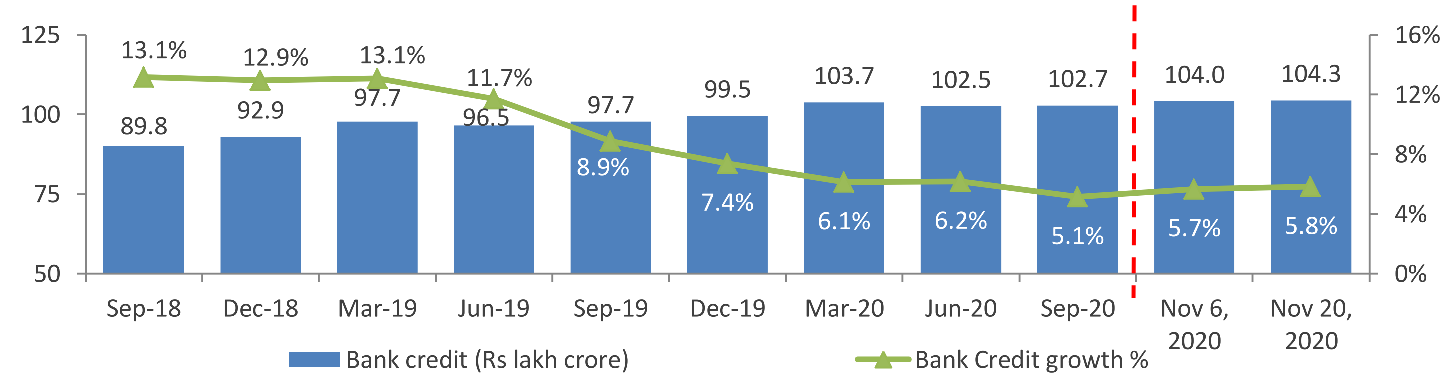
Update – Growth in Deposits and Credit

December 05, 2020

Credit growth remains flat while deposit growth increased marginally over last fortnight

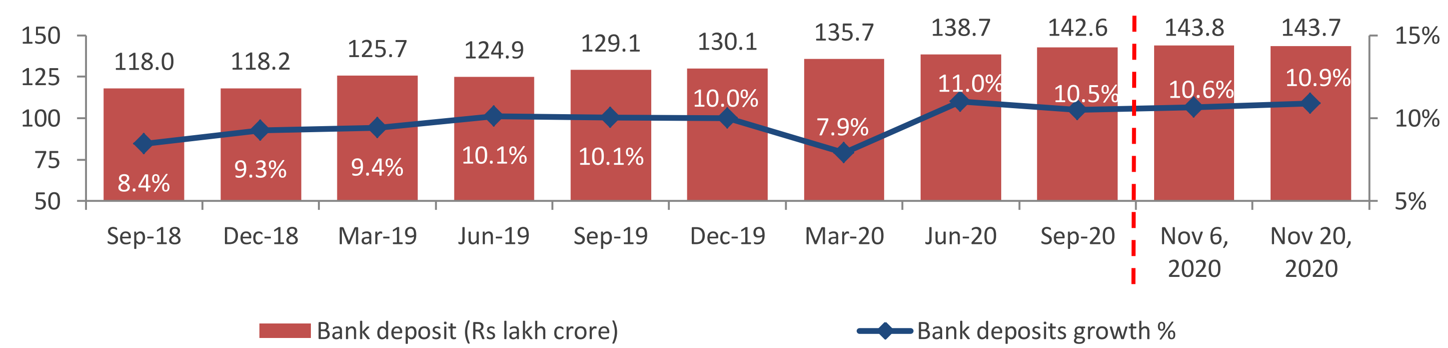
Figure 1: Growth of Bank Credit (y-o-y growth %)



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

- As can be seen in Figure 1, the credit growth decelerated to 5.7% and 5.8% during the last two fortnights, compared to last year's level of 8.1% and 8.0%, respectively (as of November 08, 2019 and November 22, 2019) reflecting subdued demand (compared to a year-ago period) and risk aversion in the banking system towards the corporate segment. While, bank credit growth remained flat over last fortnight and was restricted from declining further as consumers had started purchasing with the arrival of festive season (Diwali) leading to retail demand along with various online shopping portals offering Diwali sale offers. Also, banks like HDFC Bank, Axis Bank, ICICI Bank along with others had announced various offers to push retail credit. Additionally, the bank credit growth was also supported by disbursements under ECLGS scheme which has been extended further till March 31, 2021. However, SCBs are being very selective with their credit portfolios due to asset quality concerns.

