



MACRO ECONOMICS

Money multiplier & bank runs

How bank lending turns a little central bank money into a lot of deposits,
and why that needs trust

Money figures as on 30 September 2026 (RBI); deposit insurance as published by DICGC, May 2026

For training and education only. Not investment advice.

Banks keep only a small part of deposits as cash. That works while depositors do not all want it at once.

Lending lets each rupee of central bank money support several rupees of bank deposits. The same design leaves a bank exposed if trust breaks and withdrawals rush in.

Four terms, with India's numbers

M0



Reserve money

Money issued by RBI: currency in circulation plus banks' deposits with RBI. ₹52.78 lakh crore on 30 Sep 2026.

M3



Broad money

Currency with the public plus bank deposits (savings, current, fixed). ₹337.66 lakh crore on 30 Sep 2026.

3%



CRR

Cash reserve ratio: the share of deposits a bank keeps as cash with RBI. 3.00% on 2 Oct 2026; 3.75% a year earlier.

Run



Bank run

Many depositors withdraw at once because they fear the bank cannot pay. The fear itself can make it true.

Sources: RBI Weekly Statistical Supplement, 9 Oct 2026 (Money Stock; Reserve Money; Ratios and Rates).

The textbook multiplier

THE SET-UP (ASSUMED)

Someone deposits ₹1,000 in Bank A.

Every bank keeps 20% of each deposit as reserves and lends the rest. Every loan is spent and the money is deposited in another bank.

- 1 Round 1: Bank A keeps ₹200 and lends ₹800.
- 2 Round 2: the ₹800 lands in Bank B, which keeps ₹160 and lends ₹640.
- 3 Each round is 80% of the one before: $1,000 + 800 + 640 + 512 + \dots$ adds up to $1,000 \div 0.20 = ₹5,000$ of deposits.
- 4 Of that, ₹1,000 sits as reserves (20% of 5,000) and ₹4,000 has been lent.

Textbook ceiling: deposits = first deposit $\div$ reserve ratio. At 20% that is 5 times; at 25%, 4 times.

Illustration with assumed figures. Real banking works differently: see the next slide.

The textbook and the real world

The textbook model

- Savers deposit first; banks then lend those deposits out.
- Reserves cap lending, so the multiplier is fixed at $1 \div \text{reserve ratio}$.
- With India's 3% CRR, that would be $1 \div 0.03 =$ about 33.

The Bank of England's account

- When a bank makes a loan, it creates a matching deposit for the borrower.
- Lending is limited by profitability, capital rules, borrower demand and interest rates.
- In India, $M3 \div M0$ was 6.4 on 30 September 2026.

The textbook story is a useful start. It overstates how mechanically reserves drive lending.

Sources: Bank of England, 'Money creation in the modern economy', Quarterly Bulletin 2014 Q1; RBI Weekly Statistical Supplement, 9 Oct 2026.

How a bank run unfolds

1

Doubt appears

News of losses, a failed fund-raising or a rumour makes depositors ask whether the bank can pay.

2

Withdrawals speed up

Each depositor gains by leaving before others do. Large, uninsured depositors tend to move first.

3

Assets are sold fast

Loans are slow to turn into cash. Securities sold in a hurry may fetch less than the bank paid, locking in losses.

4

Failure or rescue

The regulator closes the bank, arranges a merger, restricts withdrawals or provides support.

A run can push a bank that would otherwise survive into failure, because it must sell assets at a loss.

The 2023 case: Silicon Valley Bank

94%



Mostly uninsured

Share of its deposits that were uninsured at end-2022. Uninsured deposits led the run.

\$40bn+



One day's withdrawals

Lost on 9 March 2023, with over \$100 billion more expected next day: together about 85% of its deposits.

12 Mar



Authorities stepped in

The US Treasury, Fed and FDIC said all depositors would be protected, with no losses to taxpayers.

The bank failed on 10 March 2023. The Fed's review says social media fuelled 'unprecedented' withdrawals.

Sources: Federal Reserve Board, Review of the Supervision and Regulation of Silicon Valley Bank, 28 Apr 2023; joint statement by Treasury, Fed and FDIC, 12 Mar 2023.

