DEPOSITS AND CREDITS OF SCHEDULED COMMERCIAL BANKS BEFORE AND DURING COVID 19PANDEMIC: AN INDIAN EVIDENCE

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Abstract

Banks play key role in the financial life of a business, as their core activities facilitate the process of producing, exchanging and distributing wealth. They thus become effective partners in the process of economic development and growth of a country. Commercial banks not only provide consumers with an essential service, but they also help create capital and liquidity in the market. The present paper is an attempt to analyse the growth of deposits and advances made by the scheduled commercial banks in India before and during Covid 19 pandemic. In the present study secondary data has been used and analysed in terms of absolute figures, percentage and graphic analysis. The study found that the public sector banks have the significant share in mobilisation of deposits and as well as in advances made by the commercial banks. On the whole the credits of commercial banks are more affected by Covid 19 pandemic than the deposits. Further the study found that the aggregate credit deposit ratio remains above 75 percent during the 1st eight quarters and after that it has declined to 71.5 percent in the 4th quarter of 2020-21.

Key Words:- Deposits, Credits, Growth Rate, Credit-Deposit Ratio

Introduction

Banking plays key role in the financial life of a business, and the importance of banks can be seen from the fact that they are seen as the lifeblood of the modern economy. Although no wealth is created by banks, their core activities facilitate the process of producing, exchanging and distributing wealth. They thus become effective partners in the process of economic development and growth. The main objectives of a commercial bank are to make profit by accepting deposits and advancing loans by various methods. Although these functions are the basic functions of commercial banks, there are many other functions which reinforce the importance of banks today. A commercial bank is a kind of financial institution that performs all operations related to depositing and withdrawing money for the general public, granting loans for investment and other such activities. The bank accepts the deposits and lends money to various projects to generate interest (profits). Commercial banks are an important part of the economy. Not only do they provide consumers with an essential service, but they also help create capital and liquidity in the market. Commercial banks play a role in the creation of credit, which leads to increased production, employment and consumer spending, thus stimulating the economy. Commercial banks are heavily regulated by central bank, asthe central bank imposes reserve requirements on commercial banks. This means that banks are required to keep a certain percentage of their consumer deposits at the central bank as a cushion if the general public is in a hurry to withdraw funds.

COVID-19 is without a doubt one of the biggest global events of our lives, presenting unprecedented challenges for many industries, governments and people all over the world. The pandemic remains a health and humanitarian crisis, and the commercial and economic impact has been deep and far-reaching. Banks have rolled out mobile ATMs and introduced home banking services for the elderly and other customers who need extra attention. We expect financial companies to implement video collaboration tools, new chat and messaging software, and other fintech innovations to continue live interactions with customers who have faced social distancing standards, some are already using consumer applications for this purpose. Several banks have invested in technology and digital transformation over the past two years. Many of them, however, still rely heavily on face-to-face interactions, supported by paper-based processes. So, we expect to see renewed robustness in India's financial services industry as banks make a concerted effort to improve their digital game. This will be critical because COVID-19 is likely to have a protracted impact, and banking services affect all sectors of our economy. Keeping in view of the above the present study is carried out.

Review of Literature

Sharifi and Akhter (2016) considered the credit deposit ratio as a barometer of progress of a financial institution like commercial banks. According to them, it indicates the level credit deployment of banks in relation to deposits mobilized by them. A high credit deposit ratio indicates that banks are generating more credit from its deposits and vice-versa. Further, they say that the outcome of this ratio reflects the ability of the bank to make optimal use of the available resources. They carried out a study with a purpose to present the performance of public sector banks through the credit-deposit ratio based on the secondary data collected from 26 public sector banks for a 7-year period (2008-2015). The data were analysed using a descriptive statistics and panel data regression model.

Their findings and analysis reveal that the CDR impact positively on public sector bank's financial performance.

