

DIGITAL PAYMENTS leading to higher balances in savings a/cs, say some analysts; others say a rate cut with less competition for deposits needed

CASA Share Likely Bottomed Out, to Edge Higher in FY25

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Mumbai: The share of low-cost deposits — current account and savings account (CASA) — has largely bottomed out and is expected to be in the range of 39-40% of total deposits for the current fiscal, analysts said.

For commercial banks, the CASA ratio has declined from 45% in FY22 to 41% in FY24. Bankers and analysts attribute this to the widening gap between interest earned on term deposits and savings accounts. Savings account rates are at around 3-3.5%, while term deposits at their peak give an interest of 7% to 7.75%.

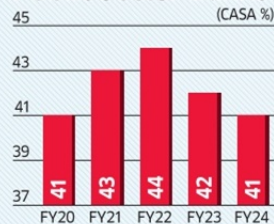
The higher share of CASA lowers a bank's cost of overall deposits and thus helps improve the net interest margins.

"The share of CASA was higher during Covid because the differential between the savings rate and term deposit rate was narrow, so there was little incentive for people to lock in or commit their funds for a longer tenure," said Anil Gupta, senior vice president at ICRA Ratings.

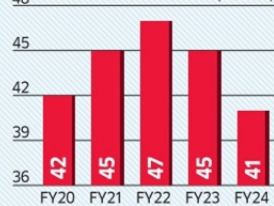
The widespread use of digital payments is also prompting deposi-



Public Sector Banks
(CASA %)



Private Sector Banks
(CASA %)



tors to keep a good balance in their savings accounts for their payments to go through, hence structurally improving the CASA ratio.

"Pre-digitisation, people used to keep some cash with them, now everyone pays via UPI. Many people have their mutual fund systematic investment plans (SIPs) getting triggered from their savings account, so it is unlikely that the CASA ratio would fall from the current level," Gupta said.

"I expect CASA to remain the same, interest rate coming down won't affect (CASA ratio), it's unlikely. The rate cut has to be accompanied by a decline in competition for deposits," said Madan Sabnavis, chief economist at Bank of Baroda.

CASA deposits are the cheapest source of funds and have an element of stability in the liability profile of a bank. Other deposits like term deposits or bulk deposits, apart from being expensive with their high interest rates, are also subject to renewal and outflow risks.

As of March 2024, the CASA ratio for both private sector and public sector banks stood at 41%. In March 2023, private banks had a CASA ratio of 45%, while for public sector banks, it stood at 42%.