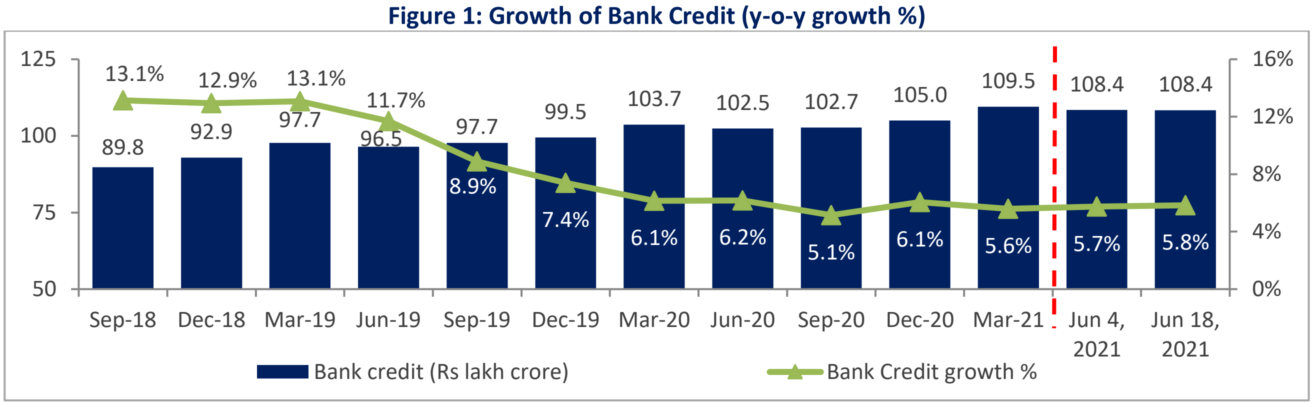
Deposit growth improved, while credit growth stood nearly flat over last fortnight

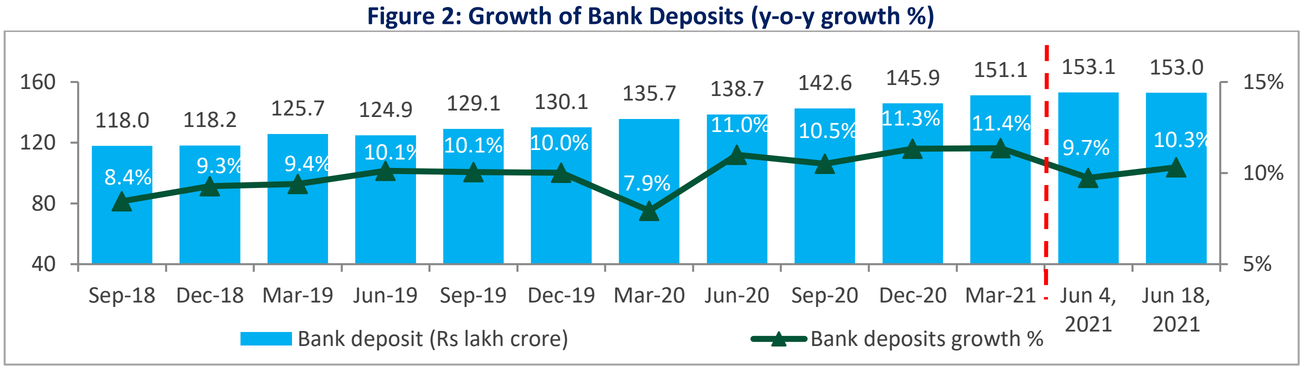
Figure 1: Growth of Bank Credit (y-o-y growth %)



Note: The quarter-end data reflect, the last fortnight data of that particular quarter; Source: RBI, CARE Ratings

