Syllabus subtopic: Indian Economy and issues relating to planning, mobilization of resources, growth, development and employment.

Prelims and Mains focus: about the key findings of the RBI report, about the trust deficit in public banking sector

News: The Report on Trend and Progress of Banking in India released last week had some interesting data on the total amount of term deposits in public sector banks (PSBs). This data suggests people seem to be losing faith in investing their fresh savings in PSBs.

How has the situation changed for PSBs?

Term deposits are popularly known as fixed deposits. Scheduled commercial banks in India had fixed deposits worth a total of Rs. 77.32 trillion as of 31 March. Of this figure, deposits with PSBs amounted to Rs. 51.34 trillion, or around 66%, of the total fixed deposits with banks. Private sector banks, on the other hand, had Rs. 22.07 trillion, or 29%, of the total deposits with banks. The situation has changed dramatically in the last decade, with PSBs losing market share to private sector banks in terms of fixed deposits. In March 2010, PSBs and private sector banks had 79% and 16% of the total deposits, respectively.

What has changed in the past few years?

The above chart plots incremental deposits or the total amount of fresh deposits that have come into banks every year. In 2018-19, a total of ?6.55 trillion came in as fresh deposits. Of this, private banks got ?5.04 trillion, or around 77%, of the total; PSBs got Rs. 72,113 crore, or around 11%. In 2016-17 and 2017-18, private banks accounted for 92% of the total fresh deposits. However, overall fixed deposit inflows into banks in 2016-17 and 2017-18 were considerably lower at Rs. 1.71 trillion and Rs. 2.64 trillion, respectively. The situation wasn’t always like this. PSBs had got around 80.5% of fresh deposits in 2010-11 and around 79% in 2013-14.
What does this tell us about the Indian banking system?

This tells us that in the last few years, people have preferred to invest their fresh savings with private banks. Between March 2015 and March 2019, state-owned banks got a total of Rs. 1.7 trillion as fresh fixed deposits. During the same period, private sector banks got Rs. 10.76 trillion as fresh fixed deposits, the bulk of which came in 2018-19.

Are people losing trust in state-owned banks?

This is basically what the data seems to suggest. Over the last few years some state-owned banks had been put under the Reserve Bank of India’s (RBI) prompt corrective action framework, where limitations were placed on their borrowing and lending activities. This has also played a role in PSBs ending up with fewer deposits. The other worrying bit is the dramatic fall in the amount of fresh deposits coming into banks over the last few years. The total amount of fresh fixed deposits peaked in 2013-14 at Rs. 8.09 trillion.

What does the fall in fresh deposits mean?

This is in line with falling savings in the overall economy. Between March 2015 and March 2019, fixed deposits with banks have grown at single digit rates. This explains why banks have not been able to reduce interest rates despite RBI cutting the repo rate repeatedly. They just don’t have enough fixed deposits. The good news is that fixed deposits grew by 9.2% in 2018-19, against a low of 2.8% in 2016-17.