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Trends and patterns of the commercial bank deposits in India in the Post-Liberalisation period

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Abstract

Commercial banks play a crucial role in the financial intermediation and capital formation process for the development of modern economies and societies. Deposit mobilization is the first and foremost step in the financial intermediation process of the commercial banks. This article examines the trends and patterns of commercial bank deposits in India in the post-liberalization period. The analysis in this study is based on the Reserve Bank of India (RBI) data on commercial bank deposits in India for the post-liberalisation period from 1992-93 to 2016-17. There was a steady growth of the aggregate commercial bank deposits in India during the post liberalization period and the growth gained further momentum after 2004-05. Term deposit grew significantly faster than the demand deposits in India during the period. The trend in the aggregate bank deposits in the post liberalization period was largely determined by the trend in the time deposits. More than 85 percent of the total commercial bank deposits in India during the period were in the form of time deposits; and the share of time deposits in the total commercial bank deposits has slowly increased over time. Savings bank deposit, the most popular form of individual deposits in India, grew faster than all other deposits during the post liberalization period. The share of savings deposits mobilized by the foreign banks in India has been relatively negligible compared to that of Indian banks. The ever growing commercial bank deposits in India, if properly channelised, will definitely lead to the economic growth and development of the country.

Keywords: Commercial Banks, Demand Deposits, Foreign Bank, Indian Bank, Liberalisation, Saving Deposits, Time Deposits

I. Introduction

Commercial banks are the most important component of the financial system of an economy, which play a crucial role in the smooth and stable functioning of the modern economies and societies. Although the commercial banking functions encompass a wide range of activities, the basic banking function has remained unchanged over time. As the most important financial intermediary, the primary function of a bank is to accept deposits from the savers and provide loans to the borrowers. Thus, commercial banks perform stupendous role of converting savings into capital for productive investment.

The core financial intermediation process of the commercial banks transforms deposits into real capital formation, which is essential for the growth and development of an economy. Deposit mobilization is the first and foremost step in the financial intermediation process of the commercial banks. A smooth financial intermediation of the banks will not be possible without adequate deposit from the savers for it will lead to long term liquidity crunch in the banking system.

India has been maintaining a fairly developed banking system since independence. However, banking system in India has undergone several radical reforms. The major banking sector reforms were initiated in the early 1990s, which were based on the Narasimham Committee recommendations. These banking sector reforms were part of a broad structural reform package unleashed in India since 1991. The reforms basically aimed at enhancing the efficiency, strengthening supervision, creating competitiveness and developing technological and institutional infrastructure in the banking sector of the country.

Against this backdrop, this article examines the trends and patterns of commercial bank deposits in India in the post-liberalization period. In the literature search, we could not come across any detailed study on this topic, particularly in the post liberalization period. Studying the nature and growth in the commercial bank deposits is an important prerequisite for

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understanding the changing capital formation process of a country.

The rest of the article is organised into three sections. Section II, which immediately follows, describes the data, period of study, and methods used in the study. Section III presents the results and discussion. The last section provides brief conclusions of the study.

II. Data and Methods

This study is exclusively based on secondary data collected from the Reserve Bank of India (RBI) Handbook of Statistics on Indian Economy 2016 - 17. The study covers two and half decades of post-liberalisation period of Indian economy from 1992-93 to 2016-17.

The data has been analysed and presented using appropriate charts and tables. Simple percentage growth rates and compound annual growth rates have been used for finding out the growth in the commercial bank deposit over time. The compound annual growth rate has been estimated using a semi-log linear trend equation of the following form:

$$\ln Y_t = \alpha + \beta t + u_t$$

Where, $\ln Y_t$ is the natural logarithm of the bank deposits, 't' is time, and u_t is the usual stochastic disturbance term.

III. Results and Discussion

This section presents the analysis of the trends and patterns in the commercial bank deposits in India in the post liberalisation period. Here, first we analyse the trends and patterns in time deposits and demand deposits - the two components of the commercial bank deposits in the country; and then we examine the savings deposits, which is the most popular form of bank deposit of the public in the country.

