An Empirical Analysis of Deposits Mobilization by the Scheduled Commercial Banks and Economic Growth: Evidence from India

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Abstract

This paper investigates the Deposits mobilization by the Scheduled Commercial Banks and economic growth in India. The main focus of this study is to find out the association between Deposits and Gross Domestic Product (GDP) at factor cost and constant price. The study uses time series data collected from Reserve Bank of India for the period of 1991-92 to 2014-15. The statistical tools such as growth rate in the absolute and relative term, compound annual growth rate, ratio analysis are used for this study. The study also useda linear regression model to test the association between aggregate deposits and economic growth in India. The study finds the strong relationship between Aggregate Deposits and economic growth in India since banking and financial sector reforms for the period of 1991-92 to 2014-15.

Keywords: Demand Deposits, Time Deposits, Aggregate Deposits, Gross Domestic Product.

Introduction

The deposit is an important part of the Scheduled Commercial Banks. The mobilization of different types of deposits by the commercial banks plays a crucial role in the overall economic activities. The performance of the Scheduled Commercial Banks totally depends on the proper and effective

mobilization of deposits by the banks. It is very important to meet the credit requirement of the various sectors of the economy. Therefore, deposits play an important role in credit disbursement which is then important for economic growth and development of the nation. The current study is intended to examine the empirical analysis of the deposits of the Scheduled Commercial Banks since reforms period and their contribution to the gross domestic product at the current market prices 2004-05 and 2011-12.

Literature Review

S. Venkateshan (2012) made an attempt to empirically evaluate the trends and growth of deposits mobilization of the Scheduled Commercial Banks in Tamil Nadu during the period from 1999-2000 to 2008-2009. Three different types of deposits were used to analyze for this study. The compound annual growth and linear growth rate were calculated using simple regression analysis. The study found that there has been a remarkable growth in the mobilization of all kind of deposits in the Scheduled Commercial Banks in Tamil Nadu as a whole.

ShettarRajeshwari M. (2014) has examined the socio-economic impact of the deposits mobilization of the commercial banks. The research scholar has used three types of deposits namely term deposits, current deposits and saving deposits for the study. The data have been collected and properly analyzed with the help of simple statistical parameters like average, indices etc and also the accounting technique like ratio analysis is used. The study found that there has been a remarkable growth in the mobilization of all kinds of the deposits in the Union Bank of India.

MaharanNarayana, ChoudhurySuman Kalian, Panigrahi Ashok Kumar(2015)in their research paper attempts to evaluate the trend and growth of in deposits mobilization of the Scheduled Commercial Banks in Bhubaneswar in the period of 2009-09 to 2013-14. They have analysed three different types of deposits namely demand deposits, saving deposits and term deposits from BOB and Axis Bank. In this paper, an attempt is made to evaluate the trend and growth in deposit mobilization of the Scheduled Commercial Banks in Bhubaneswar in the period from 2008-09 to 2013-14. The analysis is done taking primary data through a questionnaire to present different factors responsible for the deposits mobilization of BOB and Axis Banks in Bhubaneswar City.

Mohan Rakesh and Ray Parth (2017) have examined the story of Indian Financial Sector over the period of 1950-2015. The paper has adopted three periods and has been characterized by the gradual and calibrated financial deepening and liberalization. The paper argues that as a consequence of successive reforms over the 25 years, there has been significant progress in the progress of banking.

Objective of Research

The study is based on various research objectives such as:

1. To study the different types of deposits to aggregate deposits of the Scheduled Commercial Banks since reforms period from 1991-92 to 2014-15.

2. To analysis the Compound Annual Growth Rate of different types of deposits since reforms period from 1991-92 to 2014-15.

3. To study the deposits of the Gross Domestic Product (GDP) at the current market prices 2004-05.

4. To study the association between aggregate deposits to GDP at the factor cost and Constant price.

Hypothesis

Every research is based on question and it is important to get the answer and for that, we need to have a hypothesis to test. This study is based on the following hypothesis:

H_0: Aggregate Deposits has no significant impact on the Gross Domestic Product.

H_1: Aggregate Deposits has a significant impact on the Gross Domestic Product.

Source of Data

The current study is based on the secondary source of data collected from various books, journals, and magazines published by national and international publication house, various issues of Reserve Bank of India publications, Central Statistical Organization, the Government of India, Economic Survey etc.

