THE IMPACT OF BANK SAVING DEPOSITS ON INDIAN EQUITY MARKET

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ABSTRACT

In India, the majority of the citizen's savings is going towards bank savings why because, higher rate of return with low risk. That is an incurable strength of investments is directed towards equity market. My analysis has been emphasized how monetary policy key rates are influencing the banking deposit growth and how these deposits are having an impact on the equity market. This paper had focused from 2005-2015. Therefore, The regression curve estimation results unveils that interest rates, growth are having a positive influence on bank deposits but negative influence of the equity market. Finally, The Vector Auto Regression method results indicate that the growth of CNX Nifty Index is pushing the equity market capital upside and estimates that bank deposits will move downside. This paper is useful to the retail investors, non-equity investors, regulators and mutual fund investors.

Keywords: *Bank Deposits, CNX Nifty Index, Equity Market Capital*

INTRODUCTION

Every bank accepts deposits by opening a savings bank account with them, allowing to deposit by the persons having fixed regular income. In India, savings account can be opened by depositing Rs.100 to Rs.5000.And also we can withdraw money from the account as and when required. Interest rate means the cost of borrowing funds. Our spending decisions are guided by the interest burden that we would be born. Many of us will prefer to deposit money in banks than in stocks. Why, because, we have the opportunity to earn higher returns at very low risk. As a result, funds move out of stock market affecting the stock market adversely. So, interest rates and the stock market are inversely related. As interest rates move upward, the stock market tends to move downward. Let us take a look at how RBI's rate policy impacts home loans, fixed deposits etc. for the common man.

UNDERSTANDING REPO RATE

By the understanding the Repo Rate concerns how it is relevant to the common or layman. Why Because the Reserve Bank of India announces its monetary key rates, if the Repo rate increases by the RBI there may be increased higher rate of interest with the bank. Therefore, the bank may be charged a higher rate of interest to their customers or the common man. Thus, customers involve with the bank who has been receiving their loans i.e., car loan, home loan and personal loan and EMIs etc. Once the bank itself, analyses their cost of funds and liquidity position, there will be higher interest rate will be charged to the end user or retail customer. This would immediate effect EMIs on home loans, auto loans as well as personal loans.

REPO RATE AND HOME LOANS

The question is whether banks have to increase the lending rates a hike in the repo rate. Once analyzing their cost of funds and liquidity conditions, the banks have no option towards their decision so that the banks may increase their interest rates in upcoming months.

REPO RATE AND FIXED DEPOSITS

The short term increases of Repo Rate do not impact on investors in fixed deposits with their bank. In an election year, the banks may be decreased their retail deposits rate slightly for less than one year to keep their fixed deposits as to margin. The long term aim of the RBI is now fighting with retail inflation. Once the inflation rate gets lowered, and then by investing in fixed deposits in the long term may offer lucrative gains.

REVIEW OF LITERATURE

Obrimah O.A and Ebere C.E (2015), Found in their study that savings deposits have contributed significantly to the effectiveness of regulation and consolidation within the banking sector. By the improvement of banking system structure, output, profitability and competitiveness concerned. Therefore, in their study found saving deposits are key parameters in the banking structure and profitability is determined by the liquidity during the pre consolidation period (2007-2008) to the function of loan portfolio growth (output) and during the post consolidation period (2010-2012). In spite of by increasing the bank deposits for a bank system of competition, output or profitability during the post consolidation period. Finally, found that benefits of the consolidation that accrue from savings deposits yet to translate into social welfare benefits for banks retail customers.

SerhiyKozak Denis Sosyura (2015), Focused on staggered removals of interstate banking restriction to identify the causal effect of accessing to credit for households stock market participation and allocation. They used in the study based on micro data on retail brokerage accounts and personal credit histories. They investigated two effects of loosening of credit constraints based on households' financial decisions. First, households entered by opening a new brokerage account. Second, households increased their asset allocation towards risky assets and reduced their allocation to cash, consistent with a lower precautionary savings requirement. The effects are stronger for younger's and more credit constrained investors. Overall, they established in the study one of the first direct links between access to credit and households' investment decisions.

