Press Release

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Banks need Rs 20 lakh crore fresh deposits to meet credit demand

Aggressive deposit mobilisation likely over medium term mainly led by private lenders

CRISIL estimates bank credit in India would grow at a pacy ~13-14% on average between fiscals 2019 and 2020, significantly faster compared with the 8% seen in fiscal 2018, which would force a change in the deposit mobilisation plans of banks over the medium term.

To meet this credit growth, banks will have to raise about Rs 25 lakh crore over the two fiscals. While Rs 5-6 lakh crore is expected to become available through the release of statutory liquidity ratio (SLR) funds, ~Rs 20 lakh crore would need to be raised through fresh deposits.

That would be well above the average annual deposit mobilisation of ~Rs 7 lakh crore[1] over the past few years. It would also put upward pressure on the interest rates bank offer on deposits.

Traditionally, banks have utilised their excess SLR in the initial period of credit revival. They would do that this time around, too. That said, bulk of the credit demand would be met by deposit growth and to a minor extent by other resource raising options like infrastructure bonds.

CRISIL expects banks to maintain on average ~4% surplus SLR when credit growth picks up, compared with ~8% today. This, when juxtaposed with the Reserve Bank of India's plan to reduce the SLR limit to 18% by March 2020, would translate to a release of Rs 5-6 lakh crore from the SLR kitty to meet credit demand.

Consequently, the asking rate of annual deposit growth would be a significant 400 basis points higher at ~10% compared with ~6% growth in fiscal 2018. To be sure, this is way lower than the ~25% peak seen in fiscal 2007.

Deposit growth has been declining over the past decade, and particularly in the past three years when it saw a significant drop[1] as interest rates offered on fixed deposits dipped below the returns on other financial investment avenues. That diverted the flow of household financial savings away from banks.

Says Krishnan Sitaraman, Senior Director, CRISIL Ratings, "Lower deposit growth has meant a steady rise in the credit to deposit ratio (C/D Ratio) on a stock basis, which is expected to touch 78% by the end of fiscal 2019, compared with 73% at the end of fiscal 2017 *(refer to Chart 1 in annexure)*. **Banks will need to raise at least Rs 19-20 lakh crore of fresh deposits until March 2020 to keep the credit-deposit ratio near 80%, which in itself would be highest in a decade."**

Private banks with strong balance sheets and robust credit growth are expected to lead the race for deposits and will account for ~55-60% of the incremental deposit mobilisation. These would be followed by public sector banks outside the Reserve Bank of India's Prompt Corrective Action framework with ~30-35%.

Private banks have already gained 7% market share in deposits over the past five years to touch ~30% *(see Chart 2 in annexure)* and are well poised to gain further backed by superior technology, service levels and ability to acquire customers.

Meanwhile, increasing volatility in the equity market, moderating flows into other investment avenues, and hike in bank deposit rates in recent months could bring some household financial savings back into bank deposits.

Says Rama Patel, Director, CRISIL Ratings, "Over the first nine months of this fiscal, banks have already raised deposit rates by an average of 40-60 basis points We expect banks to sharpen focus on deposit mobilisation over the medium term through attractive rate offerings across tenors in both bulk and retail segments. That, in turn, could further increase the cost of funds of banks, given that deposits account for the bulk of their funding."

[1] *After suitably adjusting for the hike in deposits seen in the immediate aftermath of demonetisation*

Annexure

Chart 1: Credit Deposit ratio trend

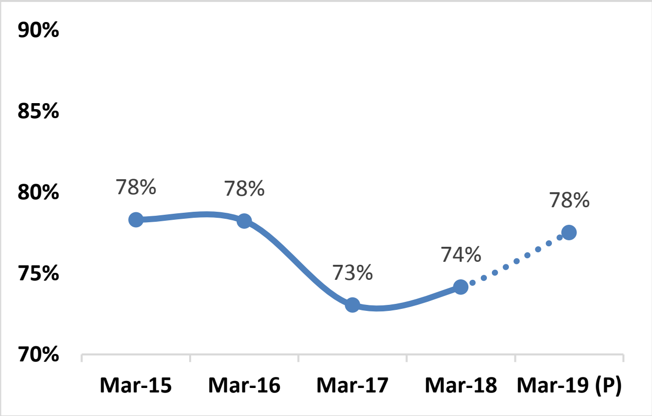
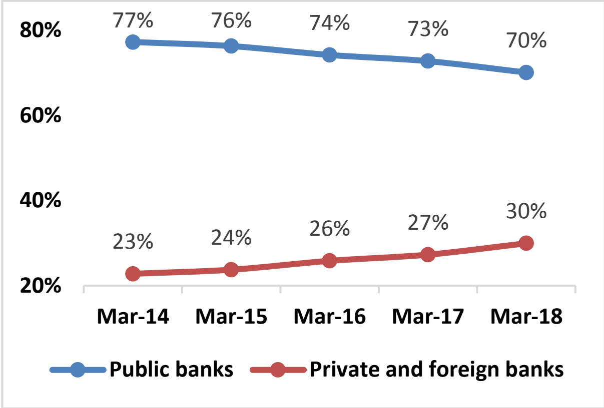


Chart 2: Deposit Market Share trend



P: Projected
Source: RBI, CRISIL estimates

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