Research Methodology and Design

The study uses statistical techniques such as Percentage Method, Ratio Method, CAGR Method and Regression analysis. The banking sector reforms and economic growth is analyzed by using few macroeconomic variables especially banking variables like Aggregate deposits to GDP ratio. The study uses 24 years time series data based on banking and growth collected from RBI from 1991-92 to 2014-15 and linear regression techniqueis used to examine the relationship between aggregate deposits and India's economic growth since reforms period. The researcher has used MS Excel and SPSS for all the statistical calculation for the study.

Overview of Deposits: The aggregate deposits of the Scheduled Commercial Banks are very important banking variables that play avery crucial role in banking development. This section examines the trends and progress of demand deposits, time deposits and aggregate deposits of the Scheduled Commercial Banks since reforms period. The analysis is as follows:

1. Demand Deposits: Demand deposits include all liabilities which are payable on demand and include current deposits, demand liabilities portion of savings bank deposits, margins held against letters of credit/guarantees, balances in overdue fixed deposits, cash certificates and cumulative/recurring deposits, outstanding Telegraphic Transfers (TTs), Mail Transfer (MTs), Demand Drafts (DDs), unclaimed deposits, credit balances in the Cash Credit account and deposits held as security for advances which are payable on demand (RBI, 2014).The trends and progress of the demand deposits of the Scheduled Commercial Banks in India since reforms period are as follows:

Table No. 1: Growth Trends of Demand Deposits by the Scheduled Commercial Banks since Reforms Period

Fiscal Year	Demand Deposits	AbsoluteGrowth	Relative Growth (%)
1991-92	450.88	---	----
1992-93	464.61	13.73	3.0
1993-94	565.72	101.11	21.8
1994-95	769.03	203.31	35.9
1995-96	806.14	37.11	4.8
1996-97	906.10	99.96	12.4
1997-98	1025.13	119.03	13.1
1998-99	1174.23	149.10	14.5
1999-00	1273.66	99.43	8.5
2000-01	1425.52	151.86	11.9
2001-02	1530.48	104.96	7.4
2002-03	1702.89	172.41	11.3
2003-04	2250.22	547.33	32.1
2004-05	2480.28	230.05	10.2
2005-06	3646.40	1166.12	47.0
2006-07	4297.31	650.91	17.9
2007-08	5243.10	945.79	22.0
2008-09	5230.85	-12.25	-0.2
2009-10	6456.10	1225.25	23.4
2010-11	6417.05	-39.04	-0.6
2011-12	6253.30	-163.76	-2.6
2012-13	6622.99	369.69	5.9
2013-14	7139.21	516.22	7.8
2014-15	7940.29	801.08	11.2

Source: Compiled from the data obtained from the Handbook of Statistics on India Economy 2015-16

Table No.1 shows the growth trend of demand deposits of the Scheduled Commercial Bankssince reforms period. During the 19912-93, the year on the growth rate of demand deposits was 3.0 percent. The growth rate of demand deposits in 2005-06 was very high as it was 47.0 percent. At the end of March 2014-15, the growth rate of demand deposits is 11.2 percent as compared to 7.8 percent in 2013-14.

2. Time Deposits: The term 'Time deposits' are a kind of deposits which are payable otherwise than on demand and they include fixed deposits, cash certificates, cumulative and recurring deposits, time liabilities portion of savings bank deposits, staff security deposits, margin held against letters of credit if not payable on demand, deposits held as securities for advances which are not payable on demand, and gold deposits (RBI, 2014).The trends and progress of the time deposits of the Scheduled Commercial Banks in India since reforms period are as follows:

Table No. 2: Growth Trends of Time Deposits by the Scheduled Commercial Banks since Reforms Period