Seth B. Joe Lange (2002), Investigated that money demand in a part reflects a portfolio decision. As equities became an important store of household's wealth, it seems plausible that variations in equity markets could affect the money demand. They re-specify the standard money demand equation to include stock market volatility and revisions to analyst earnings projections. Finally, found that these equity market variables are statistically significant and reduce the errors from money demand models.

Pascaline Dupas, Anthony Keats and Jonathan Robinson (2015), Discovered the impact of expanding access to bank accounts depends on whether account holders crowd out pre- existing financial relationship or private gains accounts shared within social networks. They studied the effect of accounts on financial linkages; they provided free bank accounts to random of 885 households. Therefore, within households, randomized which spouse was offered an account and found that there is no evidence of negative spillovers to spouses. Therefore, across the households, they documented in a positive way: that is the treatment households become less reliant on grown of children, siblings living in their village outside and become more supportive of neighbors and friends.

Simon H. Kwan (2010), Examined the effects of a series of events leading up to the deregulation of deposit rates in Hong Kong being market value. In his study evidenced that banks earned rents from deposit interest rate rules and deregulation would lower by these rents and bank market values. On average, the total abnormal return due to deregulation of interest rates around 4% was negative. There is some evidence that large banks suffering with high deposit-to-asset ratio and a bigger drop in value. Therefore, suggested in the study the banks enjoyed a bigger subsidy under the interest rate rules.

Shromona Ganguly (2014), Found the impact of stock market and savings rate of countries from the past review. In this study empirical analysis consists of two parts, taking the cross-section data for the sample of countries and taking the 16 emerging stock market economies data for period of 1990-2012. In both the cases, found in their empirical study the stock market there is no significant influence on savings rate of the country. Hence, past researchers had evidenced that growing or deepening stock market need not be necessary associated with higher savings rates of the country. In this study some of the economic variables like, GDP, current account surplus and growth rates are significant impact on the countries savings rates.

Larry Y.Dann and Christopher M.James (1982), Examined that there is an impact of changes of deposit interest rates on common stock values of savings rates and loans. In their study indicated that shareholders owned savings and loans had experienced, although significant declines in equity market values at the time of announcement of rates of short term money market certificates. Finally, evidenced that hypothesis of savings and loans have earned rents from the restrictions and interest paid to small saver accounts, and that relaxation of interest rate ceilings has been reduced these rents.

Ross Levine and Sara Zervos (1998), proposed that stock market and banks functioning promote for a long run economic growth? In their study shown that stock market liquidity and banking development both positively predict the growth. And the capital accumulation, and productivity improvements when entered together, even by controlling of economic and political factors. Their results are consistent with views of financial markets provides important services for the growth and stock market provides different services from banks. Finally, found in their study that stock market size, volatility and international integration not linked with the growth and none of the financial indicator and closely associated with the private savings rates.

Thorsten Beck Asli Demirgüç-Kunt and Ross Levine (2000), updated the version of the financial development and structure database. And the recent trends for the development of financial institutions, structure and markets across countries. They found in their study deepening of both financial markets and institutions concentrated in higher income countries and more pronounced for markets than banks. Similarly, recently increased in cross border lending and debt issues has been concentrated on higher income countries, and lower middle income countries have experienced an increased their remittance flows. Therefore, lower interest margins, rising profitability and declining stability in higher income countries in banking sectors.

OBJECTIVES OF THE STUDY

1. To study the relationship with monetary key rates with bank deposits and an equity market capitalization.
2. To study the inflation influence on select monetary policy key rates with bank deposits.
3. To forecast the future movement of bank deposits and equity market capital with CNX Nifty Index movement.

NEED OF THE STUDY

The need of the study "The impact of Bank saving Deposits on Indian equity market" is intended to know the investment decisions based on the behavior of the equity markets. To know the monetary policy influence on bank deposits and the impact of bank deposits on the Indian equity market. And also how the monetary policy key rates are useful to retail investors, mutual fund investors etc.

SCOPE OF THE STUDY: This analysis has been emphasized from 2005-2015. In this study the following economic variables of monetary policy were considered.