Pandya (2015) studied the impact of priority sector advances of scheduled commercial banks operating in India on their profitability. Author, considered all the scheduled commercial banks operating in India for this purpose. Ratios of Priority sector advances to total advances (PSATA) of all commercial banks during the study period taken as an independent variable whereas, Return on Assets (ROA), Return on Investment (ROI), Return on Equity (ROE), Ratio of Operating Profit to Total Assets, (OPTA) and Ratio of Interest Income to Total Assets (INTTA) were taken as dependent variables. Linear regression models were used to examine the relationship between independent and dependent variables. The study reveals that there exists a statistically significant relationship between PSATA and ROI, ROA, OPTA, INTTA. The resultsthus imply that priority sector advances have bearing on bank profitability. Further, the study reveals that priority sector advances affect ROA and ROI of the banks.

Biswal andGopalakrishna (2014) found that banks in India are unable to mobilise deposits at the same pace as they are making loans. This is because the real returns on deposits are mostly negative. Households prefer investing in assets such as gold and real estate.

Karim and Alam (2013) measured the performance of selected private sector banks in Bangladesh by using financial ratios which mainly indicate the adequacy of risk-based capital, credit growth, credit concentration, non-performing loan position, liquidity gap analysis, liquidity ratio, return on assets (ROA), return on equity (ROE), net interest margin (NIM). Multiple regression analysis was carried out to apprehend the impact on credit risk, operational efficiency and asset management and created a good-fit regression model to predict the future financial performance of these banks.

Singh and Tandon (2012) analysed the financial performance of SBI (public sector) and ICICI bank (public sector) for the timeline from 2007 – 2012. The study found that SBI is performing well and financially sounder than ICICI bank but in context of deposits and expenditure ICICI bank has better managing efficiency than SBI. They concluded basedon their study that banking customers have more trust on the public sector banks as compared to private sector banks.

Objectives

The present study aims to achieve the following objectives:

1) To analyse the growth of deposits and advances made by the scheduled

commercial banks in India before and during Covid 19 pandemic;

2) To measure the Credit deposit ratio of the scheduled commercial banks in recent years; and
3) To compare growth rates in deposits and advances across sector.

Research Methodology

The present study is based upon the secondary data collected from the website of Reserve Bank of Indiaand other sites. The data has been collected for twelve quarters (i.e., for three years) from 1st April 2018 to 31st March 2021 on the variables-deposits,credits,growth rate and credit deposit ratio of the commercial banks as a whole as well as group wise. The abbreviations FB is used for Foreign Banks, Pvt.SB for Private Sector Banks, PSB for Public Sector Banks, RRB for Regional Rural Banks and SFB for Small Finance Banks.Data so collected is complied, analyzed and presented through tables and suitable figures using excel tools and graphical analysis. The data has been examined in terms of absolute figures,year-on-year percent growth and credit-depositratio. Year-on-year percent growth has been calculated by using the formula (Current Year Earnings-Last Year's Earnings)/Last Year Earnings×100 whereas credit-deposit ratio has been calculated by dividing the credits with deposits.

Analysis and Interpretation

Table 1 shows the quarterly deposits of commercial banks in India from 1st April 2018 to 31st March 2021. The table indicates that the deposits of commercial banks have increased from ₹ 1,15,0 7,027 crore to ₹ 1,54,39,970 crore during the period under study. The deposits of all commercial banks have shown an increasing trend during the study period except there is a small decline in the deposits of the public sector banks in quarter 4 of 2018-19 and regional rural banks in quarter 1 of the year 2019-20. The deposits of the public sector banks remained above 61% of the total deposits followed by private sector banks whose deposits remained between 25% to 30%, whereas small finance banks have their share in total deposits less than 0.60%during the corresponding period which indicate that public sector banks have the significant share in total deposits of the commercial banks.The overall growth rate of deposits of commercial banks raised from 7% to 12.3% during the study period as is evident from table 1A. Because of Covid-19 the growth rate of commercial banks fell down to 9.5% in quarter 4 of 2019-20, however again it starting raising from quarter 1 of 2020-21 and reached to 12.3 in the last quarter of 2020-21. The deposits and the growth rate of deposits of the commercial banks are also shown by the figure 1 and 2 respectively.

