# Financial Repression, Deposit Rate Deregulation and Bank Market Power

## Executive Summary

This paper examines how a change in banking policy in India affected savings, lending, and access to financial services. In 2011, India's central bank allowed commercial banks to decide the interest rates they offered on savings accounts, ending a longstanding rule that fixed this rate at 3.5%. Before this change, banks had little incentive to compete for deposits by offering better interest rates. The authors study what happened after this change, focusing on how different banks responded and how this influenced both bank behavior and the broader economy.

They find that banks with less dominance in the market responded more actively to the policy change. These banks increased their savings deposit rates more than larger, more powerful banks, which helped them attract more customers and deposits. As a result, these banks were able to expand their operations, open more branches, and offer better services. The increase in deposits was not limited to savings accounts — term and current account deposits also went up, suggesting that depositors were drawn to banks that offered better rates and accessibility.

With more deposits in hand, these banks shifted their focus toward giving more loans, especially to individuals, small businesses, and sectors like services and industry. This marked a move away from their earlier preference for investing in government bonds, which offer lower returns. Lending became more short-term, in line with the shorter duration of savings deposits. Importantly, this shift helped improve access to credit in areas where these banks were more active. Households in those areas began to rely more on formal financial services and moved away from traditional savings in physical assets like gold or real estate.

Despite these positive outcomes, the paper highlights that the full benefits of deregulation were limited by the unequal structure of the banking system. In areas dominated by large, powerful banks, deposit rates remained low and credit growth was slower. Using a model, the authors estimate that if all banks had behaved like the smaller, more competitive ones, total deposits could have been 42% higher. The study suggests that reducing market concentration in the banking sector could lead to better savings options for households and more credit availability for businesses, ultimately supporting broader economic growth.