Gross Non-Performing assets (GNPAs) have consistently declined, with net NPAs sliding down to 1% of the assets.
- Liquidity cover is vigorous and profitability is shored up.
- Market participants have raised concerns with respect to corporates in light of the macroeconomic situation.
- The cause for the improving asset quality is the de-leveraging that has happened in corporate India over the years wherein most corporates have been able to cut down on their debt level and improve their credit profiles.
- Corporate NPAs are expected to decline in the current amid upcoming fiscals due to the setting up of the National Asset Reconstruction Company Ltd which is expected to take over some of the legacy corporate loan NPAs which are still with banks.