Before starting the analysis, let us have a brief overview of different types of commercial bank deposits in India. As already mentioned, one of the twin primary functions of a

commercial bank is to mobilise deposits from the public. Typically the deposits collected by banks are classified into time deposits and demand deposits. A time deposit, also referred to as a term deposit, is a deposit of fund made for a fixed term, ranging from one month to several years. The depositor gets predetermined interest on maturity of the deposit and this interest rate is usually more than the interest rate that one can earn in the demand deposit. Term deposit cannot be withdrawn until the end of the fixed period without incurring a financial penalty. The time deposits generally, consist of fixed deposits and the time component of saving bank deposits.

Demand deposit, as the name suggests, are the types of deposits that can be withdrawn on demand. Demand deposits generally comprises of current account deposits and the demand component of saving bank deposits. Demand deposits give more liquidity but less interest and sometimes no interest to the depositor.

The trends in the commercial bank deposits illustrated in Figure 1 and its growth rates shown in Table1 indicate that there has been steady growth in the aggregate commercial bank deposits in India in the post liberalization period. There was an upsurge in the commercial aggregate bank deposits in India after 2004-05.

A close examination of the trends and growth in the components of the bank deposits reveals that there was a sharp and steady increase in time deposit component of the commercial bank deposits in the post liberalization period, particularly after 2004-05. At the same time, there was volatility in the growth of demand deposit component of the bank deposits in India in the period. The compound annual growth rate of the time deposits was 3.6 percentage points higher than that of the demand deposits in India during the initial 25 years of the liberalization period. Moreover, it can be noticed from the table that the trend in the aggregate deposit in the post liberalization period is largely determined by the trend in the time deposits.

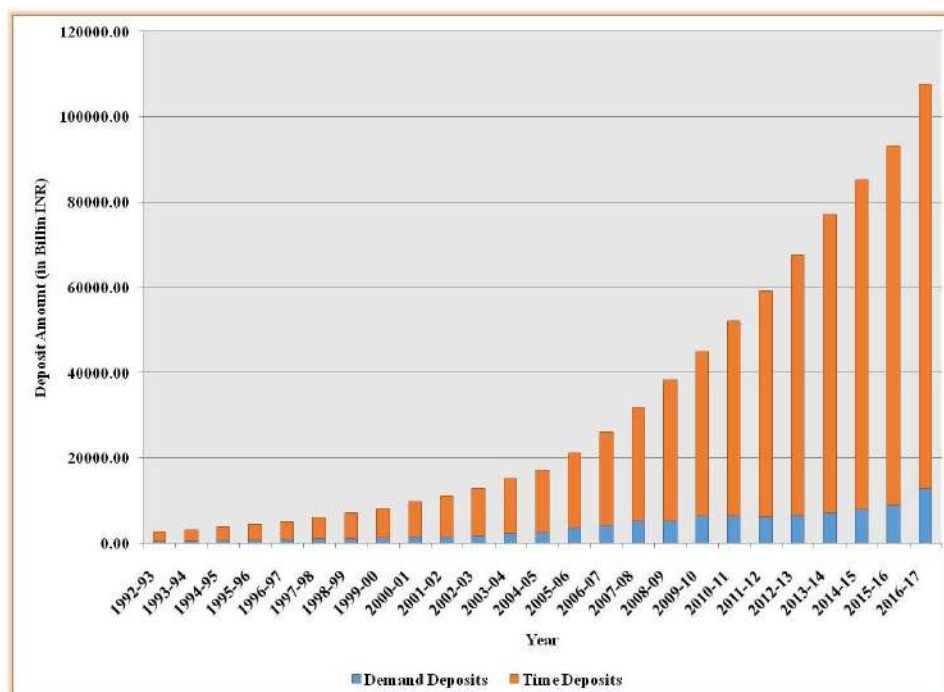


Fig 1: Trends in different types of commercial bank deposits in India (1992/93 – 2016/17)

Table 1: Trend and growth in different types of deposits in the commercial Banks in India (1992/93 – 2016/17)

(Amount in Billion INR)

