

## CASA DEPOSITS OF INDIAN BANKS HIGHER IN LOW INCOME STATES: TERM DEPOSITS IN HIGH INCOME AND DEMOGRAPHICALLY OLDER STATES!

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Indian population exhibit significant behavioral divergences in their savings and credit behavior. Such wide behavioral changes could have profound implications of bank strategies and product designs. When we look at the state-wise data, we find that in the states with lower per capita income than national average, the preference is more towards CASA deposits. For example, in Bihar, the ratio is highest at 65%. On the contrary, the % share of term deposits is higher mainly in the states with per capita income higher than national average with Maharashtra showing 65.9% of its total deposits as term deposits. These results are quite consistent with the current demographic profile of the states also. Based on the data provided by Economic Survey 2018-19, states with elder population (age 60 years and above) are the states with per capita income higher than national average.

Among the states with per capita income lower than national average, there is significant variation in per account current deposits (Rs 40,600 in Bihar compared to Rs 1.2 lakh in West Bengal) indicating the preponderance of small scale units in such states. Interestingly, the credit outstanding in metros is highest in states of West Bengal and Chhattisgarh (income lower than average) indicating the peculiarities of India's credit market!

**Such divergences could imply that banks in India in future need to evolve towards products that could cover the life cycle needs of the customer. Separately, since states in India exhibit different characteristics, it might be a better idea to think of having bespoke products specifically suited to the customers of different states.**

Meanwhile, there has been pick-up in credit flows to NBFCs and MSME in FY20. Credit to NBFCs has declined in April but thereafter has picked up and was Rs 43,600 crore in Aug'19. Credit to MSME sector expanded by Rs 900 crores in August after a significant contraction in July of Rs 15,300 crores. **It remains to be seen how the credit growth has fared in September, since the growth in August could also be attributed to 3 reporting fortnights. Separately, we continue to believe the current slowdown is a combination of both demand and supply factors, with demand factors far outstripping supply. Thus aggressive rate cuts might just not help!**

### STATE-WISE ANALYSIS OF DEPOSITS & CREDIT

- State-wise analysis of Indian banks' deposits and credit gives significant insights regarding the savings/investments habits of citizens on the one hand and provides lessons for Indian banks in mobilizing deposits and promoting credit on the other hand. Our analysis is based on the RBI data for Mar'18 period for 21 major states only. Further we have bifurcated these 21 states into states higher and lower based on their per capita income compared to national average. Distributing states on the basis of income is important for deposit/credit analysis as a recent empirical study in RBI's monthly bulletin (May'19) indicates that income is the most important determinant, both in short-run and long-run for deposits mobilisation and interest rate matters only marginally.

### STATES HAVING PER CAPITA INCOME LOWER THAN NATIONAL AVERAGE PREFER CASA: STATES PREFER TERM DEPOSITS WITH HIGHER PER CAPITA INCOME

- When we look at the state-wise data, we find that in the states with lower per capita income than national average the preference is more towards CASA deposits. The all India CASA deposits as % of Total deposits comes at 42.3% and all states (except West Bengal) in our sample have CASA deposit % higher than that. In Bihar, the ratio is highest at 65%.
- The % share of term deposits is higher mainly in the states with per capita income higher than national average with Maharashtra showing 65.9% of its total deposits as term deposits.
- The results are quite consistent with the current demographic profile of the states also. Based on the data provided by Economic Survey 2018-19, states with Elder population (age 60 years and above) of 2011 and 2041 we found that the states with per capita income higher than national average have more elder population. Subsequently, these states rely more on term deposits compared to CASA deposits. It may be noted that in India, the per account savings deposits is merely Rs 23,600, current deposits at Rs 1.4 lakh and term deposits at Rs 2.75 lakh. The overall per account deposits is Rs 59,800.
- Though the situation of states with higher than per capita income is quite favourable compared to states with lower than national per capita income, among rich states, the savings deposits per account in Andhra Pradesh is quite low. The current deposits are also very low in Himachal Pradesh and Punjab compared to other rich states.
- Among the states with per capita income lower than national average, the situation of per account savings and term deposits is more or less same but there is quite variation in per account current deposits (Rs 40,600 in Bihar compared to Rs 1.2 lakh in West Bengal).

