

Banks chase deposits with campaigns, increased rates

Shayan Ghosh/10 Jan 2023



MUMBAI : Waning depositor interest and soaring credit demand are forcing banks to go all-out to attract deposits, even though they are forced to shell out more in interest.

State-owned Indian Bank on 6 January held an early-morning campaign at Mumbai's Marine Drive, where about 200 employees walked the promenade holding placards of various deposit schemes. A bank employee said Indian Bank was able to open six to seven new savings accounts during the campaign.

"We got quite a good response, in fact it was better than we had anticipated," the employee said.

Faced with waning depositor interest, banks have been forced to start raising interest rates on deposits. The post-covid withdrawal of liquidity has also aided the transmission, with credit growth significantly outpacing deposits growth. Weighted average deposit rates have increased by 55 basis points (bps) between May—when RBI started raising the repo rate—and November, showed RBI data. The central bank has raised the repo rate by 225 bps so far in this cycle. Experts said while deposits are coming back into the system a large chunk is going to the bigger banks, leaving small lenders fighting for the rest. India's largest private sector lender HDFC Bank witnessed a 19.9% year-on-year (y-o-y) growth in deposits in the

December quarter, while smaller rival Karnataka Bank reported 7.9% deposit growth during the period.

"Preliminary data from the banks for Q3 performance metrics showed that the larger banks have been able to grow their deposit base at a faster pace than small and mid-sized banks. This trend of market share gains for larger banks is expected to continue over the medium to long term," Aashay Choksey, vice-president and sector head for financial sector ratings, Icra Ltd, said.

With an expectation of one more rate hike, Choksey said there may be a marginal increase in deposit rates in coming months. However, bank deposit rates have peaked out, with most large banks taking a hike of 200-225 bps in one-year deposit rates, he said. In a separate statement on Monday, Icra said that to bridge the gap between incremental credit and deposits, banks have been relying on various sources of funding such as refinance from financial institutions, drawdown of excess on-balance sheet liquidity and debt capital market issuances.

As a result, gross bond issuances by banks rose to ₹90,000 crore in the first nine months of FY23, surpassing the previous high of ₹80,000 crore in FY17. While outstanding non-food credit grew 17.8% y-o-y as on 16 December, deposit growth trailed at 9.4%, according to RBI data.

Despite the deposit rate hikes, they are still lower than the March 2020 levels by around 75 bps, indicating that deposit rates have to traverse to reach the repo rate of pre-pandemic levels, let alone moving past it, Care Ratings said on 5 January.

Others said a likely deposit rate war may take place among banks to woo customers. After the SBI raised deposit rates by 15-100 bps, Suresh Ganapathy, head of financials research (equity), Macquarie Capital, said on 14 December, that the deposit growth and loan growth gap is very high and it was just a matter of time before deposit rates increase rapidly.