

Slowing CASA Growth Forces Banks to Rely on Costlier Funding Options

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CASA Growth Latest News

- Slowing growth in current and savings account (CASA) deposits has forced Indian banks to shift toward costlier funding sources, raising concerns about long-term margins and stability.

Understanding CASA and Bank Funding

- Banks rely on deposits as the main source of funds to give out loans. Not all deposits, however, are equal. Deposits are broadly classified into two categories:
 - **CASA deposits:** Money kept in Current Accounts (CA) and Savings Accounts (SA)
 - **Term deposits:** Money locked in for a fixed period, such as fixed deposits (FDs) and recurring deposits (RDs)

Why CASA Matters

- CASA deposits are extremely important for banks for four key reasons:
 - Low cost: Banks pay only around 3-4% interest on savings accounts and nothing on most current accounts.
 - Stickiness: Customers rarely shift these accounts between banks, making these deposits stable.
 - Reliable funding: These deposits are consistently available, giving banks a dependable base to lend from.
 - Higher margins: Since CASA is cheap, it improves the net interest margin (NIM) of banks.
- In contrast, term deposits carry higher interest rates (typically 7-8%), making them a costlier source of funds.
- Another wholesale option is the Certificate of Deposit (CD), a short-term money market instrument used by banks to raise funds from corporates and institutions.

News Summary

- Indian banks are facing a widening mismatch between fast-growing credit and slower deposit growth, particularly a sharp slowdown in CASA growth.
- This has forced banks to look for alternative funding, mostly at a higher cost.
- **Credit Growing Faster Than Deposits**
 - Over recent months, credit growth has picked up, but deposit growth has not kept pace. The gap between the two has widened significantly:
 - From 1.8 percentage points in December
 - To 5.4 percentage points as of June 15, according to RBI data
 - As a result, the credit-to-deposit ratio, the share of deposits deployed as loans, has increased to 82.5% as of June 15, up from around 75% in mid-2025.
 - This trend has also been flagged in the RBI's recent **Financial Stability Report**.

Why CASA Growth Is Slowing

- Retail savers today have many more options to invest their money than just savings accounts. Popular alternatives include:
 - Stocks
 - Mutual funds
 - Digital investment platforms
- These options usually offer higher returns and have become more accessible due to:
 - Digitisation of financial services
 - Simpler regulatory norms
 - Growing financial awareness among retail investors
- As a result, a large share of retail savings that would otherwise stay in low-yielding CASA accounts is now flowing into market-linked investments.

Shift Toward Term Deposits and CDs

- To bridge the gap, banks have turned to more expensive funding sources:
 - Term deposits (FDs, RDs) for retail savers

- Certificates of Deposit (CDs) for wholesale, institutional funding
- The impact of this shift is visible in the composition of the banking system's deposit base:
 - Share of CASA in total deposits has fallen to around 39%, from a peak of about 44% in FY22
 - Share of term deposits has risen to over 61%, from around 56% in FY23
- CDs are typically used to manage shorter-duration liquidity, while CASA has traditionally supported the creation of longer-tenure assets such as home loans.

Why This Is a Concern

- The move to higher-cost funding creates several structural risks:
 - Higher interest outgo: Term deposits and CDs cost banks 7-8%, versus 3-4% for CASA.
 - Squeezed margins: As funding costs rise, banks' net interest margins (NIM) come under pressure.
 - Rollover risk: CDs have short tenors (3-12 months). If liquidity tightens, banks may need to refinance them at even higher rates.
 - Less sticky funds: Wholesale CDs are more price-sensitive and can flow out quickly during stress.
- The concern is that while banks have managed to protect margins so far, the pressure is starting to show.

Why the Impact Has Been Limited So Far

- The full pain of costlier funding has been partly cushioned by:
 - The current low-interest rate cycle, during rate cuts, CDs and bulk term deposits repriced downward the fastest, making short-term wholesale funds cheaper.
 - Rate cuts by the RBI, which reduce the cost of freshly raised wholesale funds.
 - Robust asset quality, which has helped banks maintain financial stability.
- However, some banks have already marginally increased their term deposit rates in Q1, and analysts expect the pressure from higher bulk deposits to reflect in the cost of funds during the second half of FY27.

The Bigger Risk Ahead

- The situation flips sharply if the interest rate cycle turns:
 - If the RBI hikes rates, the cost of CDs and term deposits will rise faster than CASA rates.
 - If there is an external shock or liquidity crunch, wholesale funds may become expensive or unavailable.
 - Continued weak CASA growth would deepen this vulnerability.
- In short, the current strategy is workable in a low-rate environment, but risky in a tighter one.

A Cyclical or Structural Shift?

- Experts remain divided. Some believe the slowdown in CASA is cyclical, linked to the post-COVID liquidity boom and the temporary dominance of market-linked investments.
- Others argue that the shift is more structural, because savers now have better alternatives to traditional deposits permanently. As one analyst put it, with most banks showing similar asset quality, the quality of the liability franchise is emerging as the key competitive edge in Indian banking.

Significance

- This development matters for several reasons.
- **First**, it reflects a big change in household financial behaviour, with retail investors increasingly choosing market-linked options over bank deposits.
- **Second**, it highlights a funding structure challenge for banks, as they depend more on costlier and less stable sources.
- **Third**, it has direct implications for monetary policy transmission, since a shift in deposit composition affects how banks respond to RBI rate actions.
- **Finally**, it could shape the future of banking competition, where banks that build stronger, stickier retail liabilities will have a lasting advantage.

Source: IE

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