Fiscal Year	Time Deposits	Absolute Growth	Relative Growth (%)
1991-92	1856.70	----	----
1992-93	2221.11	364.41	19.6
1993-94	2585.60	364.49	16.4
1994-95	3099.56	513.96	19.9
1995-96	3532.05	432.49	14.0
1996-97	4149.89	617.84	17.5
1997-98	4959.72	809.83	19.5
1998-99	5966.02	1006.30	20.3
1999-00	6859.78	893.76	15.0
2000-01	8200.66	1340.88	19.5
2001-02	9503.12	1302.46	15.9
2002-03	11105.64	1602.52	16.9
2003-04	12793.94	1688.30	15.2
2004-05	14521.71	1727.77	13.5
2005-06	17444.09	2922.38	20.1
2006-07	21822.03	4377.94	25.1
2007-08	26726.30	4904.27	22.5
2008-09	33110.25	6383.95	23.9
2009-10	38472.16	5361.91	16.2
2010-11	45662.64	7190.48	18.7
2011-12	52837.52	7174.88	15.7
2012-13	60881.55	8044.02	15.2
2013-14	69916.39	9034.84	14.8
2014-15	77392.56	7476.17	10.7

Source: Compiled from the data obtained from the Handbook of Statistics on India Economy 2015-16

Table No.2 shows the growth trend of time deposits of the Scheduled Commercial Banks since reforms period. During the 1992-93, the growth rate of time deposits was around 19.6 percent. The growth rate of demand deposits in 2006-07 was very high as it was around 25.1 percent per annum. At the end of March 2014-15, the time deposits have grown by 10.7 percent per annum as compared to 14.8 percent per annum in 2013-14.

3. Aggregate Deposits: Aggregate Deposits is the total of demand and time deposits maintained in the Scheduled Commercial Banks (RBI, 2014).The trends and progress of the aggregate deposits of the Scheduled Commercial Banks in India since reforms period are as follows:

Table No. 3: Growth Trends of Aggregate Deposit by the Scheduled Commercial Banks since Reforms Period

Fiscal Year	Aggregate Deposits	Absolute Growth	Relative Growth (%)
1991-92	2307.58	---	----
1992-93	2685.72	378.14	16.4
1993-94	3151.32	465.60	17.3
1994-95	3868.59	717.27	22.8
1995-96	4338.19	469.60	12.1
1996-97	5055.99	717.80	16.5
1997-98	5984.85	928.86	18.4
1998-99	7140.25	1155.40	19.3
1999-00	8133.45	993.20	13.9
2000-01	9626.18	1492.73	18.4
2001-02	11033.60	1407.42	14.6
2002-03	12808.53	1774.93	16.1
2003-04	15044.16	2235.63	17.5
2004-05	17001.98	1957.82	13.0
2005-06	21090.49	4088.50	24.0
2006-07	26119.33	5028.85	23.8
2007-08	31969.39	5850.06	22.4
2008-09	38341.10	6371.70	19.9
2009-10	44928.26	6587.16	17.2
2010-11	52079.69	7151.43	15.9
2011-12	59090.82	7011.13	13.5
2012-13	67504.54	8413.71	14.2
2013-14	77055.60	9551.06	14.1
2014-15	85332.85	8277.25	10.7

Source: Compiled from the data obtained from the Handbook of Statistics on India Economy 2015-16

Table No.3 shows the growth trend of aggregate deposits of the Scheduled Commercial Banks since reforms period. At the banking sector reforms, the growth rateof aggregate deposits in 1991-92 to 1992-93 was 16.4 percent per annum. The growth rate of demand deposits in 2005-06 was very high as it was around 24.0 percent per annum. At the end of March 2014-15, the aggregate deposits have grown by 10.7 percent per annum as compared to 14.1 percent per annum in 2013-14.

Compound Annual Growth Rate of Deposits (CAGR)

This section examine discussed the compound annual growth rate of Scheduled Commercial Banks since reforms period. To calculate Compound Annual Growth, the data is divided intotwo distinct phase, thefirst phase is from 1991-92 to 2002-03 and second is 2003-04 to 2014-15.

Table No. 4: Growth Rate (CAGR)(%) of Deposits by the Scheduled Commercial Banks in India since Reforms Period

Fiscal Year	Demand Deposits	Time Deposits	Aggregate Deposits
1991-92 to 2002-03	12.8	17.7	16.9
2003-04 to 2014-15	12.1	17.8	17.1

Source: Authors' Calculation

Table No. 4 shows the Compound Annual Growth Rate (CAGR) of demand deposits, time deposits and aggregate deposits of the Scheduled Commercial Banks since reforms period. The compound annual growth rate of demand deposits, time deposits, and aggregate deposits during the first half of the study period from 1991-92 to 2002-03 was 12.8 percent, 17.7 percent, and 16.9 percent respectively. During the second half of the study period from 2003-04 to 2014-15, the growth trends of demand deposits have declined to 12.1 percent, time deposits have increased up to 17.8 percent and aggregate deposits has increased up to 17.1 percent.