Table:1 Deposits of Scheduled Commercial banks (Figures in ₹ Crore)

Year	PSB	Pvt. SB	FB	RRB	SFB	Total
2018-19 Q1	76,95,757 (66.88)	29,23,485 (25.41)	4,82,263 (4.19)	3,85,548 (3.35)	19,973 (0.17)	1,15,07,027 (100)
2018-19 Q2	78,75,106 (66.46)	30,42,178 (25.67)	5,12,882 (4.33)	3,97,220 (3.35)	22,796 (0.19)	1,18,50,182 (100)
2018-19 Q3	79,41,539 (65.73)	31,69,552 (26.23)	5,37,216 (4.45)	4,03,580 (3.34)	30,003 (0.25)	1,20,81,892 (100)
2018-19 Q4	79,20,795 (63.07)	36,10,218 (28.75)	5,61,871 (4.47)	4,28,287 (3.41)	37,500 (0.30)	1,25,58,671 (100)
2019-20 Q1	79,74,680 (62.93)	36,55,327 (28.84)	5,75,360 (4.54)	4,26,354 (3.36)	40,809 (0.32)	1,26,72,529 (100)
2019-20 Q2	81,64,686 (62.60)	38,10,413 (29.22)	5,72,953 (4.39)	4,40,803 (3.38)	52,862 (0.41)	1,30,41,717 (100)
2019-20 Q3	83,29,527 (62.67)	38,57,093 (29.02)	5,94,680 (4.47)	4,51,262 (3.40)	58,889 (0.44)	1,32,91,451 (100)
2019-20 Q4	85,67,760 (62.31)	39,86,856 (29.00)	6,60,229 (4.80)	4,72,794 (3.44)	62,507 (0.45)	1,37,50,146 (100)
2020-21 Q1	88,35,310 (62.54)	40,65,611 (28.78)	6,76,074 (4.79)	4,85,265 (3.43)	65,224 (0.46)	1,41,27,483 (100)
2020-21 Q2	90,04,012 (62.18)	42,13,854 (29.10)	6,94,197 (4.79)	4,94,013 (3.41)	74,708 (0.52)	1,44,80,784 (100)
2020-21 Q3	91,16,972 (61.76)	43,57,582 (29.52)	7,13,600 (4.83)	4,96,227 (3.36)	78,639 (0.53)	1,47,63,019 (100)
2020-21 Q4	94,59,891 (61.27)	46,23,587 (29.95)	7,51,961 (4.87)	5,16,855 (3.35)	87,677 (0.57)	1,54,39,970 (100)

Source: rbi.org.in and self-complied

Note. Figures in brackets are percentage to total deposits

Year	PSB	Pvt. SB	FB	RRB	SFB	Total
2018-19 Q1	3.5	17.3	4.8	7.3	331.8	7.0
2018-19 Q2	4.7	18.2	12.0	7.8	306.1	8.4
2018-19 Q3	4.9	20.0	17.1	7.5	193.4	9.3
2018-19 Q4	6.0	15.4	19.2	9.4	124.0	9.4
2019-20 Q1	6.7	16.3	19.3	10.6	104.3	10.1
2019-20 Q2	6.6	16.9	11.7	11.0	131.9	10.1
2019-20 Q3	7.8	14.0	10.7	11.8	96.3	10.0
2019-20 Q4	8.2	10.4	17.5	10.4	66.7	9.5
2020-21 Q1	10.8	11.2	17.5	13.8	59.8	11.5
2020-21 Q2	10.3	10.6	21.2	12.1	41.3	11.0
2020-21 Q3	9.5	13.7	15.4	10.0	33.5	11.1
2020-21 Q4	10.4	16.6	10.3	9.3	40.3	12.3