Year	Demand Deposits		Time Deposits		Aggregate Deposits	
	Amount	Annual Growth Rate (%)	Amount	Annual Growth Rate (%)	Amount	Annual Growth Rate (%)
1992-93	464.61	--	2221.11	--	2685.72	--
1993-94	565.72	21.8	2585.60	16.4	3151.32	17.3
1994-95	769.03	35.9	3099.56	19.9	3868.59	22.8
1995-96	806.14	4.8	3532.05	14.0	4338.19	12.1
1996-97	906.10	12.4	4149.89	17.5	5055.99	16.5
1997-98	1025.13	13.1	4959.72	19.5	5984.85	18.4
1998-99	1174.23	14.5	5966.02	20.3	7140.25	19.3
1999-00	1273.66	8.5	6859.78	15.0	8133.45	13.9
2000-01	1425.52	11.9	8200.66	19.5	9626.18	18.4
2001-02	1530.48	7.4	9503.12	15.9	11033.60	14.6
2002-03	1702.89	11.3	11105.64	16.9	12808.53	16.1
2003-04	2250.22	32.1	12793.94	15.2	15044.16	17.5
2004-05	2480.28	10.2	14521.71	13.5	17001.98	13.0
2005-06	3646.40	47.0	17444.09	20.1	21090.49	24.0
2006-07	4297.31	17.9	21822.03	25.1	26119.33	23.8
2007-08	5243.10	22.0	26726.30	22.5	31969.39	22.4
2008-09	5230.85	-0.2	33110.25	23.9	38341.10	19.9
2009-10	6456.10	23.4	38472.16	16.2	44928.26	17.2
2010-11	6417.05	-0.6	45662.64	18.7	52079.69	15.9
2011-12	6253.30	-2.6	52837.52	15.7	59090.82	13.5
2012-13	6622.99	5.9	60881.55	15.2	67504.54	14.2
2013-14	7139.21	7.8	69916.39	14.8	77055.60	14.1
2014-15	7940.29	11.2	77392.56	10.7	85332.85	10.7
2015-16	8889.96	12.0	84382.94	9.0	93272.90	9.3
2016-17	12814.39	44.1	94762.17	12.3	107576.56	15.3
	CAGR*	14.07	CAGR*	17.68	CAGR*	17.18

Note: *Compound annual growth rate (%) of deposits during 1992/93 - 2016/17

Source: RBI - Handbook of Statistics on Indian Economy 2016-17

An examination of the composition of the commercial bank deposit show that the proportion of the time deposits in the total commercial bank deposits has marginally increased while that of the demand deposits has slightly decreased over the years (See Table 2). The share of time deposits ranged between 80.1 percent and 90.7 percent during the

study period. And, on average, time deposits accounted for 85.5 percent the total commercial bank deposits in India, while the demand deposits accounted for only the remaining 14.5 percent of the total commercial bank deposits in India during the post liberalization period.

Table 2: Composition of Commercial Banks Deposits in India (1992/93 - 2016/17)

Year	Demand Deposits (%)	Time Deposits (%)	Year	Demand Deposits (%)	Time Deposits (%)
1992-93	17.3	82.7	2005-06	17.3	82.7
1993-94	18.0	82.0	2006-07	16.5	83.5
1994-95	19.9	80.1	2007-08	16.4	83.6
1995-96	18.6	81.4	2008-09	13.6	86.4
1996-97	17.9	82.1	2009-10	14.4	85.6
1997-98	17.1	82.9	2010-11	12.3	87.7
1998-99	16.4	83.6	2011-12	10.6	89.4
1999-00	15.7	84.3	2012-13	9.8	90.2
2000-01	14.8	85.2	2013-14	9.3	90.7
2001-02	13.9	86.1	2014-15	9.3	90.7
2002-03	13.3	86.7	2015-16	9.5	90.5
2003-04	15.0	85.0	2016-17	11.9	88.1
2004-05	14.6	85.4	Average*	14.5	85.5

Note: *Average Share (%) of Deposits during 1992/93 - 2016/17

Source: Author's Computations based on the RBI Data

Savings bank deposit is the most widespread and fundamental type of bank deposit among the Indian public. It is a hybrid which blends the features of both a demand deposits and term deposits. There are restrictions in the withdrawals from savings deposits in terms of the number withdrawals and the amount of withdrawals. Indian people

make savings deposits in Indian banks and also in foreign banks functioning in India. Table 3 shows the trends and growth in the savings deposit of the people in Indian and foreign owned commercial banks in India. It is evident from the table and Figure 1 that there was a steady growth in the savings bank deposits in India in the post-liberalization

period. There was a leap in the growth of savings deposits after 2007-08, reflecting the effect of global financial meltdown. The compound annual growth rate of the savings deposits in India during the initial two and half decades of

the post liberalization period was around 18 percent. And there was no significant difference in the growth rates of the savings deposits in Indian banks and foreign banks during the period.