State-wise CASA & Term Deposits (% of total deposits)				Share of Elder Population (60+)	
States	CASA	Term	Rank in FS*	2011 (%)	2041 (%)
<b>States with Higher Per Capita Income compared to National Average</b>					
Haryana	49.6	50.4	9	8.7	15.8
Karnataka	40.0	60.0	3	9.5	19.0
Telangana	45.0	55.0	8	9.2	18.2
Maharashtra	34.1	65.9	1	9.9	19.7
Kerala	36.8	63.2	7	12.6	23.9
Gujarat	41.7	58.3	6	8.0	17.0
Uttarakhand	44.6	55.4	19	9.0	15.3
Tamil Nadu	42.6	57.4	5	10.4	22.6
Himachal Pradesh	40.9	59.1	21	10.3	21.1
Andhra Pradesh	48.0	52.0	14	10.1	20.0
Punjab	42.9	57.1	10	10.4	20.6
<b>States Average</b>	<b>42.4</b>	<b>57.6</b>	-	<b>9.8</b>	<b>19.4</b>
<b>ALL-INDIA</b>	<b>42.3</b>	<b>57.7</b>	-	<b>8.6</b>	<b>15.9</b>
<b>States with Lower Per Capita Income compared to National Average</b>					
Rajasthan	50.1	49.9	12	7.5	13.3
West Bengal	41.3	58.7	4	8.5	19.7
Chhattisgarh	53.9	46.1	18	7.9	14.4
Madhya Pradesh	47.4	52.6	11	7.9	13.4
Jammu & Kashmir	52.0	48.0	20	7.4	17.2
Odisha	44.4	55.6	15	9.5	16.6
Assam	57.8	42.2	17	6.7	14.4
Jharkhand	47.5	52.5	16	7.2	13.4
Uttar Pradesh	56.7	43.3	2	7.8	12.0
Bihar	65.0	35.0	13	7.4	11.6
<b>States Average</b>	<b>51.6</b>	<b>48.4</b>	-	<b>7.8</b>	<b>14.6</b>

Source: RBI; SBI Research; \* Financial savings

State-wise Per Account Deposits (Rs in '000)				Share of Elder Population (60+)		
States	Current	Savings	Term	Total	2011 (%)	2041 (%)
<b>States with Higher Per Capita Income compared to National Average</b>						
Haryana	97.2	36.4	294.5	73.2	9.5	15.8
Karnataka	228.6	25.9	315.8	71.1	9.5	19.0
Telangana	251.2	23.6	330.3	61.7	9.2	18.2
Maharashtra	365.9	29.4	513.8	116.0	9.9	19.7
Kerala	93.6	24.6	313.1	63.9	12.6	23.9
Gujarat	182.1	28.5	209.8	67.9	8.0	17.0
Uttarakhand	56.6	32.6	208.4	64.0	9.0	15.3
Tamil Nadu	149.7	20.3	269.8	52.6	10.4	22.6
Himachal Pradesh	27.8	34.3	170.7	64.2	10.3	21.1
Andhra Pradesh	96.0	13.6	175.0	30.1	10.1	20.0
Punjab	31.6	28.5	228.6	57.5	10.4	20.6
<b>States Average</b>	<b>143.7</b>	<b>27.1</b>	<b>275.4</b>	<b>65.7</b>	<b>9.9</b>	<b>19.4</b>
<b>ALL-INDIA</b>	<b>140.9</b>	<b>23.6</b>	<b>275.9</b>	<b>59.8</b>	<b>8.6</b>	<b>15.9</b>
<b>States with Lower Per Capita Income compared to National Average</b>						
Rajasthan	67.0	18.9	190.6	38.1	7.5	13.3
West Bengal	121.3	20.2	182.7	48.9	8.5	19.7
Chhattisgarh	94.2	18.4	175.0	35.8	7.9	14.4
Madhya Pradesh	64.7	16.0	164.2	34.0	7.9	13.4
Jammu & Kashmir	75.5	26.2	172.3	50.5	7.4	17.2
Odisha	117.2	19.9	200.4	44.8	9.5	16.6
Assam	106.9	17.5	140.0	31.4	6.7	14.4
Jharkhand	113.3	20.5	203.4	43.7	7.2	13.4
Uttar Pradesh	63.6	21.2	165.9	36.9	7.8	12.0
Bihar	40.6	18.4	126.8	27.6	7.4	11.6
<b>States Average</b>	<b>86.4</b>	<b>19.7</b>	<b>172.1</b>	<b>39.2</b>	<b>7.8</b>	<b>14.6</b>