Table:1(A) Growth rate of Deposits of Scheduled Commercial banks (in percentage

Source: rbi.org.in and self-complied

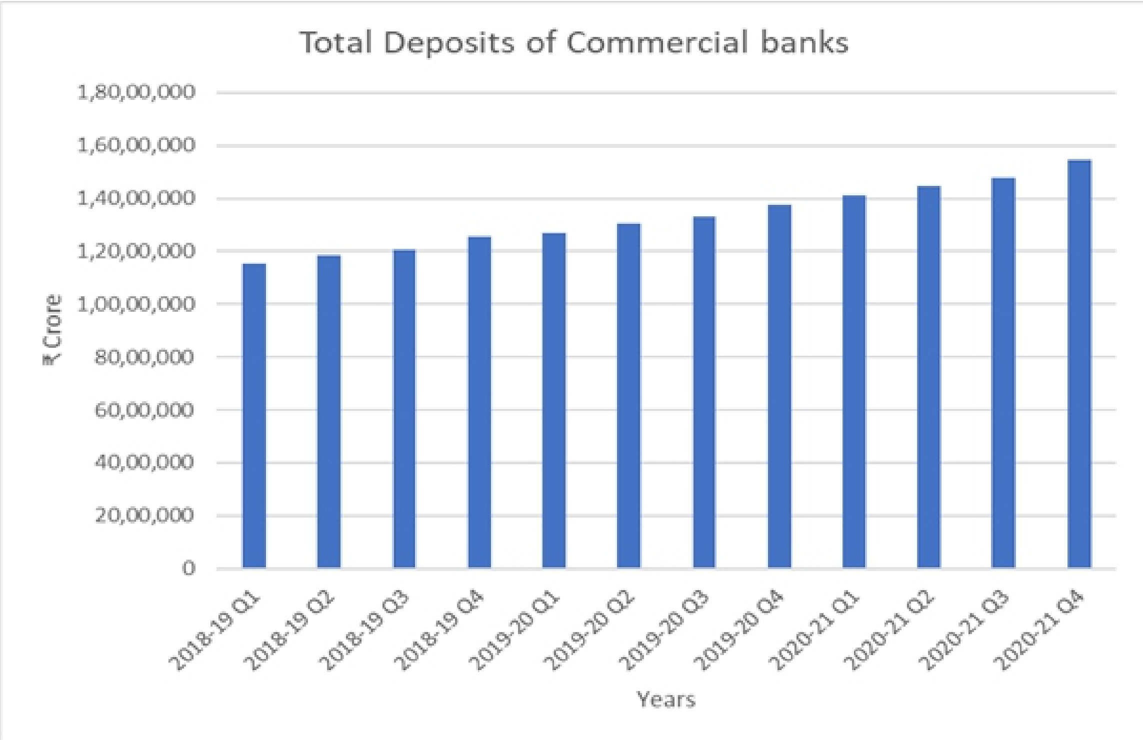

Figure 1

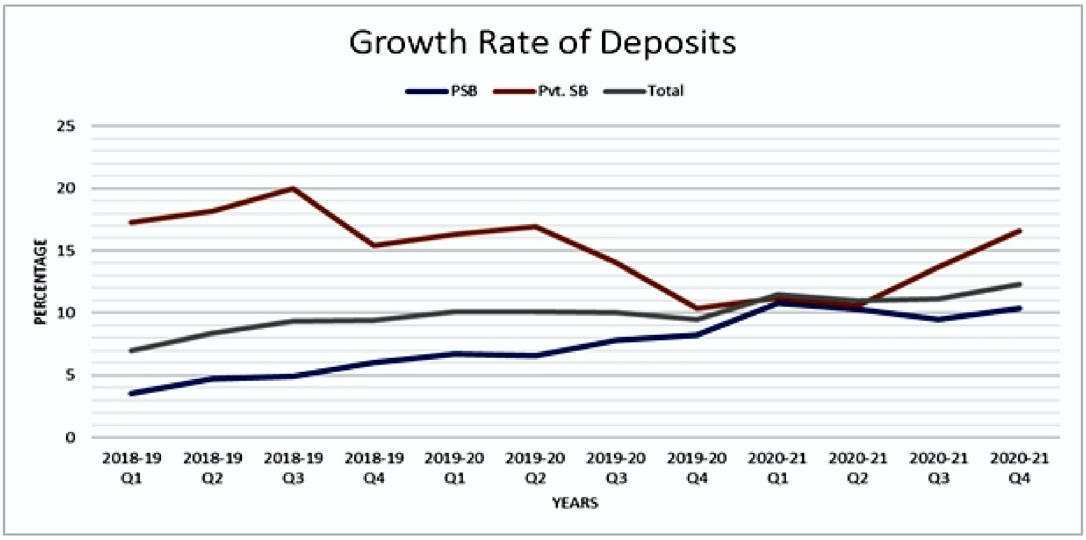

Figure 2

Table 2 reveals the credit given by the commercial banks in India. It is evident from the table that the credits given by the commercial banks have shown an increase over the quarters except quarter 1 of 2019-20 and quarter 1 of 2020-21. On examination of the table, it is clear that the credits of commercial banks have declined in quarter 1 of year 2020-21 irrespective of the bank group, which may be attributed to the second wave of COVID-19 tsunami.

As is evident from Table 2A the growth rate of aggregate credits started declining from quarter 1 of the 2019-20 and Covid 19 contributed a lot in declining the growth rate of credits in all of the banks. Aggregate growth rate of credits have drastically declined from 13.1% to 5.6% during the last eight quarters. Major effect is being seen on the foreign banks whose growth rate has declined from 10.4% in quarter 1 of the year 2018-19 to 2.9% in quarter 1 of 2020-21 and further declined to negative growth rate of -7.1% in the quarter 2 of 2020-21 and the private sector banks whose growth rate of credits have declined from 13.1% in quarter 3 of 2019-20 to 6.7% in quarter 3 of 2020-21, although in quarter 4 it improved to 9.1%. The credits are more affected than the deposits during Covid 19 pandemic. This evidence is also supported by the data table 3 which shows credit-deposit ratio have increasing trend during the first four quarters then it came down to 76.7% in the first quarter of 2019-20 and in the last quarter of the year 2020-21 it reduced to 71.5%. The position of total credits of commercial banks and growth rate of public sector banks, private sector banks and commercial banks as a whole is also presented by the figures 3 and 4 respectively.