Table 3: Trend and growth in savings deposits in Indian and foreign commercial Banks in India (1992/93 – 2016/17)

(Amount in Billion INR)

Year	Indian Banks		Foreign Banks		Total	
	Amount	Annual Growth Rate (%)	Amount	Annual Growth Rate (%)	Amount	Annual Growth Rate (%)
1992-93	572.56	--	13.17	--	585.73	--
1993-94	694.34	21.3	17.18	30.4	711.52	21.5
1994-95	890.19	28.2	23.05	34.2	913.24	28.4
1995-96	993.47	11.6	25.14	9.1	1018.61	11.5
1996-97	1125.70	13.3	28.75	14.4	1154.45	13.3
1997-98	1367.70	21.5	31.94	11.1	1399.64	21.2
1998-99	1608.89	17.6	38.36	20.1	1647.25	17.7
1999-00	1871.73	16.3	47.27	23.2	1919.00	16.5
2000-01	2174.52	16.2	55.30	17.0	2229.82	16.2
2001-02	2721.19	25.1	69.88	26.4	2791.07	25.2
2002-03	3028.16	11.3	87.48	25.2	3115.64	11.6
2003-04	3731.37	23.2	122.32	39.8	3853.69	23.7
2004-05	4435.73	18.9	150.45	23.0	4586.18	19.0
2005-06	5563.03	25.4	188.27	25.1	5751.30	25.4
2006-07	6505.28	16.9	218.39	16.0	6723.67	16.9
2007-08	7471.89	14.9	250.93	14.9	7722.82	14.9
2008-09	8740.46	17.0	269.21	7.3	9009.67	16.7
2009-10	11011.71	26.0	355.04	31.9	11366.75	26.2
2010-11	13396.54	21.7	376.34	6.0	13772.88	21.2
2011-12	15010.18	12.0	381.59	1.4	15391.77	11.8
2012-13	17163.15	14.3	384.21	0.7	17547.36	14.0
2013-14	19650.51	14.5	403.90	5.1	20054.41	14.3
2014-15	21788.47	10.9	410.46	1.6	22198.93	10.7
2015-16	24928.46	14.4	436.98	6.5	25365.44	14.3
2016-17	33407.07	34.0	528.76	21.0	33935.83	33.8
	CAGR*	18.23	CAGR*	17.35	CAGR*	18.21

Note: *Compound annual growth rate (%) of deposits during 1992/93 - 2016/17

Source: RBI - Handbook of Statistics on Indian Economy 2016-17

It is discernible from Figure 2 and Table 4 that the share of foreign banks in the total savings deposits of the people of India was negligible. Moreover, there was no perceptible

change in the share of foreign banks in the total savings deposit mobilization in India during the post liberalization period.

Table 4: Share of Indian banks and foreign banks in the savings deposits of commercial banks in India (1992/93 – 2016/17)

Year	Indian Banks (%)	Foreign Banks (%)	Year	Indian Banks (%)	Foreign Banks (%)
1992-93	97.8	2.2	2005-06	96.7	3.3
1993-94	97.6	2.4	2006-07	96.8	3.2
1994-95	97.5	2.5	2007-08	96.8	3.2
1995-96	97.5	2.5	2008-09	97.0	3.0
1996-97	97.5	2.5	2009-10	96.9	3.1
1997-98	97.7	2.3	2010-11	97.3	2.7
1998-99	97.7	2.3	2011-12	97.5	2.5
1999-00	97.5	2.5	2012-13	97.8	2.2
2000-01	97.5	2.5	2013-14	98.0	2.0
2001-02	97.5	2.5	2014-15	98.2	1.8
2002-03	97.2	2.8	2015-16	98.3	1.7
2003-04	96.8	3.2	2016-17	98.4	1.6
2004-05	96.7	3.3	Average*	97.4	2.6

Note: *Average Share (%) of Deposits during 1992/93 - 2016/17

Source: Author's Computations based on the RBI Data

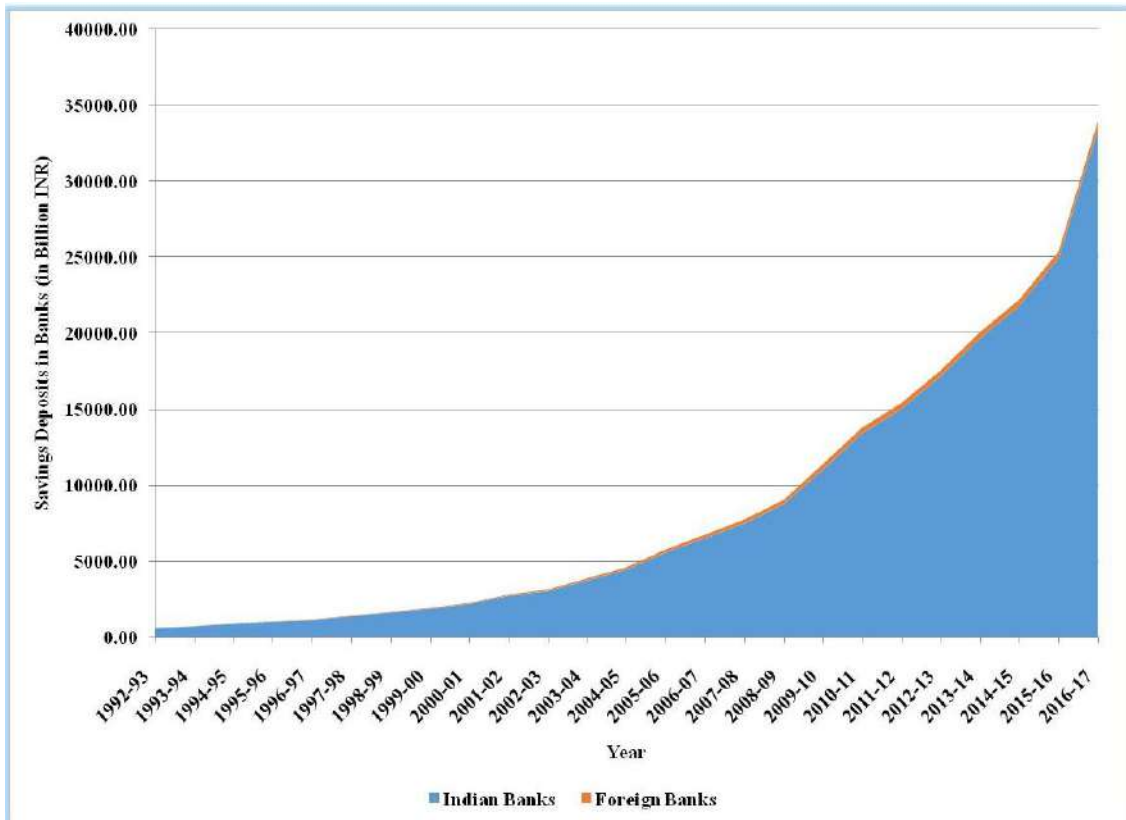


Fig 2: Trends in savings deposits in Indian and foreign commercial banks in India

4. Concluding Remarks

This article examined the trends and patterns of the commercial bank deposit in India during the initial two and half decades of liberalization period. The commercial bank deposits are broadly classified into two categories namely, time deposits and demand deposits. There was a steady growth of the aggregate commercial bank deposits in India during the post liberalization period and a sharp upsurge in the deposits was observed after 2004-05. The growth witnessed in the aggregate deposits was mainly due to the rapid growth of the time deposits in India during the period. Term deposit grew significantly faster than the demand deposits in India during the post reform period. Moreover, the trend in the aggregate deposit in the post liberalization period was largely determined by the trend in the time deposits.

On average, more than 85 percent of the total commercial bank deposits in India during the post liberalization period were in the form of time deposits. Moreover, the share of time deposits in the total commercial bank deposits has slightly increased in the post reform period.

Savings bank deposit, the most popular form of individual deposits in India, grew faster than both time deposits and demand deposits during the post liberalization period. There was a sharp rise in the savings deposits after 2007-08, reflecting the effect of the global financial crisis. The share of savings deposits mobilized by the foreign banks in India has been relatively negligible compared to that of Indian banks.

A detailed microeconomic analysis of deposit behavior and its relationship with underlying macroeconomic and financial variables is needed to expose the real factors responsible for the sharp increase in the commercial bank

deposits, particularly the time deposits in India during the post-liberalisation period. However, the risk averting behavior people, increase in per capita income, and the instability in the returns from other modes of investment might have attracted the Indian people towards the commercial bank deposits, particularly towards the time deposits, in the post-liberalisation period. The ever growing commercial bank deposits in India, if it is properly channelized, will definitely lead to the economic growth and development of the country.

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