



RBI's Concerns on Slow Deposit Growth

For Prelims: Inflation, Covid-19, Russia-Ukraine, Asset Quality, NPA.

For Mains: Concerns over slow deposit growth and Asset Quality.

Why in News?

Recently, the RBI has raised concerns over the lagging growth in deposits in relation to credit growth, asset quality, and adoption of new-age technology solutions and advised banks to remain watchful.

Why have Banks been Asked to Remain “Watchful”?

- RBI said the domestic macroeconomic outlook can be best characterised as resilient but **sensitive to formidable global headwinds**.
- The present Global headwinds are **emanating from three sources**;
 - [Russian actions in Ukraine](#) impacting **energy supplies** and prices (especially in Europe),
 - **Economic slowdown** in China because of frequent lockdowns due to its zero-[Covid](#) policy,
 - **Increased cost-of-living** because of resulting [inflationary pressures](#).
- Thus, monetary policies across the globe, especially of advanced economies, are being tightened, spurring concerns **about financial stability risk in emerging and developing economies**.

What about Deposit and Credit Growth?

- Banks' credit-disbursing **bandwidth is determined by its in-house reserves**. More importantly, demand for credit increases with greater economic activity.
- As per the RBI, aggregate credit demand domestically bears **an “uneven profile” at present**.
- Urban demand appears **robust and rural demand which was muted has also started acquiring some strength** recently.
- Commercial bank credit growth too has been surging, led by services, personal loans, agriculture and industry, in that order.
- This reflects the **growing preference for bank credit for meeting working capital** requirements.
 - As per the RBI's latest weekly data for scheduled commercial banks, aggregate deposits have grown 8.2% in comparison to 11.4% on a year-over-year basis whereas credit off-take has jumped 17% in comparison to a 7.1% increase on a YoY basis.
- As per CRISIL it is not that **deposit growth has fallen materially**, but that credit growth has risen in the last few quarters.
- During the pandemic, owing to lower economic activity credit growth was on a lower trajectory. Now with economic activity returning to normalcy, the credit growth has picked up — especially in the previous three quarters.

How has been Banks' Asset Quality?

- The **Gross [Non-Performing assets \(GNPAs\)](#)** have consistently declined, with net NPAs **sliding**

down to 1% of total assets.

- Liquidity cover is robust and profitability is shored up. However, market participants have **raised concerns with respect to corporates** in light of the macroeconomic situation.
- The reason for the improving asset quality is the **de-leveraging that has happened in corporate India over the years** wherein most corporates have been able to cut down on their debt level and improve their credit profiles.
 - Corporate NPAs are expected to come down in the current amid upcoming fiscals due to **the setting up of the [National Asset Reconstruction Company Ltd](#)** which is expected to take over some of the legacy corporate loan NPAs which are still with banks.

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Q. Consider the following statements:

1. The Governor of the Reserve Bank of India (RBI) is appointed by the Central Government.
2. Certain provisions in the Constitution of India give the Central Government the right to issue directions to the RBI in public interest.
3. The Governor of the RBI draws his power from the RBI Act.

Which of the above statements are correct?

- (a) 1 and 2 only
- (b) 2 and 3 only
- (c) 1 and 3 only
- (d) 1, 2 and 3

Ans: (c)

[Source: TH](#)

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