

Money & Banking(https://www.thehindubusinessline.com/money-and-banking/)

Customers shifting to FDs as banks up rates to raise funds to meet credit demand

BL Mumbai Bureau(https://www.thehindubusinessline.com/profile/author/bl-mumbai-bureau-14972/) | September 24 | Updated On: Sep 24, 2022



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This comes at a time when FDs are fetching relatively higher returns as banks are upping interest rates in the backdrop of the systemic liquidity gradually drying up

Banks are seeing a shift from savings accounts to fixed deposits even as credit growth is gathering steam.

In the reporting fortnight (ended September 9), all scheduled banks reported overall deposit accretion of ₹62,196.47 crore, probably due to customers shifting funds from savings accounts to fixed deposits (FDs) or opening new FDs.

Saving bank deposits declined ₹54,021.77 crore in the fortnight while FDs were up ₹1,16,218.25 crore, per latest RBI data.

FDs are fetching relatively higher returns with banks raising interest rates in the backdrop of the systemic liquidity gradually drying up.

FD rates in the over one year tenor have increased to 5.30/6.10 per cent as on September 16 from 4.90/5.50 per cent as on September 17, 2021, per RBI data. Savings bank deposit rate, however, continues to remain in the 2.70/3.00 per cent band.

Credit growth

Incremental credit growth continued to outpace deposit growth. Banks reported credit growth of ₹95,751.7 crore in the reporting fortnight against deposit growth of ₹62,196.47 crore.

CARE Ratings, in a report, cautioned that the widening gap between deposit and credit growth may lead to supply-side issues thereby eventually constraining credit growth.

Sanjay Agarwal, Senior Director, and Saurabh Bhalerao, Associate Director (BFSI Research), CARE Ratings, said that although bulk and retail deposit rates have already gone up, they remain around the same level as the inflation, which means depositors would not be earning any interest. Hence, CARE Ratings expects deposit rate increase will start to gain momentum further. Given the fact that credit growth has picked up, banks will look to shore up their deposit base even as liquidity is narrowing in the banking system, the agency said.

Credit pips deposits

“For the last few years, deposits had been growing at a fast clip, especially when compared to credit. However, in the current year, with the reversal of this trend, the y-o-y change in credit has outpaced deposits,” according to the note.

Apparently, a significant part of the funding gap has been met by mobilisation of Certificates of Deposit (CD). The outstanding CDs stand at ₹2,43,600 crore as of September 9, 2022, up from ₹67,145 crore a year ago.

Banks are seeing a shift in deposits from savings account to fixed deposits even as credit growth is gathering steam.

In the reporting fortnight ended September 9, 2022, all scheduled banks reported overall deposit accretion of ₹62,196.47 crore, probably due to depositors moving their deposits from savings account to fixed deposits (FDs) and the creation of new FDs.

Saving bank deposits of banks declined ₹54,021.77 crore in the fortnight while FDs were up ₹1,16,218.25 crore, as per latest RBI data.

This comes at a time when FDs are fetching relatively higher returns as banks are upping interest rates in the backdrop of the gradual drying up of systemic liquidity.

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Published on September 24, 2022

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