Share Proportion of Demand Deposits and Time Deposits to Aggregate Deposits: The share percent of demand deposit, time deposit to aggregate deposit of the Scheduled Commercial Banks since reforms period from 1991-92 to 2014-15 is given in Table No. 5. It is calculated by using the method which demand deposit divided by aggregate deposit and time deposit divided by aggregate deposit.

Table No.5 Share Proportion (%) of Demand Deposits and Time Deposits to Aggregate Deposits by the Scheduled Commercial Banks since Reforms Period

Fiscal Year	Demand Deposits to Aggregate Deposits	Time Deposits to Aggregate Deposits
1991-92	19.54	80.46
1992-93	17.30	82.70
1993-94	17.95	82.05
1994-95	19.88	80.12
1995-96	18.58	81.42
1996-97	17.92	82.08
1997-98	17.13	82.87
1998-99	16.45	83.55
1999-00	15.66	84.34
2000-01	14.81	85.19
2001-02	13.87	86.13
2002-03	13.29	86.71
2003-04	14.96	85.04
2004-05	14.59	85.41
2005-06	17.29	82.71
2006-07	16.45	83.55
2007-08	16.40	83.60
2008-09	13.64	86.36
2009-10	14.37	85.63
2010-11	12.32	87.68
2011-12	10.58	89.42
2012-13	9.81	90.19
2013-14	9.27	90.73
2014-15	9.31	90.69

Source: Compiled from the data obtained from the Handbook of Statistics on India Economy 2015-16

Table No. 5 shows the share percent demand deposits and time deposits to aggregate deposits. At the end of March 1991-92, the demand deposits to aggregate deposits were 19.54 percent and time deposits to aggregate deposits were 80.46 percent. During the study period, it shows that the demand deposits to aggregate deposits have decreased and time deposits to aggregate deposits increased. At the end of March 2014-15, the demand deposit to aggregate deposits is 9.31 percent and time deposit to aggregate deposits is 90.69 percent respectively.

Share Proportion of Demand Deposits, Time Deposits, and Aggregate Deposits to Assets Ratio:
This section examines the share proportion of demand deposits, time deposits and aggregate deposits to assets ratio of the Scheduled Commercial Banks in India since reforms period. The details of the various deposits and their proportion to assets ratio is given in Table No. 6.

Table No.6 Share Proportion (%) of Demand Deposits, Time Deposits, and Aggregate Deposits to Assets Ratio of the Scheduled Commercial Banks since Reforms Period

| Fiscal Year	Demand Deposits to Assets Ratio	Time Deposits to Assets Ratio	Aggregate deposits to Assets Ratio
1991-92	13.20	54.37	67.57
1992-93	12.04	57.57	69.62
1993-94	13.01	59.45	72.45
1994-95	14.93	60.19	75.12
1995-96	13.45	58.95	72.40
1996-97	13.47	61.69	75.16
1997-98	12.89	62.35	75.23
1998-99	12.35	62.76	75.12
1999-00	11.47	61.78	73.25
2000-01	11.01	63.33	74.33
2001-02	9.97	61.89	71.86
2002-03	10.04	65.45	75.49
2003-04	11.39	64.78	76.17
2004-05	10.53	61.65	72.18
2005-06	13.09	62.62	75.71
2006-07	12.42	63.07	75.49
2007-08	12.12	61.78	73.90
2008-09	9.99	63.20	73.19
2009-10	10.72	63.85	74.57
2010-11	8.93	63.57	72.50
2011-12	7.52	63.50	71.02
2012-13	6.91	63.48	70.39
2013-14	6.50	63.70	70.20
2014-15	6.60	64.31	70.91

Source: Compiled from the data obtained from the Handbook of Statistics on India Economy 2015-16

Table No. 6 reveals the share proportion of various types of deposits and assets ratio of the Scheduled Commercial Banks in India since reforms period from 1991-92 to 2014-15. At the end of 2014-15, demand deposits to assets ratio is 6.60 percent, time deposit to assets ratio is 64.31

percent, aggregate deposits to assets ratio are 70.91 percent as compared with 13.20 percent, 54.37 percent, and 67.57 percent respectively in 1991-92. The ratio shows that the demand deposit to GDP has declined and time deposits, as well as aggregate deposits, increased during the study period. The deposits to GDP ratio is also presented with thehelp of figure No.1.

