

**ASSOCHAM**

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**PULSE**

**“Deposits and Advances”**

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## **Banks fail to grow credit disbursement despite robust deposit base, says AEP**

Lured by high interest rates, the savings in India is on rise even as the banks are unable to increase the credit allotment in the expansionary economy. This is evident by the Assocham Eco Pulse (AEP) study on banking sector which found that deposits growth of the banks has improved remarkably while growth in advances has slowed down.

Lucrative lending rates in the high interest rate economy have led to a significant rise of 23 per cent in the aggregate deposits of scheduled commercial banks (SCBs) as compared to 16 per cent growth in FY07. On the other hand, the growth in loans and advances shrank from 29 per cent to 23 per cent in the fiscal 2007-08, revealed an Assocham Eco Pulse (AEP) study.

“High interest rates are inducing people to save more rather than consume. The resultant high growth in deposits is raising the liquidity with banks as the credit disbursement is slow”, said Mr. Venugopal N Dhoot, President, Assocham. He further stated that high interest rates are hurting the industry in both ways by reduced consumption and costly credit.

One of the reasons contributing to a substantial slow down in the credit growth of banks in the fiscal 2007-08 could be various monetary policy tightening steps taken by the Reserve Bank of India, which include rate hikes making retail loans unaffordable for the customers and high bank reserve requirements.

The average deposit rates rose by 75 basis points from 7.5 per cent in the FY2006-07 to 8.25 per cent in the financial year 2007-08. On the other hand, prime lending rate was raised from 12.50 per cent to 13.25 per cent as a result of monetary tightening of the central bank.

The AEP Study further revealed that there has been a sizable expansion in the aggregate deposits of SCBs in the current financial year. Aggregate deposits of banks, y-o-y, increased by 21.2 per cent as at end-March 2008 as compared with 22.3 per cent a year ago.

In the private sector, collectively banks registered deposit growth of 23.56 per cent in the F.Y. 2007-08, though being lower than whopping 39 per cent in the corresponding period previous year. The public sector banks witnessed a rise of about 24.42 per cent in 2007-08 against 15.99 per cent in the corresponding period previous year.

Deposits growth was the highest in case of IDBI Bank about 68.38 per cent in 2007-08 as against 66.75 per cent 2006-07. HDFC Bank reported 47 per cent growth in deposits which was higher than 22 per cent growth rate in the fiscal 07.

The deposit growth rose by 32 per cent in the financial year ending 31 March 2008 as compared to 15 per cent growth a year back.

Among the public sector banks, Indian Bank and State Bank of India improved their deposit growth rates. The Indian bank reported 29 per cent rise in the deposits as compared to 15 per cent growth in fiscal 07. SBI, the largest bank of India, continued its growth momentum by raising 23 per cent more deposits in 2007-08. The growth rate was 14 per cent in the previous financial year.

ICICI Bank, the largest in private banking sector, presented a contrary story. Its deposits in fiscal 08 rose only by 6 per cent in contrast to 39 per cent growth in the previous financial year. This is despite 27 per cent growth in its current and saving account deposits.

#### **Growth in Deposits**

Scheduled Commercial Banks	FY 2007-08	FY 2006-07
IDBI Bank	68.38	66.75
HDFC Bank	47.54	22.40
ING Vysya Bank	32.94	15.63
Indian Bank	29.63	15.55
State Bank of India	23.39	14.60
ICICI Bank	6.04	39.63

All the major banks reported slower growth in 'advances'. Among the public sector banks, SBI reported decline in the growth rate of advances from 28 per cent in FY07 to 23 per cent in the financial year 2007-08. Vijaya Bank, one of the prominent banks in southern India, registered the rise of 29 per cent in advances in FY08 while the growth rate in FY07 was 44 per cent.

In the private sector, ICICI reported a major decline in its growth rate in advances from 34 per cent in the financial year ending on 31 march, 2007 to 15 per cent in the year 2007-08.

#### **Growth in Advances**

Scheduled Commercial Banks	FY 2007-08	FY 2006-07
HDFC Bank	27.41	29.59
ICICI Bank	15.19	34.01
Yes Bank	49.92	161.32
State Bank of India	23.36	27.96
Vijaya Bank	29.93	44.44