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Table:2 Credits of Scheduled Commercial banks (Figures in ₹ Crore)

Year	PSB	Pvt. SB	FB	RRB	SFB	Total
2018-19 Q1	53,68,866 (61.73)	26,51,313 (30.48)	3,85,947 (4.44)	2,55,210 (2.93)	36,266 (0.42)	86,97,602 (100)
2018-19 Q2	55,53,190 (61.31)	28,09,709 (31.02)	3,88,574 (4.29)	2,66,355 (2.94)	40,159 (0.44)	90,57,988 (100)
2018-19 Q3	57,09,854 (60.90)	29,45,060 (31.41)	3,95,787 (4.22)	2,72,742 (2.91)	51,673 (0.55)	93,75,117 (100)
2018-19 Q4	57,70,605 (58.77)	32,98,236 (33.59)	4,05,618 (4.13)	2,83,670 (2.89)	60,238 (0.61)	98,18,367 (100)
2019-20 Q1	56,43,927 (58.09)	33,19,347 (34.17)	4,06,615 (4.19)	2,79,679 (2.88)	65,942 (0.68)	97,15,509 (100)
2019-20 Q2	56,55,212 (57.34)	34,17,984 (34.66)	4,18,302 (4.24)	2,88,742 (2.93)	81,919 (0.83)	98,62,159 (100)
2019-20 Q3	57,45,075 (57.06)	35,27,257 (35.03)	4,13,190 (4.10)	2,93,379 (2.91)	89,154 (0.89)	1,00,68,055 (100)
2019-20 Q4	60,12,694 (57.54)	36,06,192 (34.51)	4,34,776 (4.16)	3,00,981 (2.88)	94,919 (0.91)	1,04,49,562 (100)
2020-21 Q1	59,65,555 (57.73)	35,57,104 (34.42)	4,18,228 (4.05)	2,98,425 (2.89)	93,919 (0.91)	1,03,33,231 (100)
2020-21 Q2	59,78,321 (57.31)	36,54,804 (35.03)	3,88,722 (3.73)	3,12,818 (3.00)	97,360 (0.93)	1,04,32,025 (100)
2020-21 Q3	61,19,235 (57.21)	37,44,455 (35.00)	4,06,032 (3.80)	3,24,440 (3.03)	1,02,791 (0.96)	1,06,96,952 (100)
2020-21 Q4	62,29,049 (56.45)	39,16,994 (35.49)	4,36,456 (3.96)	3,39,275 (3.07)	1,13,573 (1.03)	1,10,35,347 (100)