Figure No. 1: Deposits to Assets Ratio of the Scheduled Commercial Banks
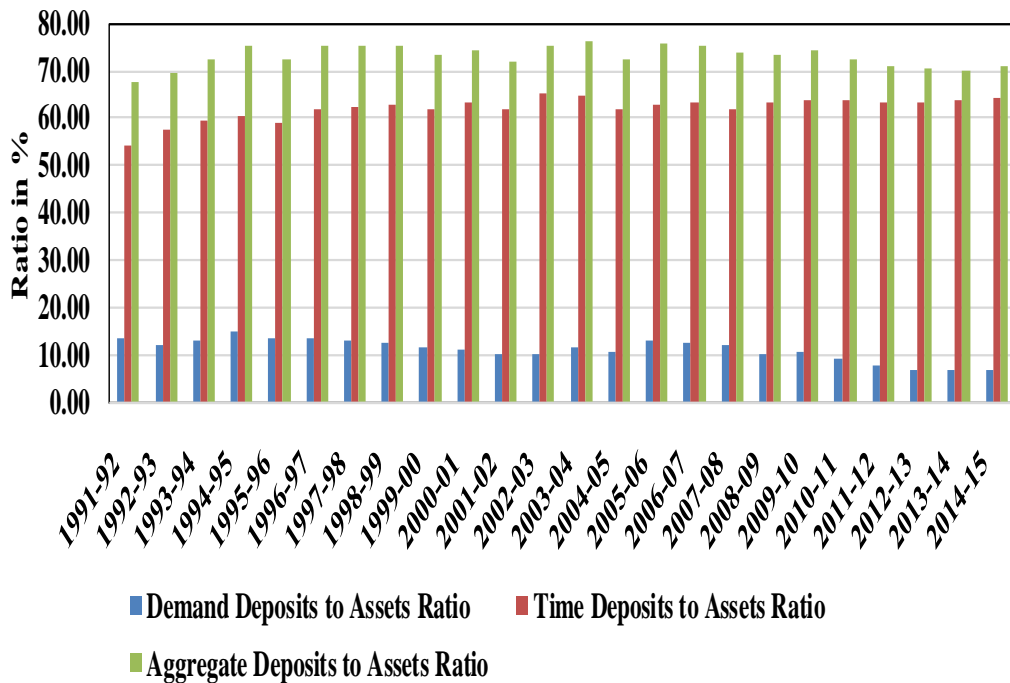
Trends of Deposits and their Contribution to GDP at the Current Market Prices

The share percent of demand deposits, time deposits and aggregate deposits of the Scheduled Commercial Banks to the Gross Domestic Product (GDP) at the current market prices 2004-05 is given in Table No. 6. It is calculated by dividing various deposits to the Gross Domestic Product (GDP) at the current market prices 2004-05. The data of gross domestic product at the market prices from 2011-12 to 20141-5 is based on the new base year of 2011-12.

Table No. 7: Share Proportion (%) of Demand Deposits, Time Deposits and Aggregate Deposits to GDP at the Current Market Price 2004-2005

Fiscal Year	Demand Deposits to GDP	Time Deposits to GDP	Aggregate Deposits to GDP
1991-92	6.69	27.55	34.24
1992-93	6.00	28.68	34.67
1993-94	6.35	29.01	35.35
1994-95	7.35	29.64	37.00
1995-96	6.57	28.79	35.36
1996-97	6.38	29.24	35.62
1997-98	6.52	31.54	38.06
1998-99	6.51	33.08	39.59
1999-00	6.30	33.91	40.20
2000-01	6.55	37.66	44.21
2001-02	6.50	40.34	46.83
2002-03	6.71	43.79	50.50
2003-04	7.92	45.03	52.94
2004-05	7.65	44.79	52.44
2005-06	9.87	47.23	57.10
2006-07	10.01	50.81	60.82
2007-08	10.51	53.59	64.10
2008-09	9.29	58.81	68.10
2009-10	9.97	59.39	69.36
2010-11	8.24	58.66	66.91
2011-12	7.16	60.48	67.64
2012-13	6.66	61.18	67.83
2013-14	6.33	62.02	68.36
2014-15	6.36	61.97	68.33