EMPIRICAL STUDY:

CRR
SLR
REPORATE
REVERSE REPO RATE
EQUITY MARKET CAPITAL
BANK DEPOSITS CNX NIFTY INDEX

LIMITATIONS:

1. In the study bank deposits were considered only commercial bank data.
2. Equity market capital data has been considered from NSE India.

RESEARCH METHODOLOGY

The data has been collected from secondary source. The study has been done based on descriptive statistical tools. The following tools were applied.

Correlation: A correlation study is a research writing that attempts to relate an event to other events or sets of causality which precipitate the event.

$$r = \frac{n(\Sigma xy) - (\Sigma x)(\Sigma y)}{\sqrt{[\,n\Sigma x^2 - (\Sigma x)^2\,][\,n\Sigma y^2 - (\Sigma y)^2\,]}}$$

Regression: A statistical measure that attempts to determine the strength of the relationship between one dependent variable and the series of other changing variable.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \ldots + \beta_n X_n + \varepsilon$$

Vector Auto Regression: An n-variable vector auto regression of order p, VAR(p), is a system of n linear equations, with each equation describing the dynamics of one variable as a linear function of the previous p lags of every variable in the system, including its own p lags. A simple case is a VAR(2) (p = 2) for a vector of two variables (n = 2), say {Yt ,X

$$\begin{aligned} Y_t &= \alpha + \beta_{11} Y_{t-1} + \beta_{12} Y_{t-2} \\ &\quad + \gamma_{11} X_{t-1} + \gamma_{12} X_{t-2} + \varepsilon_{1t} \\ X_t &= \alpha_2 + \beta_{21} Y_{t-1} + \beta_{22} Y_{t-2} \\ &\quad + \gamma_{21} X_{t-1} + \gamma_{22} X_{t-2} + \varepsilon_{2t} \end{aligned} \qquad (1)$$

DATA ANALYSIS

1. To study the relationship with monetary key rates with bank deposits and an equity market capitalization.

		Reporate	reverserepo	SLR	CRR	BankdepositsRBi	Equitymarketcap
Reporate	Pearson Correlation	1	.844**	-0.354	0.117	0.145	-0.031
	Sig. (2-tailed)		0	0.195	0.677	0.606	0.912
	N	15	15	15	15	15	15
reverserepo	Pearson Correlation	.844**	1	-.522*	-0.132	0.288	0.267
	Sig. (2-tailed)	0		0.046	0.64	0.297	0.336
	N	15	15	15	15	15	15
SLR	Pearson Correlation	-0.354	-.522*	1	0.467	-.911**	-.786**
	Sig. (2-tailed)	0.195	0.046		0.079	0	0.001
	N	15	15	15	15	15	15
CRR	Pearson Correlation	0.117	-0.132	0.467	1	-0.327	-0.452
	Sig. (2-tailed)	0.677	0.64	0.079		0.233	0.091
	N	15	15	15	15	15	15
BankdepositsRBI	Pearson Correlation	0.145	0.288	-.911**	-0.327	1	.901**
	Sig. (2-tailed)	0.606	0.297	0	0.233		0
	N	15	15	15	15	15	15
Equitymarketcap	Pearson Correlation	-0.031	0.267	-.786**	-0.452	.901**	1
	Sig. (2-tailed)	0.912	0.336	0.001	0.091	0	
	N	15	15	15	15	15	15

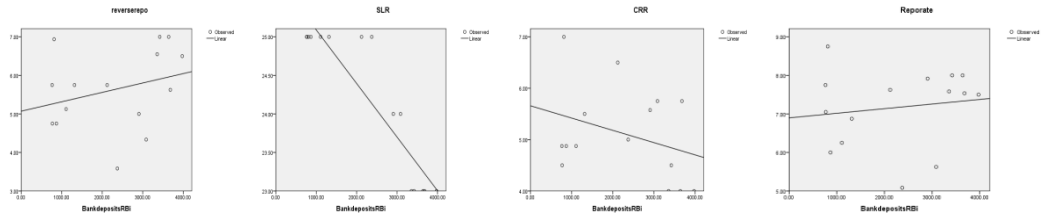
Source: Reserve Bank of India

Interpretation: The above analysis of bi-variate correlation results indicates that monetary policy key rates are having positive relations with bank deposits. But it is having negative relations with equity market capitalization.