- The bank credit growth rate stood nearly flat when compared with previous fortnight and period ended Mar-21. The subdued credit growth can be ascribed to risk aversion (both lenders and borrowers) and continued parking of excess liquidity with RBI. In addition, the regional lockdown imposed by states due to second wave has again restricted the growth to some extent, despite of low base of previous year. The Q1 of financial year is seasonally weak in terms of credit growth, hence a clear picture would be known in Q2FY22.
- The overall credit growth continues to be driven by retail and agriculture segments (double digit y-o-y growth in the month of May 2021). Whereas, slower growth in industry and services segment restricted the overall credit growth. Within the Industry sector, a robust growth witnessed in medium segment, which is largely led by disbursements under ECLGS scheme (~90% disbursals so far out of earlier targeted Rs 3 lakh crore).
- In absolute terms, bank credit increased by Rs.6.0 lakh crore as compared with fortnight ended June 19, 2020 and stood largely at similar level as compared with previous fortnight. The incremental non-food credit (April to June) growth for FY22 stood at -0.4% as compared with -0.9% in FY21, which indicates that the incremental growth has been better than last year but is yet to return to normal level.
- The recent additional measures by Government to mitigate pandemic related stress are expected to improve credit offtake. For instance, additional Rs 1.5 lakh crore of ECLGS disbursements would further help the bank credit growth by providing additional credit support to MSMEs. A loan guarantee scheme of Rs 1.1 lakh crore to covid-affected sectors is expected to improve the credit flow and its impact will depend on quantum of money borrowed through this route. If pending guidelines incorporate points on MFIs location, size, rating, maximum loan amount, then credit guarantee scheme could incentivize lending to smaller MFIs along with rural focused MFIs.
- The credit growth for FY22 is likely to remain in low double digit with growth expected in H2FY22 led by expansion in the economy and base effect coming into play. The downside risks include limited capex plans, lower discretionary spending compared to pre-pandemic levels, concerns over third wave, partial/complete lockdown in key states, which may impact the industrial as well as service segments.

Figure 2: Growth of Bank Deposits (y-o-y growth %)



Note: The quarter-end data reflect the last fortnight data of that particular quarter; Source: RBI, CARE Ratings

- Deposit growth improved during the fortnight ended June 18, 2021 as compared with previous fortnight. However, the growth is still lower as compared with 11.0% y-o-y growth registered in the previous year (fortnight ended June 19, 2020). In absolute terms, the bank deposits have increased by around Rs.14.3 lakh crore over the previous year. If we compare it with previous fortnight, bank deposits stood at similar levels. The lower growth rate (y-o-y) in deposits can be partly attributed to the base effect and fall in deposits rate of banks (weighted average domestic term deposit rate of SCBs fell by 80 bps between May 2020 to May 2021).
- Moreover, as on June 18, 2021, the liquidity surplus in the banking system stood at Rs.4.2 lakh crores. The liquidity surplus can be primarily attributed to deposit growth consistently outpacing credit growth. The excess liquidity is being parked with the RBI under the reverse-repo window earning just above 3% close to the savings deposit rate for banks. It is this negative spread that was expected to spur credit growth.

- As given in figure 3, time deposits account for 88.5% of aggregate deposits (89.5% share as on June 19, 2020) grew at a slower pace compared to demand deposits, which accounted for the balance 11.5% (10.5% share as on June 19, 2020).

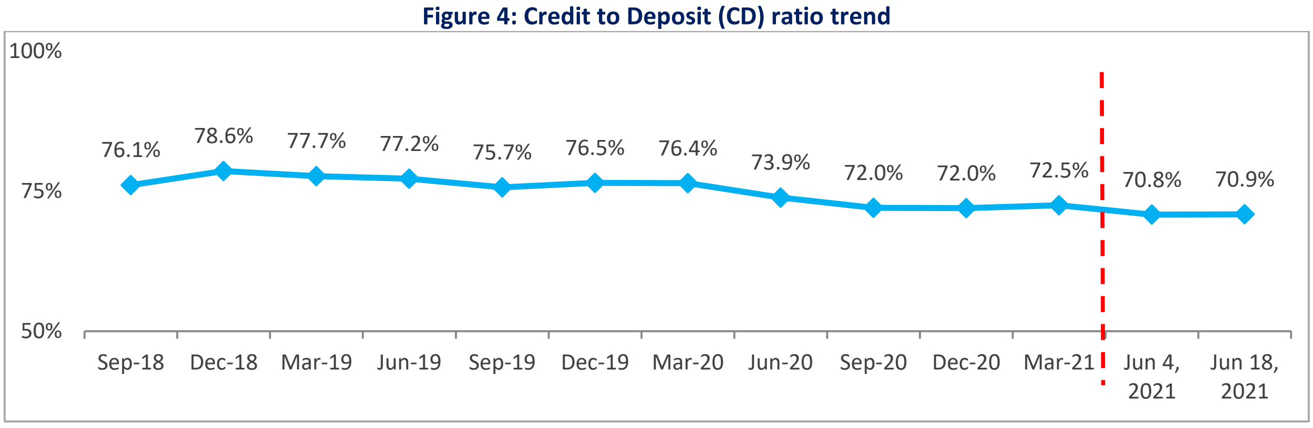
Figure 3: Demand Deposits and Time Deposits growth trend