Source: Compiled from the data obtained from the Handbook of Statistics on India Economy 2015-16

Table No. 7 shows the share percent demand deposits, time deposits,and aggregate deposits to gross domestic deposits (GDP) ratio at the current market prices 2004-05 and 2014-15.At the end of March 1991-92, the demand deposits to GDP were 6.69 percent and time deposits to GDP were 27.55 percent, and aggregate deposits to GDP were 34.24 percent. During the study period, the trend shows that the demand deposits, time deposits, and aggregate deposits to GDP ratio have increased. At the end of March 2014-15, the demand deposits to GDP ratio is 6.36 percent, time deposits to GDP ratio are 61.97 percent and aggregate deposits to GDP ratio is 68.33 percent respectively. The deposits to GDP ratio at the current market prices also see with the help of figure No. 2.

Figure:No 2: Deposits to GDP Ratio at the Current Market Price
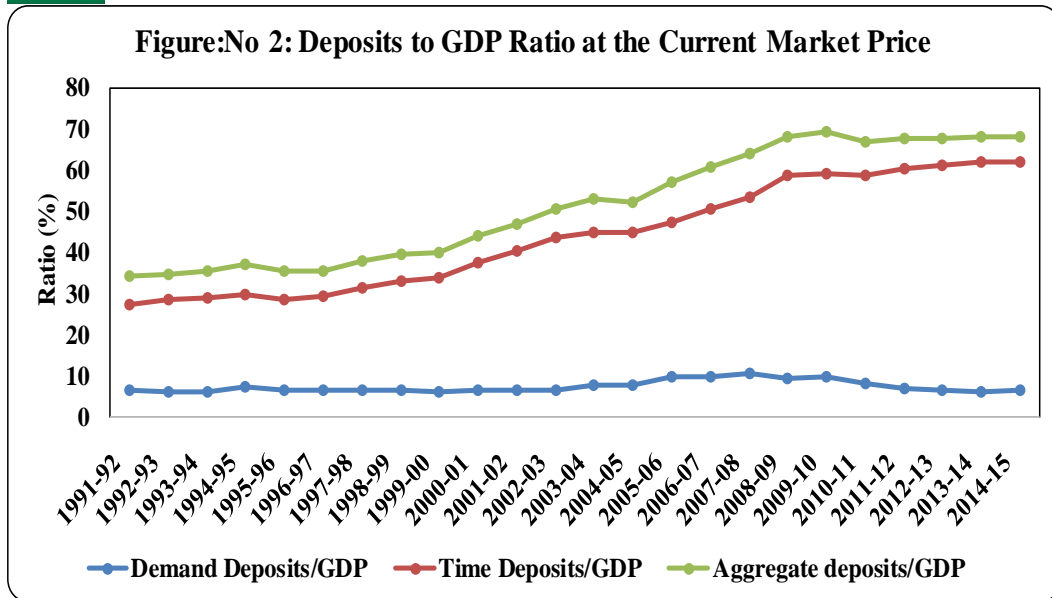
Regression Methodology

The current study uses the GDP at constant prices for the regression analysis. This is essential to understand the actual change in the output in the economy and not just a rise due to the effects of inflation and thereby find out the real effect of other variables on GDP. Natural log (ln x) has been used to transform data. Data transformation helps in normalization of data so that regression analysis can be used for analysis without violation of the basic assumption of data normality.

Linear regression analysis has been used to simultaneously understand the association of aggregate deposits with GDP. To take into account the change in the index in GDP, the structural break was accounted for while running the regression analysis.

Regression Model

The regression analysis of aggregate deposits and GDP ratio at the constant price 2004-05 and 2011-12 is presented with the help of following equation which shows the linear relationship between aggregate deposits and GDP at the constant price. To find out the results, the study has framed the following research hypothesis.

Null: H0: Aggregate Deposits has no significant impact on the Gross Domestic Product.

Alt: H1: Aggregate Deposits has a significant impact on the Gross Domestic Product.

