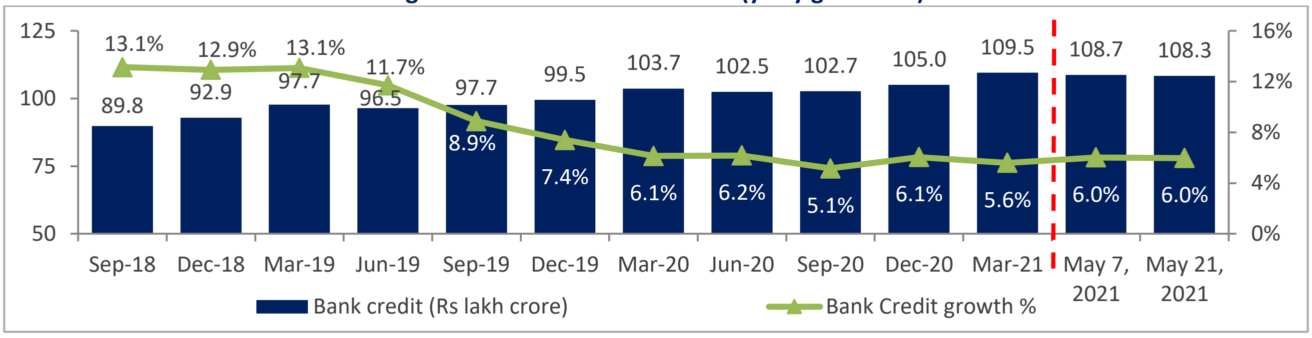
Update – Growth in Deposits and Credit

June 05, 2021

Additions in deposits continue to grow at more than one and a half the additions in credit outstanding vs. the previous year

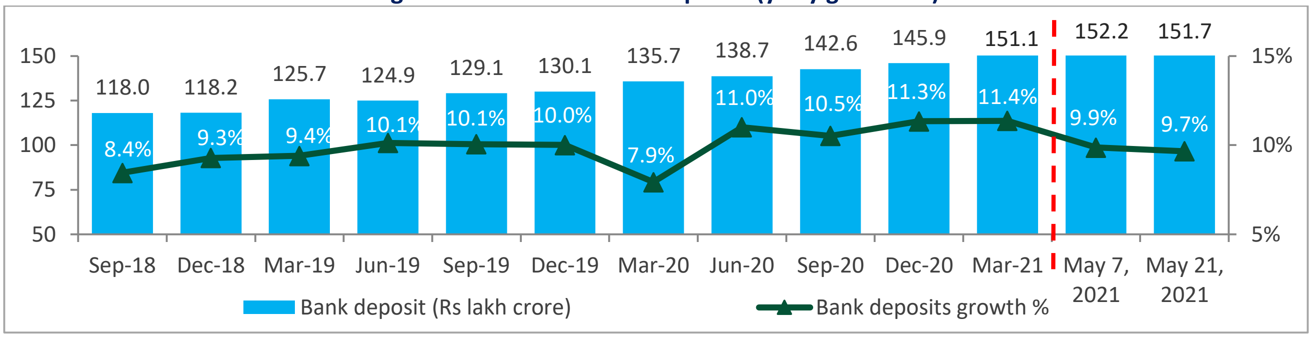
Figure 1: Growth of Bank Credit (y-o-y growth %)



