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Trends and Behavioural Patterns of Credit-Deposit Ratios of Scheduled Commercial Banks in India*

Introduction

The progress of commercial banking in the country has been shaped by government policies, primarily governing their deposit mobilisation as well as credit disposition. In the post-independence era, the public ownership has remained as the hallmark of commercial banking in the country. Over the years, public sector banks reached the commanding heights of the banking system, and also in the financial sector as a whole. The financial sector reforms ushered in the early 1990s have given rise to the emergence of new institutions and instruments, besides diluting public ownership of banks, facilitating entry of new private banks and easing of norms for foreign investments in several segments of the financial system. The relative importance of commercial banks has been dwindling since then with other deposit-taking institutions, insurance and investment institutions gaining ground, accompanied by the changing preferences of depositors for other forms of savings like insurance, equity shares and pension funds. This has reflected in the falling proportionate share of household's savings in bank deposits in their gross financial savings, as well as of commercial banks assets in the total assets of the financial system. Nonetheless, commercial banks continue to remain the lynch-pin of the financial system so much so that their intermediation role stands undiminished. It is in this background that the present study has been carried out to analyse the behaviour of the credit-deposit (CD) ratios of the scheduled commercial banks, by examining changes in their trends and patterns across population groups, bank groups, regions, states, and districts. While doing so, the study has also attempted to examine the flow of bank credit to the various sectors.

Major Findings

1. For about one and a half decades following the introduction of reform measures in the early 1990s, commercial banks continued to meet several prudential requirements, and this made them to shy away from providing credit, resulting in lower CD ratio in this period compared to the previous decades.
2. Since 2005-06, there has been an upward trend in the CD ratio: till 2013-14, there was a credit boom led by an increased growth in industrial credit, and the period thereafter had witnessed reversal in credit growth with an acceleration of personal loans growth, mostly in the form of housing loans. The average CD ratio for the period 2006-2022 remained over 75% with a little fluctuation in some years.
3. An intriguing feature observed, particularly since 2011-12, is that both deposits and bank credit as a percentage of GDP have remained nearly flat, with bank credit growth keeping pace with deposit growth.
4. The CD ratio went up across all population groups (rural, urban, semi-urban and metropolitan), but it remained less than the all-India average in non-metropolitan areas throughout. An analysis of the relative shares of the rural sector in the number of accounts and amount of deposit and credit brings out the hard fact that, the relative emphasis on the rural sector has waned since the early 1990s compared to the previous decades. The share of non-metropolitan centres in the total bank credit is disproportionately lower than their respective shares in the total bank deposits, whereas metropolitan regions have a larger share in credit than in deposits. This suggests migration of bank resources from rural, semi-urban and urban centres to metropolitan areas.
5. The relative importance of public sector banks in terms of both deposit mobilisation and credit disposition has been dwindling with the emergence of the private sector in the post-reform period (1992 onwards). In terms of focus, the private sector banks tend to be more oriented towards personal loans, whereas public sector banks are geared more towards industrial credit. The CD ratio of public sector banks have remained lower than the national average, whereas that of private sector banks was higher.
6. The southern, northern, and western regions account for a major share in bank credit and deposits, with the eastern region losing out. Both the southern and western regions, and lately the northern region, have a disproportionately higher share in credit than in deposits, suggesting a tendency of bank resources migrating from other regions into these regions. Further, it was always the case that the southern region has the higher CD ratio, though the western region has begun to replace it lately. Evidences suggest a tendency for more sanctioned bank credit in the western region to flow into other regions in terms of utilisation.
7. In a majority of the states which have a higher per capita income than the all-India average, the CD ratio is high; if the reserve requirements are accommodated in total deposits, then the pattern across the states reveals that credit sanctioned by banks in the developed states outstrip deposits of those states. The analysis of state-wise deposit intensity (that is, ratio of bank deposits to GSDP) does not support a general proposition that those states with higher CD ratio (with possible exception of Delhi and Maharashtra) have a relatively high deposit intensity; thus, many of the states with higher CD ratios were generally dependent upon resources mobilised from other states.