Source: RBI; SBI Research

**CREDIT OUTSTANDING**

- ◆ In India the credit outstanding per account as of Mar'18 was Rs 4.5 lakh only, with lowest in Rural area (Rs 1.4 lakh) and highest in Metro area (Rs 11.0 lakh), which is quite obvious. Interestingly, the credit outstanding in metros is highest in states of West Bengal and Chhattisgarh (income lower than average) indicating the peculiarities of India's credit market!
- ◆ Among the states with per capita income higher than average, Maharashtra, Telangana, Tamil Nadu and Andhra Pradesh, all have more or less same per capita income as of Punjab and Haryana, but their per account credit outstanding in rural area is significantly less. Among states with lower per capita income the credit outstanding of rural areas in most of the states is less than Rs 1 lakh per account.

**CREDIT GROWTH IN KEY SECTORS**

- ◆ To achieve higher economic growth, the Government has taken a series of reform measures to boost consumption demand in key sectors like housing, auto, banking etc. ASCBs fortnightly data indicate that bank credit growth has slowed down to 10.3% in 13 Sep'19 from 14.2% in 12 Apr'19. Further, on YTD basis, ASCBs advances contracts by -0.7% (last year 2.0%). However, the trend is changing from the last fortnight (30 Aug-13 Sep), in which credit has expanded by Rs 20,998 crore.
- ◆ A deeper analysis of sectoral data for each month indicate that there has been pick-up in credit flows to NBFCs and MSME in FY20. Credit to NBFCs has declined in April but thereafter has picked up and was Rs 43600 crore in Aug'19. Credit to MSME sector expanded by Rs 900 crores in August after a significant contraction in July of Rs 15,300 crores.
- ◆ It remains to be seen how the credit growth has fared in September, since the growth in August for sectors like NBFC could also be attributed to 3 reporting fortnights.

**WE STRONGLY BELIEVE BANK CREDIT IS THE EFFECT AND NOT THE CAUSE OF CURRENT SLOWDOWN**

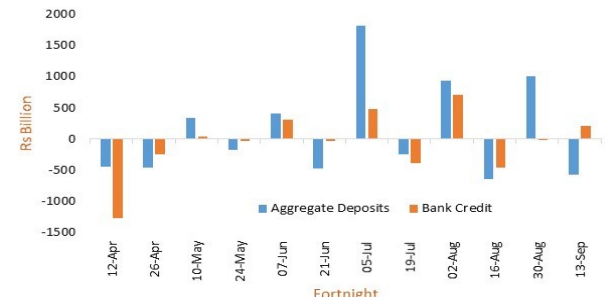
- ◆ In the last 3-year period ended, FY19, incremental bank credit to economy was at Rs 20.3 lakh crore, of which Agriculture received Rs 2.3 lakh crore, Services Rs 8.8 lakh crore, Retail /Personal at Rs 8.3 lakh crore (Housing at Rs 4.1 lakh crore) and Industry at Rs 1.5 lakh crore! In the comparable period, GDP expanded by Rs 36.5 lakh crores. In Apr-Aug'20, retail loans have continued to expand at Rs 83,198 crore (bank credit though have a shown a de-growth of Rs 70,562 crore, led by Industry) even though some segments of retail loans have indeed registered negative growth revealing clear lack of demand and other cyclical issues.
- ◆ Incremental bank credit doubled its pace in FY19 compared to FY17. The slowdown in bank credit, if any is primarily the result of credit to Industry, that first declined in FY17, barely managed a positive incremental number in FY18, but has somehow picked up pace in FY19 (10 times larger vis-à-vis FY18). This is the result of several structural reforms and disruptions, apart from deleveraging and asset quality issues beginning FY16. It is thus foolhardy to blame bank credit for current demand disruption. It is rather the lack of demand for bank credit, which is causing the slowdown.
- ◆ This brings us to the reasons behind the current demand slowdown and how to label it: structural or cyclical or both. This labelling is important, as a structural would imply macro reforms and ignoring business cycles, while a cyclical would mean unleashing counter cyclical policies. We however, would like to keep it simple: a supply side slowdown and a demand side slowdown. We believe the current slowdown is a combination of both demand and supply factors, with demand factors far outstripping supply side factors.