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

- The bank credit y-o-y growth rate has improved marginally as compared to period ended Mar-21 but has remained at similar level over last fortnight. Despite of the low base effect of the previous year (as the country was in a complete lockdown last year) the credit growth grew at a slower pace compared with the fortnight ended May 22, 2020 (6.3%). This can be ascribed to risk aversion and regional lockdown imposed by states this year to curb the spread of coronavirus amid the second wave of the pandemic that started in April 2021 and continued in May 2021.
- Though the interest rates (monthly fresh loans WALR) of SCBs have reduced by 42 bps from April 2020 to April 2021, the overall credit growth continued to remain subdued due to risk aversion and continued parking of excess liquidity with RBI. In absolute terms, bank credit increased by Rs.6.1 lakh crore as compared with fortnight ended May 21, 2020 and in comparison with previous fortnight, the bank credit has declined marginally by Rs.0.4 lakh crore. The incremental credit (April to May) growth for FY22 stood at -0.5% as compared with -1.1% in FY21 and -0.2% in FY20, which indicates that the incremental growth has been better than last year but is yet to return to normal. Furthermore, negative to slower growth in large industries and services segment has restricted the overall bank credit growth.
- The bank credit growth has remained at 6.0% and has been restricted from falling further on account of the various schemes/measures by the government (e.g., rate cuts, extension in TLTRO, additions to the ECLGS scheme, liquidity support along with special liquidity facility (announced on June 04, 2021) of Rs.16,000 crore to be provided to SIDBI for on-lending over and above Rs.15,000 crore which was provided in April 2021 would help support disbursements in MSME segment). The credit growth for FY22 is likely to remain in low double digit on the back of the outbreak of the second wave and its impact on the overall economy. However, the credit growth will be supported by ECLGS scheme that has been extended till September 2021 (disbursement extended till December 31, 2021).

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

- Deposits grew by 9.7% y-o-y for the fortnight ended May 21, 2021, which is marginally lower as compared with fortnight ended May 07, 2021 and previous year (fortnight ended May 8, 2020). In absolute terms, the bank deposits have increased by around Rs.13.4 lakh crore over the previous year. If we compare it with previous fortnight, bank deposits declined by Rs.0.5 lakh crore. The lower growth rate (y-o-y) in deposits can be partly attributed to base effect and fall in deposits rate of banks (weighted average domestic term deposit rate of SCBs fell by 71 bps between April 2020 to April 2021). Also, the inflows in debt mutual fund and equity mutual fund may have led to the decline in bank deposit value (refer report "Mutual Funds Monthly Tracker - April 2021").
- Moreover, as on May 21, 2021, the liquidity surplus in the banking system stood at Rs.3.7 lakh crores (Rs.4.7 lakh crore on May 07, 2021). The liquidity surplus can be primarily attributed to deposit growth consistently outpacing credit growth. However, government borrowings (Central: Rs.37,810 crore and State: Rs.12,150 crore) has limited the banking system liquidity surplus.
- As given in figure 3, time deposits account for 88.8% of aggregate deposits (89.5% share as on May 22, 2020) grew at a slower pace compared to demand deposits, which accounted for the balance 11.2% (10.5% share as on May 22, 2020).

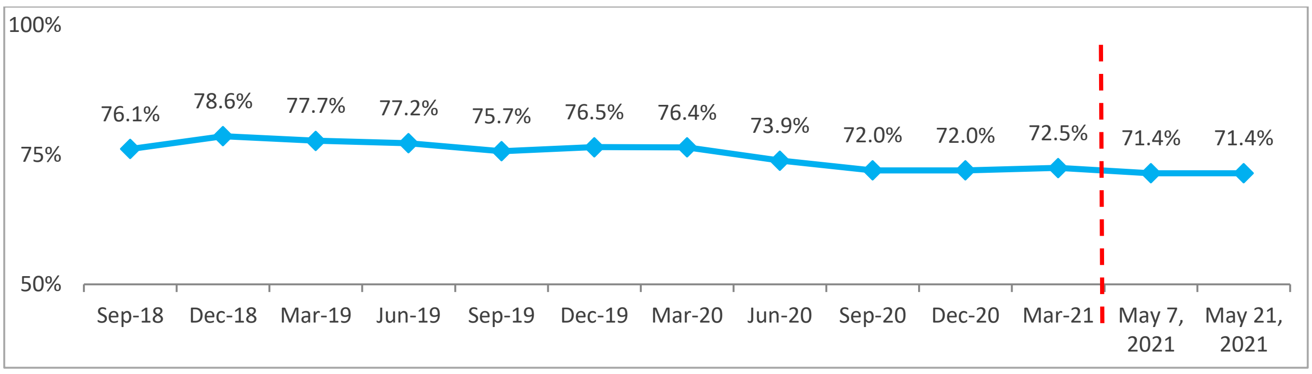
Figure 3: Demand Deposits and Time Deposits growth trend

