

An Analysis of Growth Trends in Banking Deposits and Loans

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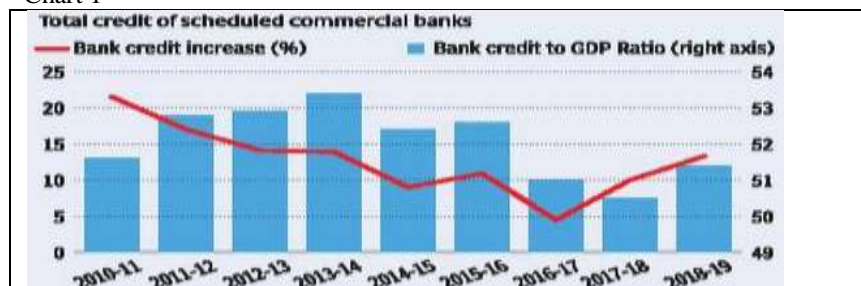
ABSTRACT: The present study has been conducted to explore the statistics regarding deposits outstanding and loans & advances extended by scheduled commercial banks' in India. Before demonetization there was seen huge growth in the deposits and hence banks were also actively extending credit facility to their customers. The present study relates to the period 2011-2020. Selected data related to all the scheduled commercial banks (SCBs) in India has been collected for analysis purpose. The data related to annual figures for deposits outstanding and loans and advances extended by SCBs in India during 2011-2020. To attain the objectives of the study, the statistical measures like Means, Averages, Compound Annual Growth Rates (CAGR), Correlation and Regression have been applied. Results show that there exists a statistical significant correlation between annual deposits and loans of SCBs in India ($r=0.996$ at $p < .001$). Regression analysis indicates that deposits outstanding with SCBs account for 99.2% of the variance in loan & advances component of these banks. The F-test is found to be highly significant for present model i.e. $F=1010.279$ at $p < .001$.

Keywords: Demonetization, Deposits outstanding, Loans & Advances, Reserve bank of India (RBI), Compound Annual Growth Rates (CAGR), Correlation Analysis, Regression Analysis, India, Scheduled commercial Banks (SCBs)

I. INTRODUCTION

The Demonetization was announced by Prime Minister Narendra Modi on November 8, 2016. The move had both positive and negative implications for various economic sectors, industries and social segments. The customers of SCBs were expecting benefits in multiple ways from the efficiencies brought by this new payment infrastructure, in terms of reduced interest rates on loans, extended loan period, availability of high-value loans and other related relaxed credit measures. Furthermore, there was perception that increased deposits with banks during post-demonetization period will substantially flow to various sections of customers by way of loans & advances for productive and personal purposes as well. However banks' loans and advances statistics show a different scenario. RBI's figures on 23.12.2016 showed that banks' overall credit growth had fallen to a meagre 5.1%, down from around 10% in the year 2015. The growth had already fallen to 5% levels in November, 2016, as credit to industry shrunk by 3% (The Hindu Businessline). The Figure 1 shows the big credit collapse occurred in the aftermath of the demonetisation in November 2016, though bank credit was already decelerating before then, because of accumulated Non Performing Assets (NPAs).

Chart 1



Source: The Hindu Businessline

II. IMPORTANCE OF THE STUDY

The statistics related to deposits and loans of SCBs in India during 2012-2016 show almost a consistent credit-deposit ratio i.e. between 78% - 79%. However, in post-demonetization era especially during 2017-2020 credit-deposit ratio lies between 73% -75%. Thus, the present study is an attempt to bring out a clear picture on declining trend in loans & advances of scheduled commercial banks (SCBs) in India.

III. OBJECTIVES OF THE STUDY

The present study covers the data during 2011-2020. The data belongs to deposits and loans of schedule commercial banks (SCBs) in India. To comprehend the trend in the deposits and loans of SCBs, the study constitutes the following objectives:

- To analyse the trend in deposits and loans of SCBs
- To explore the correlation between deposits and loans figures of SCBs
- To examine the regression between deposits and loans figures of SCBs

IV. HYPOTHESIS OF THE STUDY

Four hypotheses have been formulated to realise the objectives of the present study. These hypotheses are:

Hypothesis 1: There is positive growth in the deposits outstanding with the SCBs

Hypothesis 2: There is positive growth in the deposits outstanding with the SCBs

Hypothesis 3: The deposits outstanding with SCBs are positively related to their loan component

Hypothesis 4: The annual deposits of SCBs significantly influences level of loans extended

V. RESEARCH METHODOLOGY AND DATA ANALYSIS

The present study takes into account the deposit and loan statistics of schedule commercial banks (SCBs) of India from year 2011-12 to year 2019-20. Year-on-year analysis has been performed to depict the clear picture. Besides, both correlation and regression techniques have been applied to the data set to test the four listed hypotheses. For data analysis, IBM SPSS Software version 18 has been used. The results are explained below:

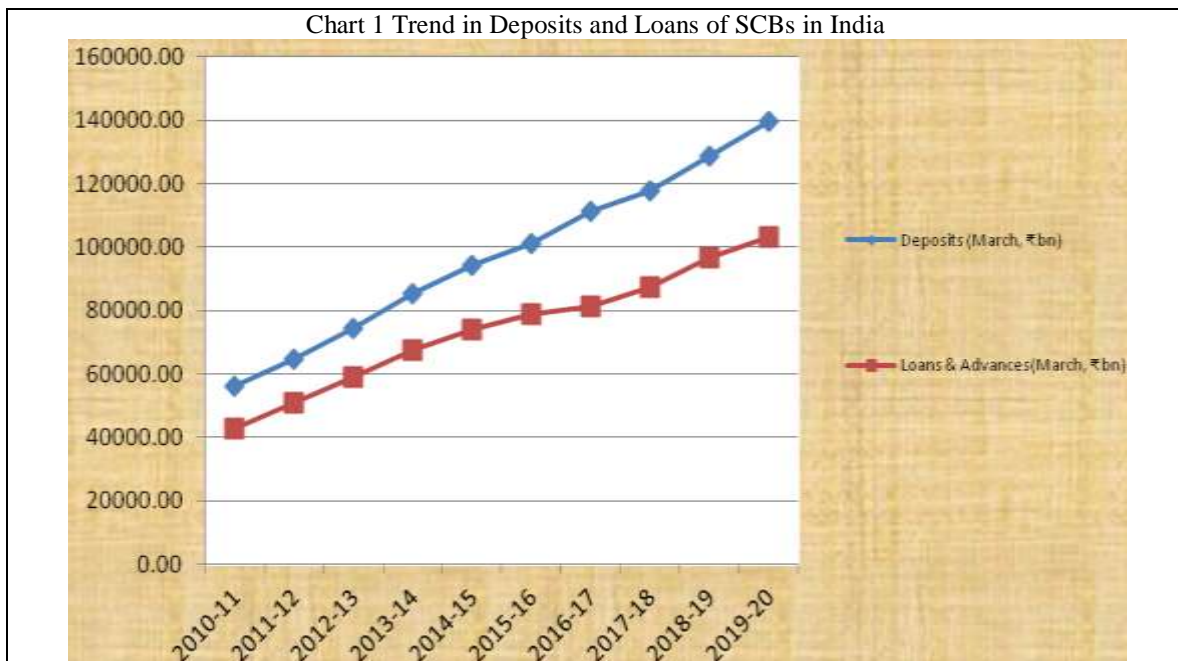
Table 1 shows the scenario related to yearly deposits outstanding alongwith loans & advances extended by Scheduled Commercial Banks in India during previous decade. The deposits have grown from ₹ 56158.74 billion to ₹ 139750.95 billion during 2011-2020 amounting to a 10-year aggregate growth of ₹ 83592.21 billion. Similarly, the loans & advances have grown from ₹ 42974.88 billion to ₹ 103019.14 billion during 2011-2020 amounting to a 10-year aggregate growth of ₹ 83592.21 billion. Furthermore, the statistics indicate a 148.85% growth in deposits and 139.72% increase in loans & advances of scheduled commercial banks (SCBs) in India during 2011-2020. The descriptives give a clear picture that deposits have grown at a better rate than the growth in loans & advances of SCBs during last ten years. On 8 November 2016, the Government of India announced the demonetisation of all ₹ 500 and ₹ 1,000 banknotes of the Mahatma Gandhi Series. During 2016-2017, the affect of demonetization on operations of SCBs reflected via way of an increase in deposits by 3.1% and steep decline in loans & advances by 4.1%.

Table 1 Deposits Outstanding and Loans Disbursed Statistics of SCBs in India

Year March Ending	Deposits (₹ bn)	Variation _D (₹ bn)	Percentage_ D Variation	Loans & Advances (₹ bn)	Variation _L (₹ bn)	Percentage _L Variation	Cre dit- Dep osit Rat io
2011	56158.74	-----	-----	42974.88	-----	-----	76.5 2
2012	64535.49	8376.74	14.9	50735.59	7760.71	18.1	78.6 2
2013	74296.77	9761.28	15.1	58797.73	8062.14	15.9	79.1 4
2014	85331.73	11034.96	14.9	67352.13	8554.40	14.5	78.9 3
2015	94338.38	9006.65	10.6	73881.60	6529.47	9.7	78.3 2

2016	100926.51	6588.13	7.0	78964.67	5083.07	6.9	78.24
2017	111114.48	10187.97	10.1	81161.09	2196.42	2.8	73.04
2018	117940.05	6825.57	6.1	87459.98	6298.89	7.8	74.16
2019	128872.63	10932.58	9.3	96761.83	9301.85	10.6	75.08
2020	139750.95	10878.32	8.4	103019.14	6257.31	6.5	73.72
Aggregate	973265.73			741108.64			
Means	97326.57			74110.86			
CAGR	10.3%*			9.5%*			

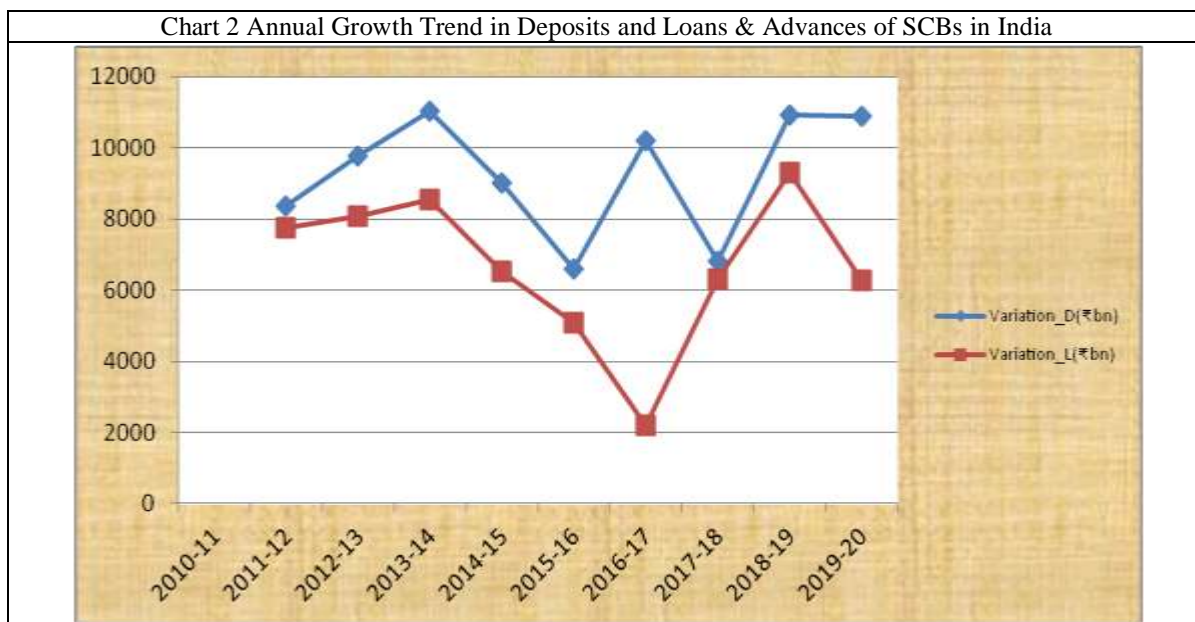
Source: Report on Trend and Progress of Banking in India, RBI
CAGR significant at $p < .001^*$



Source: Report on Trend and Progress of Banking in India, RBI

Chart1 exhibits growth trend in deposits vis-a-vis annual loans & advances of SCBs in India during the period 2011-2020. The trendline for growth in deposits though lies above the growth-trendline for loans & advances of SCBs in India during last 10 years, but gap between two lines starts widening after March, 2014. It further increased post-demonetization.

The chart 2 shows the year-on-year (yoy) growth in schedule commercial banks' deposits and loans during 2011-2020. The net annual growth in deposits and loans of SCBs is represented by the blue and red line respectively. The picture clearly shows the widening gap between growth rates of deposits and loans of SCBs in India. This gap widened during 2013-14 and trend almost continues till 2019-2020.



Source: Report on Trend and Progress of Banking in India, RBI

Hypothesis 1: There is positive growth in the deposits outstanding with the SCBs

Table 2 depicts the CAGR i.e. compound coefficients for amount of deposits outstanding with SCBs during the period 2011-2020. The B static = 1.103 is statistically significant at $p < .001$

indicating that there has been positive growth in the deposits of banks in India during previous decade. The analysis reported 10.3% CAGR for deposits of scheduled commercial banks in India during 2011-2020.

Table 2 Compound Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	CAGR Formula & Static
	B	Std. Error	Beta			
Year_March_Ending	1.103	.005	2.692	204.739	.000	$(B \times 100) - 100 = 10.3\%$
(Constant)	8.777E-82	.000		.	.	

The dependent variable is $\ln(\text{Deposits_Rs.bn})$.

Hypothesis 2: There is positive growth in the deposits outstanding with the SCBs

Table 3 depicts the CAGR i.e. compound coefficients for amount of loans & advances extended by SCBs during the period 2011-2020. The B static = 1.095 is statistically significant at $p < .001$

.001 indicating that there has been positive growth in the loans & advances of banks in India during previous decade. The analysis reported 9.5% CAGR for loans & advances of scheduled commercial banks in India during 2011-2020.

Table 3 Compound Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	CAGR Formula & Static
	B	Std. Error	Beta			
Year_March_Ending	1.095	.007	2.662	149.852	.000	$(B \times 100) - 100 = 9.5\%$
(Constant)	1.920E-75	.000		.	.	

Table 3 Compound Coefficients

	Unstandardized Coefficients		Standardized Coefficients		Sig.	CAGR Formula & Static
	B	Std. Error	Beta	t		
Year_March_Ending	1.095	.007	2.662	149.852	.000	(Bx100) - 100 = 9.5%
(Constant)	1.920E-75	.000		.	.	

The dependent variable is ln(Loans_Rs.bn).

Hypothesis 3: The deposits outstanding with SCBs are positively related to their loan component. The table 4 clearly depicts a significant positive correlation between the two variables i.e. deposits

outstanding with SCBs and their loans & advances figures during the period 2011-2020. Deposits and loans have statistically significant correlation value $r=.996$ at $p<.001$.

Table 4 Correlations

		Deposits_Rs.bn	Loans_Rs.bn
Deposits_Rs.bn	Pearson Correlation	1	.996**
	Sig. (2-tailed)		.000
	N	10	10
Loans_Rs.bn	Pearson Correlation	.996**	1
	Sig. (2-tailed)	.000	
	N	10	10

** . Correlation is significant at the 0.01 level (2-tailed).

Hypothesis 4: The annual deposits of SCBs significantly influences level of loans extended. Table 5 has an R-square value of .992, indicating that deposits outstanding with SCBs account for 99.2% of the variance in loan & advances component. The adjusted R-square (.991)

estimates the population R square for present model and thus gives a more realistic indication of its predictive power. The F-test is highly significant for present model i.e. $F=1010.279$ at $p<.001$, thus model explains a significant amount of the variance in loan & advances SCBs.

Table 3 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics in Loans				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.996 _a	.992	.991	1826.28871	.992	1010.279	1	8	.000

a. Predictors: (Constant), Deposits_Rs.bn

Table 6 exhibits multiple linear regression analysis, indicating a significant intercept ($p<.05$) as well as highly significant ($p<.001$) deposits coefficient, which can be interpreted as: for every $\square 1$ increase in deposits results in $\square 0.700$ addition

in loans extended. Model gives the following equation:
Loans & Advances of SCBs = $0.700 \times$ value of annual deposit outstanding + 5979.401

Table 6 Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients		Sig.
		B	Std. Error	Beta	t	
1	(Constant)	5979.401	2219.955		2.693	.027
	Deposits_Rs.bn	.700	.022	.996	31.785	.000

a. Dependent Variable: Loans_Rs.bn

VI. SUMMARY OF RESULTS

The CAGR for amount of deposits outstanding with SCBs during the period 2011-2020 is 10.3%. The B static = 1.103 is statistically significant at $p < .001$ indicating that there has been positive growth in the deposits of banks in India during previous decade. The B static for growth in loans & advances for these banks in India is 1.095 which again is statistically significant at $p < .001$. The analysis reported 9.5% CAGR for loans & advances of scheduled commercial banks in India during 2011-2020. Besides, R-square value of .992 indicates that deposits outstanding with SCBs account for 99.2% of the variance in loan & advances component. The reason behind declining credit-deposit ratio is the growing levels of non-performing assets (NPAs) of scheduled commercial banks in India especially during post-demonetization i.e. 2016-2017 onwards.

Implications and Future Agenda

RBI's Mint Street Memo No. 01 assesses that 'excess' bank deposit growth (y-o-y) post-demonetisation has been in the range of 3.0-4.7% points. In nominal terms, these estimates indicate the excess deposits with banks to be in the range of ₹ 2.84.3 trillion. Various research studies and newspaper articles validate the same. However, when it comes to loans and advances portfolio of SCBs in India, there has been noticeable decline in lending activity post-demonetization. Probably banks could have created more credit to earn greater profitability. However, due to significant increase in non-performing assets (NPAs) during last few years, the banks resorted to strict credit regime and adopted more precautionary measures while extending credit.

Further, in future it would be attention-grabbing to see if the banks still continue with their strict credit regime and precautionary lending policies. Research can also be carried out to examine if the banks adopt the same approach for low-value and high-value loans. Further, credit-deposit ratio can be correlated to NPAs levels of SCBs. There can also be comparison of credit-deposit ratio and profitability of these banks. Again it will be interesting to know how banks are going to effectively recover the outstanding amount while keeping a check on overall NPAs level in student and personal loan segments.

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