Credit Deposit Ratio (CDR)

By IASToppers | 2024-04-10 15:10:00

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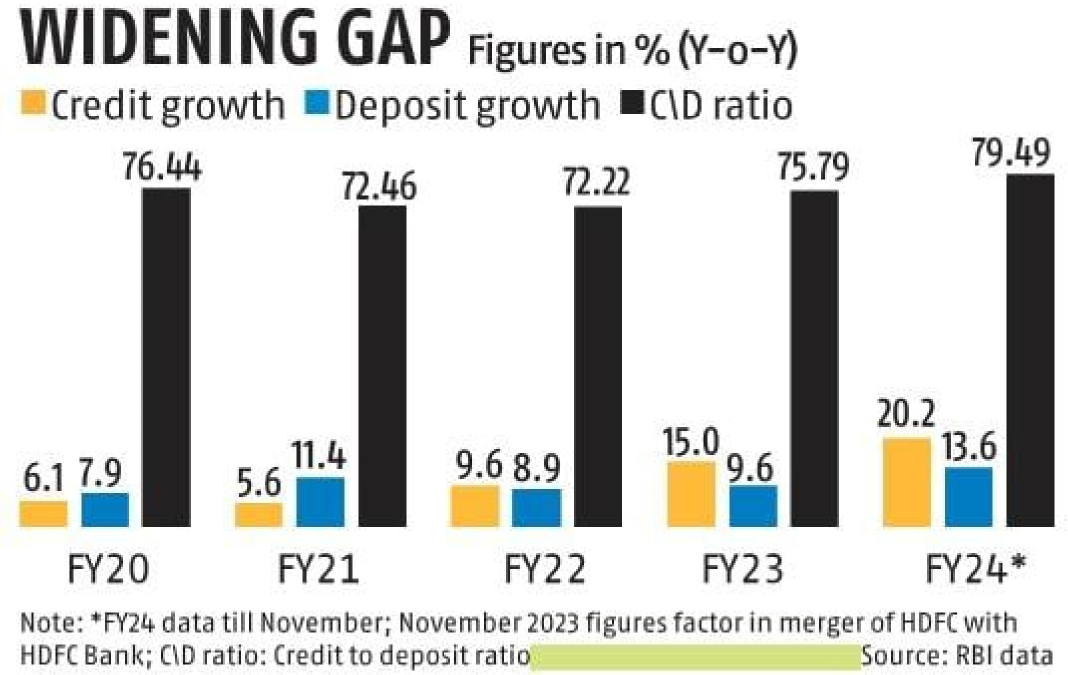
Indian banks are facing a significant deposit crunch, with the **Credit Deposit Ratio (CDR) reaching 80%**, the highest since 2005.

[Ref: ET]

What is Credit Deposit Ratio (CDR)?

- The CDR is a key metric that shows what percentage of a bank's deposits are used for lending.
- Essentially, it tells us how much of the **deposited money is given out as loans.**
- A **higher CDR** suggests that a bank is utilizing a large portion of its deposits for lending, which can contribute to economic growth.
    - However, it also brings **increased risk** as it indicates a higher reliance on deposits for loan disbursement.
- Regulators keep an eye on the CDR to ensure banks maintain a healthy balance between their lending activities and the associated risks.



[Ref: BS]

CDR Trends and Their Effects:

- A CDR of 75% means that 75% of the bank's deposits are being loaned out, indicating a three-fourths utilization rate.
- A **low CDR** reflects poor credit growth compared to deposits, signalling weak lending activity. On the other hand, a **high CDR** suggests strong credit demand, which can be a sign of economic activity but may also indicate slower deposit growth.
- After the demonetization in late 2016, the CDR decreased to below 70%, mainly due to the increased focus on exchanging banknotes and a reduction in loan issuance.