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	Apr 23, 2021	May 7, 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	17.2
% 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%	17.6%	17.9%
Time Deposits	104.9	106.3	110.6	112.0	115.0	116.5	119.5	124.1	126.9	129.2	132.5	134.1	135.0
% 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%	9.5%	8.9%

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

- The Credit to Deposit (CD) ratio of 71.4% stood at similar levels as compared to last fortnight but remained marginally low when compared to March 2021 and May 2020 (73.9%), owing to slower growth in credit. On the other hand, if we assume credit investments to be at Rs.8.6 lakh crores (At March 2021 level as per latest data released by RBI) for the fortnight ended May 21, 2021, then the CD ratio would be around 77% (which was last observed in July 2019).
- The addition in deposits (Rs.13.4 lakh crore over last 12 months ended May 21, 2021) was more than twice the addition in credit outstanding (Rs.6.1 lakh crore over last 12 months ended May 21, 2021). Since June 2019, it has been observed that the additions in deposits has always exceeded the addition in credit outstanding.
- Considering the addition in credit outstanding over the last 12 months to be at Rs.6.1 lakh crore and additions in credit investment to be at Rs.0.81 lakh crore over additions in deposits (Rs.13.4 lakh crore), the proportion would have been 52% (addition in credit outstanding plus additions in credit investment over additions in deposits).

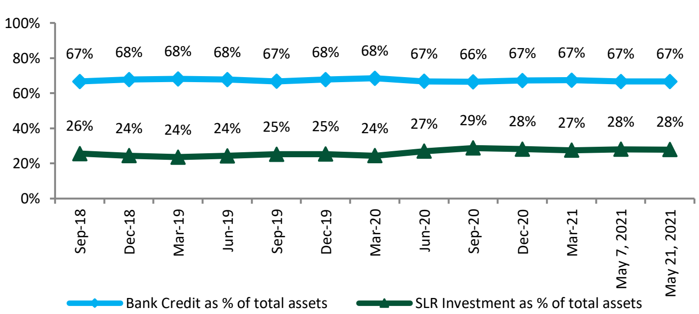
Figure 4: Credit to Deposit (CD) ratio trend



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 continue to remain at similar levels

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

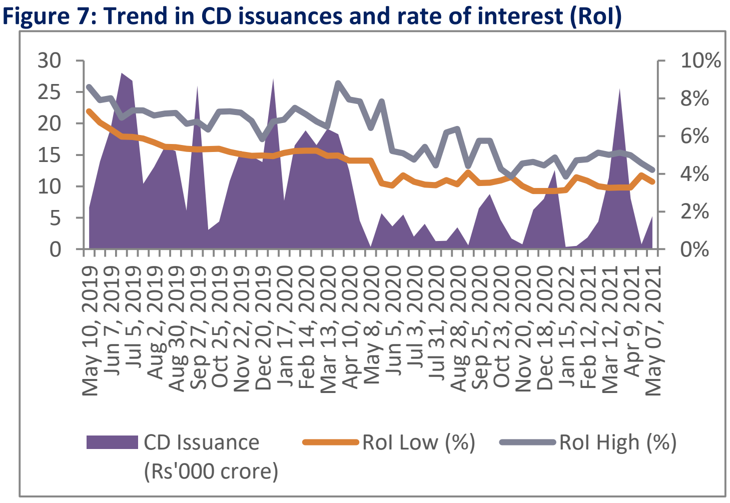
- The share of bank credit to total assets has stood stable (since September 2020) at 67% for the fortnight ended May 22, 2021.
- Considering credit investments to be at Rs.8.6 lakh crore (as on March 26, 2021), bank credit (including credit investments) to total assets would have been around 71% for the fortnight ended May 21, 2021.
- Proportion of SLR investment to total assets stood at similar levels during the last two fortnights. In absolute terms, SLR investments grew by 11.9% y-o-y as compared with a growth of 13.5% in the previous fortnight and 15.1% 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 increased while CPs declined

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%
Apr 23, 2021	85.8	-52.6%
May 07, 2021	87.2	-49.1%