The regression equation for testing the hypothesis is framed as given below:

$$Y= B_0+B_1X_1+\mu \qquad \text{(Equation 1)}$$

The linear regression equation is rearranged after the transformation of data from time series data to normalized data with ln(X) form, the equation No. 1 can rewrite as:

$$LnY = B_0 + B_1 lnX_1 + \mu \qquad \text{(Equation 3)}$$

Y: GDP at Factor Cost, X_1: Aggregate Deposits, B_0 and B_1: Intercept, μ: Random error term As per the equation No.1, the Y is depended variable and X_1 is the independent variable. The B_0 and B_1 are called as the intercept of regression equation frame for the study. The **μ** is the random error term. The result of the regression equation is as follows:

Table No 8: Regression Statistics

R	R Square	Adjusted R Square	Std. Error of the Estimate
.968	.937	.934	.15346

Source: Authors Calculation with help of MS Excel and SPSS

The linear regression model developed in Table No.8 can confidently be used after the satisfied with all assumption if found adequate. The R and R^2 represent the correlation and coefficient of determination respectively. The R (96.8%) shows that the exist a very strong positive relationship with the gross domestic product (GDP) at factor cost and constant rate a dependent variable and aggregate deposits as the independent variables. This, therefore, implies that the trends and pattern of aggregate deposits did influence India's GDP for the period of 1991-92 to 2014-15. It shows that as aggregate deposits increases, the GDP also increases.

Further, R^2 which is coefficient of determination value of 93.7% means that approximately 93.7% of the proportion of variation in GDP is explained by aggregate deposits as independent variables

Moreover, the adjusted R^2 coefficient of determination adjusted for the (degree of freedom) value of 93.4% in the line of R^2 value already explained above. This also implies that the aggregate deposits explained around 93.4% of changes in GDP and other 6.6% can be explained by some other macroeconomic variable.

Table No 9: Analysis of Variance (ANOVA)

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	7.663	1	7.663	325.378	.000
Residual	.518	22	.024		
Total	8.181	23			

Source: Authors' Calculation with help of MS Excel and SPSS

The Analysis of Variance (ANOVA) is used to test the overall significance of the regression model developed for that matter. The model significance is depending on the value of F significance which less than 5% level. The Table No. 9 examines the aggregate deposits which explain the variance in GDP. Also, since the F-value is extremely greater than 1 and is significant, we can conclude that our regression model results in the significantly better prediction of GDP than if we used the mean value of GDP. In short, the regression model overall predicts GDP significantly well. Infact, almost a perfect model for prediction of GDP has been generated.

Table No. 8 shows that the Total deposits (TD) explain around 93.7% of the variance in GDP. Since the F-value is greater than 1 and is significant, we can conclude that our regression model results in

the significantly better prediction of GDP than if we used the mean value of GDP. In short, the regression model overall predicts GDP significantly well.

Table No. 10: Regression Coefficient

Dependent Variable	Independent variable	Regression Coefficient	p-value	Std Error
GDP	**TD**	0.505	0.000*	0.028

Source: Authors Calculation with help of MS Excel and SPSS
* indicates significance at 5% as p<0.05

Based on the regression coefficient in Table No. 10, shows the results of the linear regression analysis which run to test the null hypothesis. In this model, Aggregate Deposits is independent variables and GDP as the dependent variable. The results illustrate that there is a positive and significant relationship of aggregate deposits with GDP implying that as aggregate deposits rise, there is an increase in GDP as well.

The above result clearly shows a positive significant relationship between total deposits and GDP. This implies an increase in GDP with the rise in total deposits with banks.Thus, our null hypothesis that total deposits have no impact on economic growth is rejected and it has a significant impact on economic growth.

Concluding Observations

The study concluded that the deposits mobilization of the Scheduled Commercial Banks in India has increased since reform period. The deposits to assets ratio has increased up to 70.91 percent and deposits to GDP ratio increased up to 68.33 percent as compared to 1991-92 trends. It can also be concluded that there is a strong positive correlation between Aggregate Deposits and GDP with 96.8% over the period of time. Therefore, it implies that the pattern of aggregate deposits has strong influence on India's GDP for the period of 1991-92 to 2014-15. Further, the study revealed that an R^2 value with 93.7%, this implies that almost 93.7%GDP is explained by the Aggregate Deposits and other 6.3% can be explained by some other macroeconomic variable.

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