Source: rbi.org.in and self-complied

Note. Figures in brackets are percentage to total credits

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Table:2(A) Growth rate of Credits of Scheduled Commercial banks (in percentage)

Year	PSB	Pvt. SB	FB	RRB	SFB	Total
2018-19 Q1	5.9	22.1	10.4	10.8	410.4	11.1
2018-19 Q2	8.7	22.8	7.7	13.6	235.5	13.1
2018-19 Q3	8.4	22.0	11.8	13.4	88.0	12.9
2018-19 Q4	9.2	20.2	11.1	11.3	79.7	13.1
2019-20 Q1	8.7	17.5	5.4	9.6	81.8	11.7
2019-20 Q2	5.2	14.4	7.7	8.4	104.0	8.9
2019-20 Q3	3.7	13.1	4.4	7.6	72.5	7.4
2019-20 Q4	4.2	9.3	7.2	6.1	57.6	6.4
2020-21 Q1	5.7	7.2	2.9	6.7	42.4	6.4
2020-21 Q2	5.7	6.9	-7.1	8.3	18.8	5.8
2020-21 Q3	6.5	6.7	-5.7	10.6	15.3	6.2
2020-21 Q4	3.6	9.1	-3.3	12.7	19.7	5.6

Source: rbi.org.in and self-complied

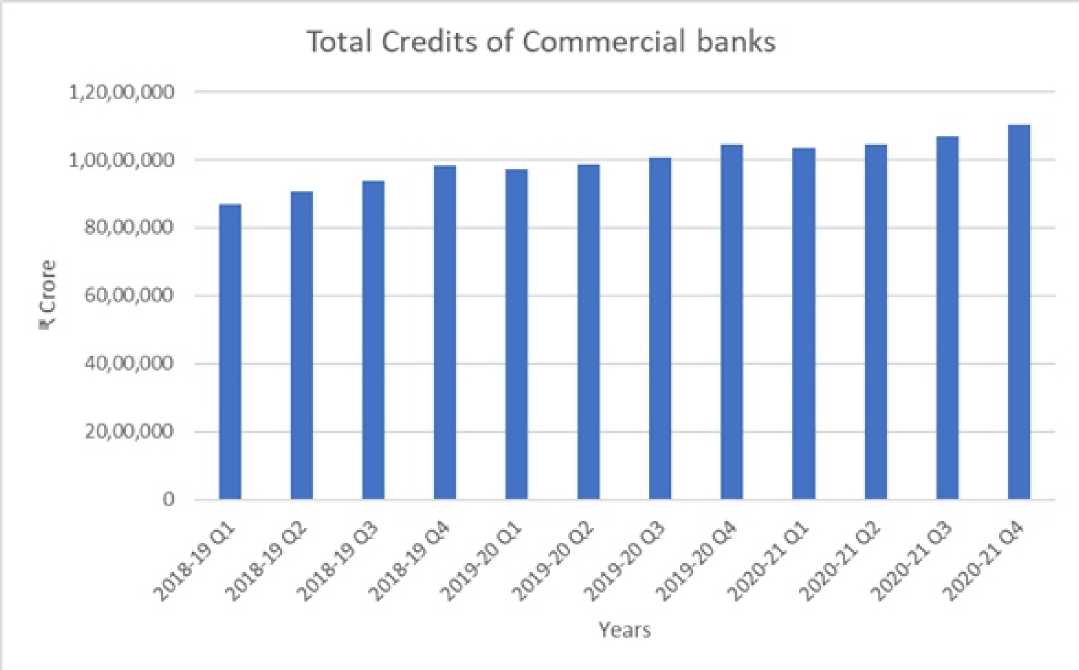

Figure 3

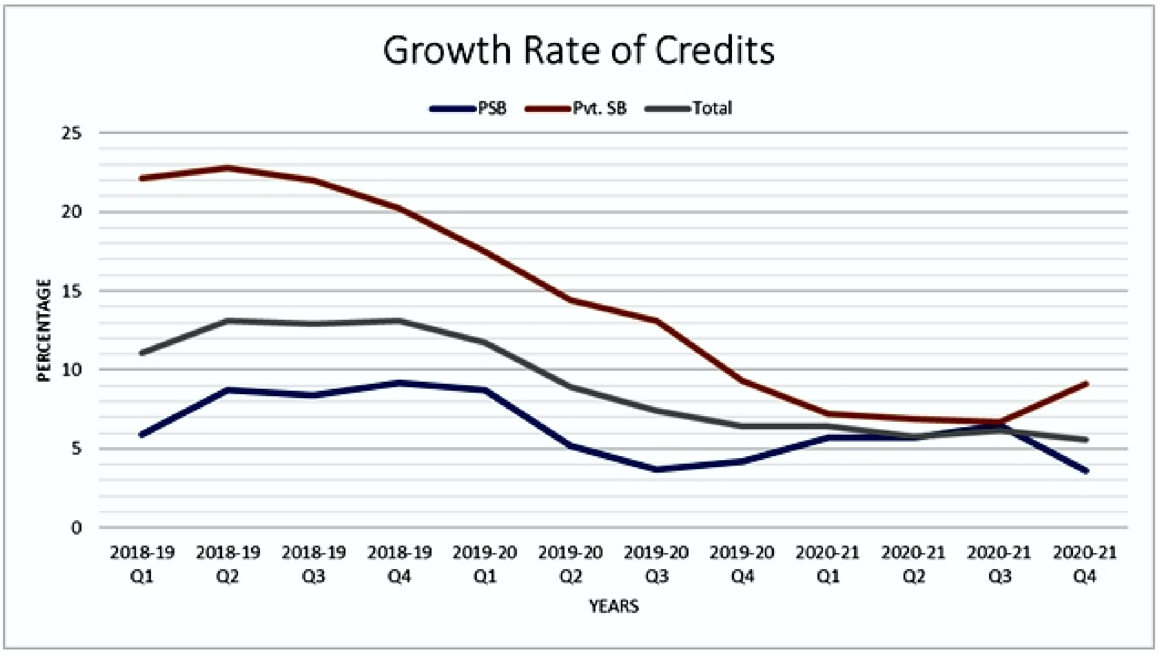

Figure 4

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Table 2 reveals the credit given by the commercial banks in India. It is evident from the table that the credits given by the commercial banks have shown an increase over the quarters except quarter 1 of 2019-20 and quarter 1 of 2020-21.On examination of the table, it is clear that the credits of commercial banks have declined in quarter 1 of year 2020-21 irrespective of the bank group, which may be attributed to the second wave of COVID-19 tsunami.