India's safety net

₹5L



Insurance cover

DICGC insures up to ₹5 lakh per depositor per bank, principal and interest together. Raised from ₹1 lakh on 4 Feb 2020.

97.5



Fully covered

97.5% of deposit accounts were fully covered on 30 Sep 2025. By value, 41.1% of eligible deposits were insured.

90



Days to pay

Since 1 Sep 2021: within 90 days of RBI withdrawal limits, insured sums go to depositors who consent.

30



Days of stress

Commercial banks (not RRBs, payments banks) must hold liquid assets for 30 days of net stress outflows (LCR).

From 1 April 2026, banks assume retail deposits reachable online leave faster.

Sources: RBI press release, 4 Feb 2020; DICGC newsletter 'Safety Net', Oct 2025-Mar 2026; DICGC (Amendment) Act 2021, s.18A; RBI circulars of 17 Apr 2020 and 21 Apr 2025.

Where things stand

Latest published figures. Money data change every fortnight.

M3 ÷ M0

6.4

Broad money per rupee of reserve money, 30 September 2026.

CASH RESERVE RATIO

3.00%

Kept as cash with RBI, week to 2 Oct 2026. A year earlier: 3.75%.

INSURANCE COVER (₹)

5 lakh

Per depositor per bank, unchanged since 4 February 2020.

M3 GROWTH

16.9%

Year to 30 Sep 2026. Reserve money grew 8.7% over the same year.

Sources: RBI Weekly Statistical Supplement, 9 Oct 2026 (Money Stock; Reserve Money; Ratios and Rates); RBI press release, 4 Feb 2020.

If you learnt this from older material

The older picture

- Deposits are insured up to ₹1 lakh.
- Banks lend out savers' deposits (textbook view).
- Runs are queues at the branch.

What holds now

- Up to ₹5 lakh since 4 Feb 2020; within 90 days if withdrawals are restricted (from 1 Sep 2021).
- Lending creates deposits (Bank of England); reserves do not cap it.
- A US bank lost over \$40 billion in a day in 2023; RBI now assumes faster digital outflows.

The idea is old. The cover, the speed of runs and the rules have all changed.

Sources: RBI press release, 4 Feb 2020; Bank of England, Quarterly Bulletin 2014 Q1; Federal Reserve review, 28 Apr 2023; RBI circular, 21 Apr 2025.

Four things people get wrong



'The bank lends out my cash.'

A new loan creates a new deposit for the borrower. Your deposit stays your claim on the bank, not the borrower's.



'A 3% CRR means money grows 33 times.'

That is the textbook ceiling. In India M3 was about 6.4 times reserve money on 30 September 2026.



'All my bank deposits are insured.'

Up to ₹5 lakh per depositor per bank, with interest. Same-capacity accounts at all its branches are added together.



'Only a badly run bank faces a run.'

Fear can spread faster than facts. Forced sales of assets can turn a cash shortage into losses.

Check yourself

Q1

In the textbook model, a ₹2,000 deposit enters a system where every bank keeps 25% as reserves. What is the most deposits can grow to, and how much is lent?

Q2

A depositor holds ₹4 lakh in savings and a ₹3 lakh fixed deposit, both in her own name, at two branches of one bank. How much does DICGC insure?

Q3

Why did withdrawals from Silicon Valley Bank in 2023 move so fast?

Sources and disclaimer

SOURCES FOR THE FIGURES IN THIS DECK

- M3, reserve money, currency with the public and CRR: RBI Weekly Statistical Supplement, 9 Oct 2026 (data to 30 Sep and 2 Oct 2026).
- Money creation: Bank of England, 'Money creation in the modern economy', Quarterly Bulletin 2014 Q1.
- Silicon Valley Bank: Federal Reserve Board review, 28 Apr 2023; Treasury, Federal Reserve and FDIC joint statement, 12 Mar 2023.
- Cover of ₹5 lakh from 4 Feb 2020: RBI press release 2019-2020/1878. Coverage ratios, fund and claims: DICGC newsletter 'Safety Net', Oct 2025-Mar 2026; DICGC information booklet.
- 90-day interim payment: Economic Survey 2021-22. LCR: RBI circulars of 17 Apr 2020 and 21 Apr 2025 (effective 1 Apr 2026).
- The deposit chain on slide 4 and the quiz figures are invented for illustration.

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