2. To study the inflation influence on select monetary policy key rates with bank deposits.

Variable Processing Summary		Dependent variable				
		reverserepo	SLR	CRR	Reporate	BankdepositsRBi
Number of Positive Values	15	15	15	15	15	
Number of Zeros	0	0	0	0	0	
Number of Negative Values	0	0	0	0	0	
Number of Missing Values	User-Missing	0	0	0	0	0
	System-Missing	0	0	0	0	0

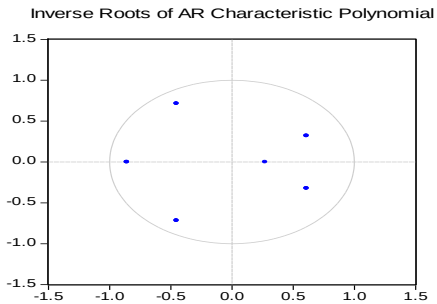
Model Summary and Parameter Estimates							
Dependent Variable:reverserepo							
Equation	Model Summary	Parameter Estimates					
	R Square	F	df1	df2	Sig.	Constant	b1
Linear	0.083	1.18	1	13	0.297	5.071	0



Source: Reserve Bank of India

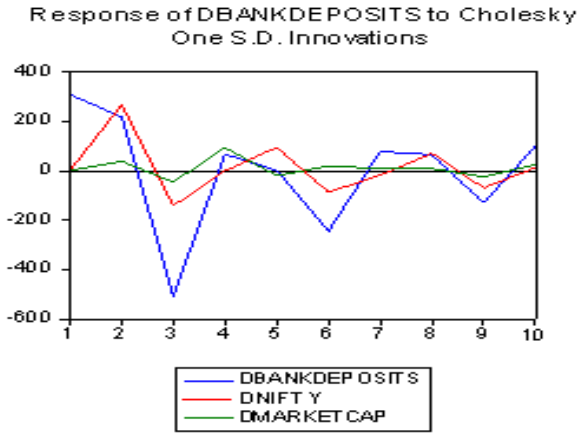
Interpretation: The above analysis of regression curve estimation indicates that inflation is having significant influence on all monetary policy select key rates with bank deposits the results indicates that SLR AND REPO rates are negatively influenced. But repo rate and bank deposits are having positive influence which is moving upwards during the study period.

3. To forecast the future movement of bank deposits and market capital with CNX Nifty Index movement.



Interpretation: The above Cholesky polynomial graph indicates that all the roots for variables fall inside the circle which indicates that the data is normally distributed between the bank deposits, market capital and CNX Nifty Index. The vector auto regression predicts that bank deposits are expected to move downwards but CNX Nifty Index is moving upwards. The equity market capital is moving upwards with growth of CNX Nifty Index.

Endogenous variables:	
DBANKDEPOSITS	DNIFTY
Root	Modulus
-0.859054	0.859054
-0.452349 - 0.714676i	0.845802
-0.452349 + 0.714676i	0.845802
0.608222 - 0.322036i	0.688216
0.608222 + 0.322036i	0.688216
0.270657	0.270657
No root lies outside the unit circ	
VAR satisfies the stability condit	



FINDINGS

1: The study found that monetary policy key rates are having positive relations with bank deposit growth rate, but they are having a negative relation to equity market capital growth.

2: SLR and CRR were negatively influenced by the inflation during the study period. Reverse Repo rate and Repo rate were influenced positively by inflation.

3: Through this study equity market capital is expected upside based on CNX Nifty Index but bank deposits are expected to move downwards.

CONCLUSION

Concluded in the study for the title "the impact of bank saving deposits on Indian equity market". This study has been emphasized to know the monetary policy influence on bank deposits and how these deposits are having an effect on the equity market. This study results concludes that the growth of interest rates influencing the bank deposits to grow upside and the bank deposit growth is having a negative impact on equity market capital. Hence, there is the further scope to do research in this area by considering non-monetary policy, economic variables impact of bank saving deposits on Indian equity market capitalisation.

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