Rs in lakh crore	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun 4, 2021	Jun 18, 2021
Demand Deposits	13.1	11.9	15.1	12.9	14.1	13.5	16.2	14.5	15.8	15.7	18.6	17.3	17.5
% growth y-o-y	5.9%	4.9%	10.3%	9.6%	7.6%	13.8%	7.0%	12.7%	11.9%	15.7%	15.1%	17.2%	20.8%
Time Deposits	104.9	106.3	110.6	112.0	115.0	116.5	119.5	124.1	126.9	129.2	132.5	135.8	135.4
% growth y-o-y	8.4%	9.7%	10.0%	10.1%	9.6%	9.7%	8.1%	10.8%	10.3%	10.8%	10.9%	8.9%	9.1%

Note: The quarter-end data reflect the last fortnight data of that particular quarter; Source: RBI, CARE Ratings

- Bank deposits have continuously grown faster than bank credit in every fortnight since late September 2019 pushing down CD ratio by around 5%. A large part of this higher deposit flow can be seen as excess liquidity which is being parked with the RBI under the reverse-repo window. The Credit to Deposit (CD) ratio stood at 70.9%, similar level in last fortnight, while declined by around 3% as compared with previous year (73.9% as on June 19,2020), owing to slower growth in credit. On the other hand, if we assume credit investments to be at Rs.8.7 lakh crores (at April 2021 level as per latest data released by RBI) for the fortnight ended June 18, 2021, then the CD ratio would be around 77% (level that was last observed in March 2020).
- Considering the addition in credit outstanding over the last 12 months to be at Rs.6.0 lakh crore and additions in credit investment to be at Rs.0.64 lakh crore over additions in deposits (Rs.14.3 lakh crore), the proportion would have been around 46% (addition in credit outstanding plus additions in credit investment over additions in deposits).

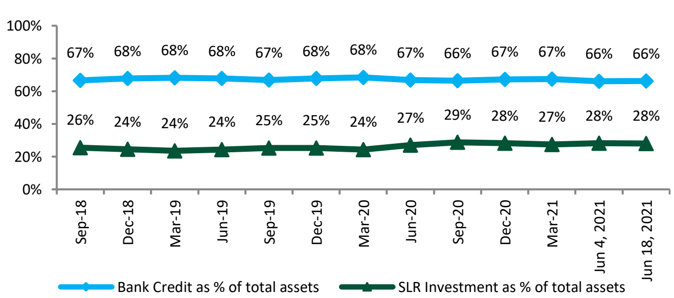
Figure 4: Credit to Deposit (CD) ratio trend



Note: The quarter-end data reflect the last fortnight data of that particular quarter; Source: RBI, CARE Ratings

Proportion of SLR investment and bank credit to total assets largely remained stable

Figure 5: Proportion of SLR Investment and Bank Credit to Total Assets



Note: The quarter-end data reflect the last fortnight data of that particular quarter; 2) Total assets = Cash in hand + Assets with the Banking System + Investments + Bank Credit; Source: RBI, CARE Ratings

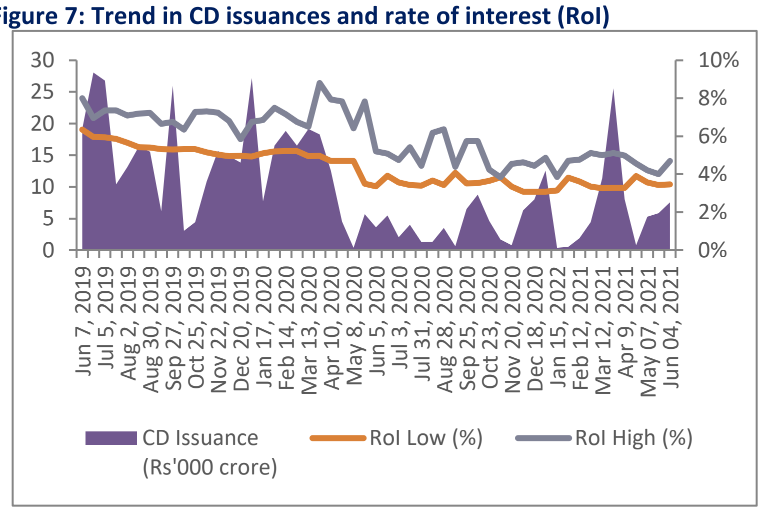
- The share of bank credit to total assets stood stable in the fortnight ended June 18, 2021, as compared with previous fortnight.
- Considering credit investments to be at Rs.8.7 lakh crore (as on April 23, 2021), bank credit (including credit investments) to total assets would have been around 72% for the fortnight ended June 18, 2021. Additionally, since the start of the pandemic the growth in credit investments has increased from 1.3% y-o-y in April 2020 to 7.9% y-o-y in April 2021; in contrary to slowdown in bank credit growth of 6.7% y-o-y in April 2020 to 5.8% in April 2021.
- Proportion of SLR investment to total assets stood at similar levels during the last two fortnights. In absolute terms, SLR investments grew by 10.6% y-o-y as compared with a growth of 11.5% in the previous fortnight and 19.5% y-o-y growth a year ago. Moreover, RBI had previously allowed banks to hold fresh acquisitions of SLR investments under HTM up to an overall limit of 22% up from 19.5% earlier of banks' net demand and time liabilities till March 2022, which has been further extended to March 31, 2023 *(as per RBI's notification dated February 05, 2021)*. The HTM limits would be restored from 22% to 19.5% in a phased manner starting from the quarter ending June 30, 2023.