As is evident from Table 2A the growth rate of aggregate credits started declining from quarter 1 of the 2019-20 and Covid 19 contributed a lot in declining the growth rate of credits in all of the banks. Aggregate growth rate of credits have drastically declined from 13.1% to 5.6% during the last eight quarters. Major effect is being seen on the foreign banks whose growth rate has declined from 10.4% in quarter 1 of the year 2018-19 to 2.9% in quarter 1 of 2020-21 and further declined to negative growth rate of -7.1% in the quarter 2 of 2020-21 and the private sector banks whose growth rate of credits have declined from 13.1% in quarter 3 of 2019-20 to 6.7% in quarter 3 of 2020-21, although in quarter 4 it improved to 9.1%. The credits are more affected than the deposits during Covid 19 pandemic. This evidence is also supported by the data table 3 which shows credit-deposit ratio have increasing trend during the first four quarters then it came down to 76.7% in the first quarter of 2019-20 and in the last quarter of the year 2020-21 it reduced to 71.5%. The position of total credits of commercial banks and growth rate of public sector banks, private sector banks and commercial banks as a whole is also presented by the figures 3 and 4 respectively.

Year	PSB	Pvt. SB	FB	RRB	SFB	Total
2018-19 Q1	69.76	90.69	80.03	66.19	181.58	75.6
2018-19 Q2	70.52	96.11	75.76	67.05	176.17	76.4
2018-19 Q3	71.90	92.92	73.67	67.58	172.23	77.6
2018-19 Q4	72.85	91.36	72.19	66.23	160.63	78.2
2019-20 Q1	70.77	90.81	70.67	65.60	161.59	76.7
2019-20 Q2	69.26	89.70	73.01	65.50	154.97	75.6
2019-20 Q3	68.97	91.45	69.48	65.01	151.39	75.7
2019-20 Q4	70.18	90.45	65.85	63.66	151.85	76.0
2020-21 Q1	67.52	87.49	61.86	61.50	143.99	73.1
2020-21 Q2	66.40	86.73	56.00	63.32	130.32	72.0
2020-21 Q3	67.12	85.93	56.90	65.38	130.71	72.5
2020-21 Q4	65.85	84.72	58.04	65.64	129.54	71.5

Table:3 Credit-deposit Ratio of Scheduled Commercial banks (in percentage)

Source: rbi.org.in and self-complied

Table 3 depicts the credit-deposit ratio of commercial banks. The table shows that the aggregate credit deposit ratio remains above 75 percent during the 1st eight quarters and after that it has declined to 71.5 percent in the 4th quarter of 2020-21.The effect of Covid 19 is clearly visible as the credit-deposit ratio of all sector banks has reduced significantly during the pandemic period. Among all bank group except small micro finance banks, the private sector banks have the highest credit deposit ratio which remained above 84 percent during all quarters of the three years which reveals that the private sector banks have more liberal policy while granting the credits and at the same time it also indicates that there is more pressure on resources of the private sector banks.The credit-deposit ratio of the public sector banks ranges between 66 percent to 73 percent in the corresponding period,whereas it ranges between 56 percent to 80 percent in case of foreign banks and 61 percent to 68 percent in case of the regional rural banks. The credit deposit ratio of small finance banks remained above 100 percent during all the quarters which indicates that the small finance banks have borrowed funds for lending or share capital has been used in granting the advances.The aim of the small finance banks is to provide financial inclusion to the sections of the economy not being served by other banks, such as small business units, small and marginal farmers, micro and small industries and unorganised sector entities

Conclusion

The deposits of all commercial banks have shown an increasing trend during the study period except there is a small decline in the deposits of the public sector banks in quarter 4 of 2018-19 and regional rural banks in quarter 1 of the year 2019-20. The deposits of the public sector banks remained above 61% of the total deposits followed by private sector banks whose deposits remained between 25% to 30% during the study period. The overall growth rate of deposits of commercial banks raised from 7% to 12.3%. Growth rate of credits have drastically declined from 13.1% to 5.6% during the last eight quarters. The credits are more affected than the deposits during Covid 19 pandemic. The effect of Covid 19 is clearly visible as the credit-deposit ratio of all sector banks has reduced significantly during the pandemic period. The improving financial performance of Indian commercial banks will face a challenge from the impact of Covid-19 pandemic once asset-quality risks manifest in the next financial year (FY22), according to Fitch Ratings.

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