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State-wise Credit Outstanding per Account (in Rs Lakh)						
States	Rural	Semi-Urban	Urban	Metro	Overall	
<b>States with Higher Per Capita Income compared to National Average</b>						
Haryana	3.0	4.4	7.2	5.6	5.5	
Karnataka	2.0	2.5	3.2	7.6	4.1	
Telangana	1.2	2.1	3.7	10.9	5.1	
Maharashtra	1.6	2.2	3.3	12.7	8.5	
Kerala	2.2	2.2	5.2	-	2.9	
Gujarat	2.4	4.0	6.2	11.4	6.8	
Uttarakhand	2.3	4.2	5.0	-	3.8	
Tamil Nadu	1.0	1.7	2.4	8.2	2.8	
Himachal Pradesh	2.6	4.4	6.2	-	3.2	
Andhra Pradesh	1.2	1.8	4.3	7.2	2.4	
Punjab	4.0	4.5	5.7	9.8	5.4	
<b>States Average</b>	<b>2.1</b>	<b>3.1</b>	<b>4.8</b>	<b>9.2</b>	<b>4.6</b>	
<b>States with Lower Per Capita Income compared to National Average</b>						
ALL-INDIA	1.4	2.3	4.0	11.0	4.5	
Rajasthan	2.0	2.8	3.9	8.8	3.6	
West Bengal	0.8	1.1	2.4	12.1	3.4	
Chhattisgarh	1.4	2.6	4.3	13.6	4.4	
Madhya Pradesh	1.5	2.1	2.9	7.3	3.0	
Jammu & Kashmir	2.5	2.6	4.3	2.4	2.8	
Odisha	0.9	1.7	4.3	-	2.0	
Assam	0.8	1.9	2.1	-	1.4	
Jharkhand	0.9	1.8	3.8	4.4	2.0	
Uttar Pradesh	1.2	2.0	3.7	5.2	2.4	
Bihar	0.7	1.2	1.6	5.8	1.3	
<b>States Average</b>	<b>1.3</b>	<b>2.0</b>	<b>3.3</b>	<b>7.4</b>	<b>2.6</b>	

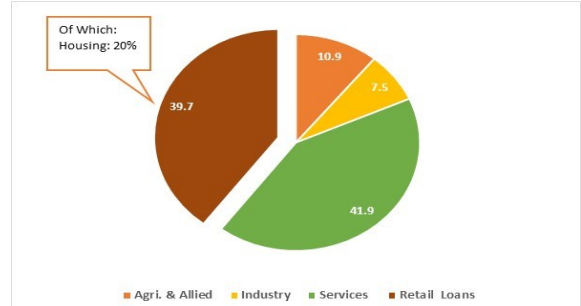
Sectors	Sector-Wise Credit Flow (Rs bn)								
	Monthly Growth (Rs bn)					YTD (Apr-Aug'19)		% YoY	
	Apr'19	May'19	Jun'19	Jul'19	Aug'19	Rs bn	%	Aug'18	Aug'19
Agri. & Allied	-33	-1	179	-168	40	17	0.2	6.6	6.8
Industry	-506	-212	-20	-137	-331	-1206	-4.2	0.3	6.1
MSE (Priority)	-12	-37	5	-153	9	-188	-1.8	11.4	7.8
Services	-1006	-272	-32	282	373	-654	-2.7	23.0	15.2
NBFCs	-178	1	116	16	436	392	6.1	40.3	34.5
Personal Loans	21	186	124	217	284	832	3.7	16.7	17.0
Housing (Including Priority)	85	83	101	128	150	547	4.7	16.5	19.2
Other Personal Loans	82	85	21	112	104	404	6.7	21.3	24.3
Gross Bank Credit	-1508	-73	308	140	330	-803	-0.9	10.4	11.5

**ASCBs Fortnight Movement of Deposits and Credit in FY20**



Source: SBI Research

**ASCBs Sector-wise Share (%) in Incremental Bank Credit during FY17-19: Rs 20.3 lakh crores (Retail @Rs 8.3 lakh crores)**



Source: SBI Research

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