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

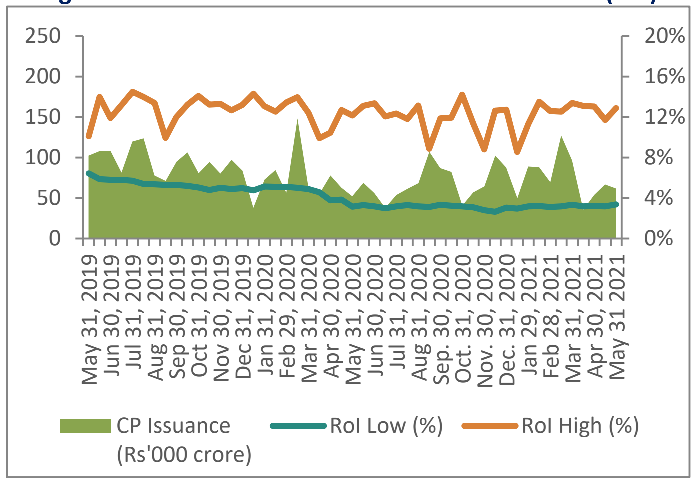


Note: The quarter-end data reflect the last fortnight data of that particular quarter; Source: RBI

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 15, 2021	404.4	-6.7%
May 31, 2021	388.7	-8.7%

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
Key takeaways from RBI's Credit Policy	• Policy rate retained at 4%, which is the lowest level in over a decade. The repo rate was last revised in May 2020 and thus this is the 6th consecutive policy in which the RBI has maintained status quo. • The forward guidance given by the RBI's MPC, which was changed to "state based" in April 2021 as against the "time based", has been retained at a "state-based" guidance in the current policy amidst heightened uncertainty. RBI will ensure availability of adequate funds to aid economy recovery. • Surplus liquidity conditions in the system to be maintained and sustained. • Inflation outlook has been kept at 5.1% for FY22. GDP growth forecast has been revised downwards to 9.5% for FY22.
Amalgamation of District Central Co-operative Banks (DCCBs) with the State Co-operative Bank (StCB) - Guidelines	• RBI will consider proposals for amalgamation if the following conditions are fulfilled: (i) when the state government of the state makes a proposal to amalgamate one or more DCCB/s in the state with the StCB after conducting a detailed study of the legal framework. (ii) When the scheme of amalgamation is approved by the requisite majority of shareholders in accordance with the provisions of Section 44A read with Section 56 of the Banking Regulation Act, 1949. (iii) When such proposal of the State Government has been examined and recommended by NABARD.
Resolution Framework - 2.0: Resolution of Covid-19 related stress of MSMEs, Individuals and Small Businesses – Revision in the threshold for aggregate exposure	• In addition to the notification dated May 05, 2021, the RBI has enhanced the limit of the category of the borrower having maximum aggregate exposure of Rs.50 crore from Rs.25 crore previously announced.
On-tap Liquidity Window for Contact-intensive sectors	• Separate window of Rs 15,000 crore will be opened till March 31, 2022 with tenor of 3 years at the repo rate. Includes sectors like hotels and restaurants; tourism –travel agents, tour operators and adventure/heritage facilities; aviation ancillary, services – ground handling and supply chain and others. Banks can park their surplus liquidity up to the size of the loan book at 3.75%.
Special Liquidity Facility to SIDBI	• Additional liquidity facility of Rs 16,000 crore to be provided to SIDBI for on-lending over and above Rs 15,000 crore which was provided in April 2021.
Issuances of Certificate of Deposits by Regional Rural Banks (RRBs)	• RBI has permitted RRBs to issue Certificate of Deposits for raising short term funds

Contact:

Sanjay Agarwal	Senior Director	sanjay.agarwal@careratings.com	+91-22- 6754 3582	+91- 810 800 7676
Saurabh Bhalerao	Associate Director – BFSI Research	saurabh.bhalerao@careratings.com	+91-22-6754 3573	+91- 900 495 2514
Shobhna Kanojia	Deputy Manager – BFSI Research	shobhna.kanojia@careratings.com	+91-22-6754 3519	+91- 816 945 9228
Mradul Mishra	(Media Contact)	mradul.mishra@careratings.com	+91-22-6754 3573	

CARE Ratings Limited
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Connect: