



## Growth in Bank Credit & Deposits: RBI

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### Why in News

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Recent data released by the **Reserve Bank of India (RBI)** showed that **Bank credit and deposits grew** and were higher in February 2021 than January 2021.

The credit and deposits for February 2021 were even higher than the pre-**pandemic** data of February 2020.

### Key Points

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- **Bank Related Data by RBI:**

At the end of **February 2021:**

- Bank credit grew by **6.63%** to **Rs.107.75 lakh crore** which in **February 2020** stood at **Rs.101.05 lakh crore**.
- Bank deposits grew by **12.06%** to **Rs.149.34 lakh crore** which in **February 2020** stood at **Rs.133.26 lakh crore**.

- **Reason for Credit Growth:**

- The growth in bank credit is driven by an **increase in retail loans**.  
**Retail loans** include a vast range of different loans. **Personal loans such as car loans, mortgages, signature loans and credit cards** all fall into the category of retail loans, but business loans can also fall into the category of retail loans.
- The overall **retail credit growth**, which is currently at 9% is expected to accelerate further, led by mortgages (contributing 51% of retail loans) and back-end support by **unsecured** (cards/personal loans) and **vehicle loans**.

- **Bank Credit:**

- Banks and financial institutions **make money from the funds they lend out to their clients.**

These funds come from the money clients deposit in their accounts or invest in certain investment vehicles such as **certificates of deposit (CDs)**.

A CD is a product offered by banks and credit unions that **provides an interest rate premium in exchange for the customer agreeing to leave a lump-sum deposit** untouched for a predetermined period of time.

- Bank credit consists of the **total amount of combined funds that financial institutions advance to individuals or businesses.** It is an agreement between banks and borrowers where banks make loans to borrowers.

- **Bank Credit In India:**

- The Bank credit in India refers to credit lending by various **scheduled commercial banks (SCBs)** to various sectors of the economy.
- The bank credit is categorized into **food credit** and **non-food credit**.
  - The food credit indicates the lending made by banks to the **Food Corporation of India (FCI)** mainly for procuring foodgrains. It is a small share of the total bank credit.
  - The major portion of the bank credit is the **non-food credit** which comprises credit to various sectors of the economy (**Agriculture, Industry, and Services**) and also in the form of **personal loans**.
  - The data on bank credit is collected on a monthly basis by the RBI.

- **Bank Deposits:**

Bank deposits consist of **money placed into banking institutions for safekeeping.** These deposits are made to deposit accounts such as savings accounts, current accounts, and money market accounts.

The account holder has the **right to withdraw deposited funds**, as set forth in the terms and conditions governing the account agreement.

- **Bank Deposits in India:** In India there are **four major types** of Bank Deposits
  - **Current Account:**
    - A current account is a **special type of account** that has **lower restrictions** than a savings account when it comes to withdrawals and transactions.
    - It is also known as a **demand deposit account** and it is meant for businessmen to conduct their business transactions smoothly.
    - Banks also offer **overdraft facilities** on these, i.e., they let account-holders withdraw more money than there is in the account.
  - **Savings Accounts:**
    - It offers **high liquidity** and is very **popular among the masses**. It does, however, have cash withdrawal and transaction limits to promote **digital payments**.
    - Banks provide an **interest rate which is only slightly higher than inflation**, so it is not very optimal for investment.
  - **Recurring Deposits:**
    - It is a **special type of term deposit** where you do not need to deposit a lump sum savings rather a person has to deposit a fixed sum of money every month.
    - There are **no premature withdrawals** allowed in the account, but for a penalty, you can close the account before the maturity date of the deposit.
  - **Fixed Deposits:**
    - It is an **investment avenue** offered by banks, financial institutes and **Non-Banking Financial Companies (NBFCs)** that offers **guaranteed returns**.
    - It gives a **higher interest than a regular savings account** and offers a wide range of tenures ranging from 7 days to 10 years.

**Source:IE**