



Bank Deposits Crunch Challenge and Cooperative Banks Opportunities

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Abstract :

Indian economy is one of the fastest growing economies in the world which need efficient finance system for its consistent and sustainable growth. Bank finance is one of the major sources of finance to the growing economy. Banking sectors mobilize the savings of the general public by collecting in terms of deposits and provide the loan out of those deposits. Recently it is seen that people are losing their interest to deposit their money into the bank. It is the emerging problem before the banking sector as the growth rate of the deposit is declining on the other hand demand for the loan is increasing. There are several regulations and limit for the granting loans out of collected deposits. Hence it will be the biggest challenge before banking sector to operate smoothly in future. When we consider cooperative bank sector it is run on cooperation basis. Cooperative banks deal with its member on priority. As per the RBI data the cooperative banks network is more strengthen in rural areas compare to commercial banks. People belongs to rural area still have a trust on cooperative banks. So there is hidden opportunity for the cooperative bank to take the advantage of increasing demand of loans. As the Credit-Deposit Ratio of cooperative banks lies between 60 to 70 percent where as scheduled banks was 80 percent. It shows that the cooperative banks have more deposits which can catch excess demand of credit.

Key Words: Cooperative banking, Deposit Crunch, Credit-Deposit Ratio

Introduction:

Banks play a pivotal role in the Indian economy by serving as the backbone of the financial system. They facilitate economic growth by mobilizing savings from individuals and businesses and channeling these funds into productive investments. This process supports entrepreneurship, drives industrial expansion and enhances infrastructure development. Additionally banks provide crucial financial services such as loans, credit and payment systems which help in managing cash flow and fostering economic stability. By implementing monetary policies and regulating financial markets. Banks also contribute to controlling inflation and ensuring financial stability. In a diverse and rapidly evolving economy like India's banks are instrumental in supporting inclusive growth, reducing poverty and advancing technological innovation in financial services. Their role is fundamental in creating a robust economic environment conducive to sustainable development and progress.

A deposit crunch in the banking sector poses a significant challenge, impacting both financial stability and economic growth. When banks experience a shortage of deposits, they face difficulties in maintaining adequate liquidity levels and funding their lending activities. This scarcity can lead to higher borrowing costs, reduced credit

availability for businesses and consumers and a slowdown in economic activity. A deposit crunch often stems from factors such as low depositor confidence, increased withdrawals or competition from alternative investment options offering higher returns. In severe cases it can trigger a crisis of confidence leading to a run on banks and exacerbating financial instability.

Cooperative banks, with their community-focused approach and lower credit-deposit ratios compared to commercial banks, are uniquely positioned to address the rising demand for loans. Their localized presence and deep understanding of regional economic conditions allow them to offer tailored financial products and services to meet specific community needs. By leveraging their strong ties with local stakeholders and their cooperative model, these banks can mobilize additional deposits through community engagement and targeted financial education programs. Moreover, they can explore innovative lending solutions and partnerships with government schemes to enhance their credit offerings. Expanding digital infrastructure and adopting advanced financial technologies can further improve their efficiency and reach. By capitalizing on these opportunities, cooperative banks can not only increase their lending capacity but also strengthen their role in

supporting inclusive economic growth and financial stability in their respective communities.

Methodology Of The Study

The study is basically based on secondary data. The data required for the study has been collected from various publications and news reports then Journals and statements of governor of RBI, finance minister and other experts on trends and progress of banking in India.

Objective Of Study

This paper seeks

1. To understand the concept of deposit crunch in Indian banking and what are the causes behind it?
2. To explore the overall opportunities for the cooperative sector banks in present situation

Deposit Crunch

A deposit crunch occurs when banks face a significant shortfall in available deposits which impairs their ability to fund loans and other financial activities. This situation can arise from various factors such as a sudden increase in withdrawals, decreased depositor confidence, or a rise in competition from alternative investment vehicles offering higher returns. When banks experience a deposit crunch, they may struggle to maintain liquidity and fulfill their lending commitments, potentially leading to higher interest rates for borrowers and reduced credit availability. This in turn can slow economic growth and impact business investments and consumer spending.

Deposit Crunch In India

“It goes without saying that there will always be some gap between the two, but credit growth should not run ahead of deposit growth by miles, This may potentially expose the system to structural liquidity issues” RBI governor Shaktikanta Das

Banks in India are facing challenges in attracting deposits for the financial year 2023-24. Data from the RBI reveals that the credit-deposit ratio has reached its highest level in at least 20 years. Livemint reported that the current credit-deposit ratio stands at 80%, marking the highest level since 2015. In the financial year 2023-24, deposits increased by 13.5% to reach 204.8 trillion, while non-food credit grew by 20.2% to 164.1 trillion. This compares to the previous financial year 2022-23, when deposits grew by 9.6% and credit expanded by 15.4%. As on 28 June 2024, bank deposits had grown 11.1% year-on-year, lagging credit growth of 17.4% according to Livemint Report. Households and consumers who traditionally kept their money in banks are now increasingly turning to capital markets and other financial intermediaries. Das noted that while bank deposits still represent the largest portion of financial assets owned by households their share is shrinking. More customers are now directing their

savings into mutual funds, insurance funds and pension funds.

Reasons Of Deposit Crunch In India

There are several reasons behind reduction in bank deposits some of the major reasons we found are as follow.

1. Reduction in household savings.
2. Low rate of interest on deposits compare to other alternatives of investments.
3. Availability of many investment options.
4. People are turning to share market for investment.
5. Tax cutting on interest income on deposits.
6. People are interested to investing in gold and property for safe investments.

Cooperative Banking

Cooperative banking plays a crucial role in India's financial ecosystem by providing accessible and affordable banking services to rural and underserved areas. These banks formed through cooperative societies are designed to promote economic and social development by offering credit and financial services to their members, often at lower interest rates than commercial banks. In a country with vast regional disparities and a significant rural population, cooperative banks are vital for financial inclusion. They support small farmers, small businesses and low-income individuals who may lack access to traditional banking services. By focusing on community-based lending and savings, cooperative banks help stimulate local economies, enhance financial literacy and promote grassroots economic development. Their importance is underscored by their ability to reach remote areas, foster local entrepreneurship, and provide a safety net in times of economic stress.

Opportunity To Cooperative Bank To Explore The Credit Market

There is a significant opportunity for cooperative banks to explore and expand their presence in the credit market. With a Credit-Deposit Ratio between 60% and 70%, cooperative banks have substantial deposit reserves that could be leveraged to meet the growing demand for loans. By tapping into this potential, cooperative banks can not only enhance their lending portfolios but also strengthen their role in supporting economic development, especially in underserved rural areas. Expanding their credit offerings could help cooperative banks capture a larger market share, boost profitability and further solidify their position as vital financial intermediaries in their communities.

Conclusion

Deposit crunch can become big problem in future, to addressing this issue requires robust measures including enhancing depositor trust, improving financial literacy and implementing

effective regulatory frameworks to ensure banks maintain sufficient liquidity and stability. Cooperative banks presenting a latent opportunity of capitalize on the rising demand for loans. The Credit-Deposit Ratio for cooperative banks ranges between 60% and 70% indicates that cooperative banks have a larger pool of deposits, positioning them well to meet the excess demand for credit.

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