Over last fortnight, o/s Level of CDs declined while CPs increased

Figure 6: Certificates of Deposit Outstanding

Fortnight ended	Amount Outstanding (Rs'000 crore)	Y-o-Y growth %
Sep 28, 2018	151.0	31.9%
Mar 29, 2019	272.3	46.6%
Sep 27, 2019	188.1	24.6%
Mar 27, 2020	173.0	-36.5%
Sep 25, 2020	75.6	-59.8%
Dec 18, 2020	68.8	-57.9%
Mar 26, 2021	80.1	-53.7%
May 21, 2021	90.3	-43.7%
Jun 04, 2021	78.3	-44.1%

Figure 7: Trend in CD issuances and rate of interest (RoI)

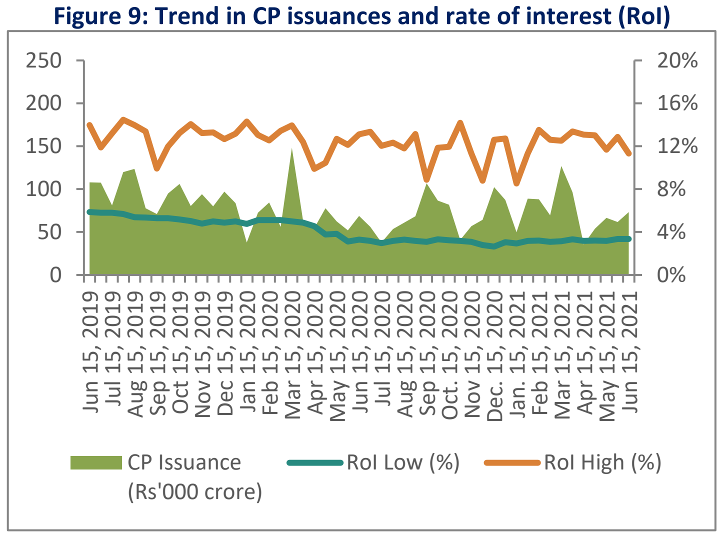


Note: The quarter-end data reflect the last fortnight data of that particular quarter; Source: RBI

Figure 8: Commercial Paper Outstanding

Fortnight ended	Amount Outstanding (Rs'000 crore)	Y-o-Y growth %
Sep 30, 2018	556.2	16.0%
Mar 31, 2019	483.1	11.5%
Sep 30, 2019	459.7	-22.7%
Mar 31, 2020	344.5	-39.9%
Jun 30, 2020	391.5	-28.2%
Sep. 30, 2020	362.3	-25.5%
Dec. 31, 2020	365.2	-20.1%
Mar 31, 2021	364.4	5.8%
May 31, 2021	388.7	-8.7%
Jun 15, 2021	404.8	-2.1%

Figure 9: Trend in CP issuances and rate of interest (RoI)



Note: The quarter-end data reflect the last fortnight data of that particular quarter; Source: RBI

Select RBI Announcements

Announcement	Details
RBI releases the Financial Stability Report, July 2021	• The second wave of pandemic has impacted economic activity. However, Government and RBI measures have helped to provide support to some extent. • The CRAR and PCR ratio of SCBs have improved to 16.0% and 68.9% respectively. • As per RBI's macro stress test, GNPA ratio of SCBs may increase from 7.5% in March 2021 to 9.8% under baseline scenario and 11.2% under severe stress scenario by March 2022. • The stress test also indicates that, SCBs have sufficient capital, both at individual and aggregate level.
Review of Instructions on Interest on overdue domestic deposits	• It has been decided that if a Term Deposit (TD) matures and proceeds are unpaid, the amount left unclaimed with the bank shall attract rate of interest as applicable to savings account or the contracted rate of interest on the matured TD, whichever is lower.
Interest Equalization Scheme on Pre and Post Shipment Rupee Export Credit - Extension	• Government of India has approved the extension of Interest Equalization Scheme for Pre and Post Shipment Rupee Export Credit, with the same scope and coverage, for a further period of three months, i.e., up to September 30, 2021. The extension takes effect from July 01, 2021 and ends on September 30, 2021 covering a period of three months.

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