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8. Amongst eastern states that have perennially suffered from low CD ratio, inclusion of Rural Infrastructure Development Fund (RIDF) with bank credit improves the CD ratio in states like Bihar, Jharkhand and Odisha, but not so much in West Bengal. The CD ratio notably rises with RIDF in the north-eastern states. In the central region, the CD ratio steadily increases with RIDF by about 5 percentage points in recent years in all states except Uttar Pradesh which rather experiences the all-India pattern. Amongst the southern states, the CD ratio with RIDF of Andhra Pradesh improves by a huge margin of about 6 percentage points over the CD ratio without RIDF, whereas CD ratio of all other states rises by less than 3 percentage points with RIDF. In the western region, there is hardly any improvement in the CD ratio with inclusion of RIDF in Maharashtra, whereas that of Gujarat increases by about 3.5 percentage points over CD ratio excluding RIDF. The states that reportedly have a higher CD ratio but did not show much improvement after including RIDF with bank credit are Maharashtra and Telangana.
9. Between 1981 and 2001, the number of districts having CD ratios above the state and national average had declined; however, there has been some improvement post 2005. This broad trend is noticeable across all the states. In terms of percentage, it is seen that 34.9% of the districts (that is, 206 out of 590 districts) had reported having a CD ratio higher than the national average, but this percentage share slipped to 32.2% (that is, 224 out of 696 districts) in 2021. Furthermore, as many as 191 districts (that is, 32.4%) had CD ratios of less than 40% and 158 districts (that is, 26.8%) had it in the range of 40%-60% in 2005; that is, only about 40.8% of the total districts had a CD ratio greater than 60%. In 2021, 190 districts (that is, 27.3%) have a CD ratio of less than 40% and 193 districts (that is, 27.7%) have CD ratios between 40% and 60%. That is, 45% of the districts have a CD ratio exceeding 60% in 2021. The situation is still better compared to 2001, when about 80% of the districts had a CD ratio of less than 60% - 319 out of 567 districts (56.3%) had a CD ratio of less than 40% and 137 (24.2%) had it in the range of 40%-60%. This was not the general trend across all the regions, though.

Policy Implications

1. As percentage to GDP, there has not been much improvement in bank deposit and bank credit in the last 10 years or so, although CD ratio ruled high. There is thus a need for stepping up deposit mobilisation and channelising more credit to the producing sectors.
2. There is a need to improve flow of bank credit to rural areas. It is time commercial banks look at agriculture as a viable activity – if land fragmentation is a hurdle, then cooperative farming should be promoted. That is not all; tenancy farming should be encouraged. If farm tenancy is legalised, it would encourage banks to give loans to tenant farmers. Norms governing the flow of credit to contract and tenancy farming activities should also be liberalised. It would remove a major hurdle to rendering of farm credit. When credit to productive sectors thus grow at a fast rate, they will have a solid impact on growth, both quantitatively as well as qualitatively.
3. Efforts should be made to ensure regions with a higher deposit intensity utilise more credit. And so, it is time to think of states in terms of deposit creation and credit utilisation. Efforts should be made to improve the CD ratio in deposit creating states, and step-up deposit mobilisation in states with more credit utilisation. No doubt, deposit creating states are with relatively higher household saving potential and credit utilising states are those with higher investment levels particularly industrial investment. The post-independence history of deposit and credit growth does not suggest the kind of transformation expected in the above manner except in Rajasthan as brought out; that is, deposit creating states succeed in creating more investment and credit utilisation, and higher credit utilising states becoming better saving states and states with better deposit growth.
4. Being the lynch-pin of financial system, the commercial banks need to co-opt the development goals that may vary from one region/state to another, depending upon their stage of development. As intermediaries, commercial banks can have either a demand following or supply leading orientation. In those underdeveloped states, which perennially have a low CD ratio, commercial banks' orientation should be of supply leading. And, in developed states with high CD ratio, the commercial banks could follow the demand following approach. Thus, in lieu of having a common orientation for all states, banks could follow different approaches depending upon a state's stage of development. That is, a hybrid approach should be in place.
5. In the last 15 years or so, the RBI has been issuing guidelines for raising the CD ratio by rigorous monitoring in those districts with CD ratio of less than 40% and strengthening implementation in those districts with CD ratio of less than 60%. The progress made in this regard has to be urgently reviewed, as the guidelines appear to have made a limited impact in boosting CD ratio in those districts that perennially suffer from low CD ratios.