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



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

- Deposits increased by 10.9% (as of November 20, 2020) compared with 9.7% in the year ago period (November 22, 2019) and 10.6% as compared with the previous fortnight (November 06, 2020). Moreover, as on November 20, 2020 the liquidity surplus in the banking system stood at Rs.5.20 lakh crores. The liquidity surplus can be ascribed to deposit growth outpacing credit growth persistently.

- However, government borrowings (Central: Rs 22,000 crores and states: Rs 24,192 crores) limited the banking system liquidity surplus during the fortnight. Additionally, the banking system liquidity is expected to remain in a surplus position aided by sustained growth in bank deposits as against slower growth in the bank credit.
- As given in Figure 3, time deposits account for 89.5% of aggregate deposits (89.7% share as on November 22, 2019) grew at a slower pace compared to demand deposits which account for the balance 10.5% (10.3% share as on November 22, 2019).

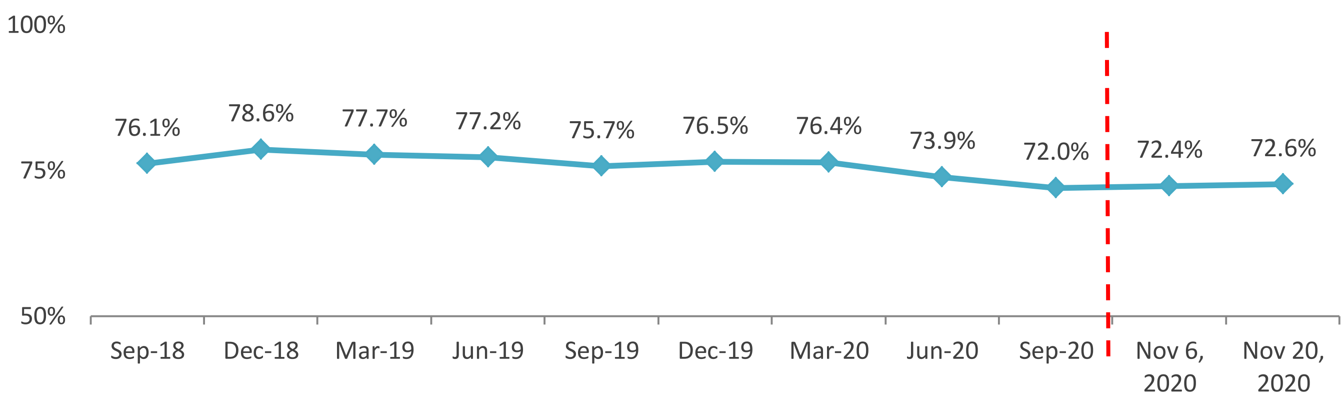
Figure 3: Demand Deposits and Time Deposits growth trend

Rs in lakh crore	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Nov 6, 2020	Nov 20, 2020
Demand Deposits	13.1	11.9	15.1	12.9	14.1	13.5	16.2	14.5	15.8	14.9	15.1
% growth y-o-y	5.9%	4.9%	10.3%	9.6%	7.6%	13.8%	7.0%	12.7%	11.9%	12.7%	13.5%
Time Deposits	104.9	106.3	110.6	112.0	115.0	116.5	119.5	124.1	126.9	128.9	128.6
% growth y-o-y	8.4%	9.7%	10.0%	10.1%	9.6%	9.7%	8.1%	10.8%	10.3%	10.4%	10.6%

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

- The Credit to Deposit (CD) ratio has stood at a similar level (72.6%) during the last two fortnights ended November 06, 2020 and November 20 2020 (76.1% in the year-ago period) due to slower growth in credit. On the other hand, if we assume credit investments to be at Rs.8.3 lakh crores for the fortnight ended November 06, 2020 (At September 2020 level as per latest data released by RBI) then the CD ratio would have been ~78%. On the other hand, if we assume the CD ratio to be constant at 76.0% (which was last observed in Mar-20) for the fortnight ended November 20, 2020, the incremental lending (considering only bank credit) would have been higher by approximately Rs.6.0 lakh crores.

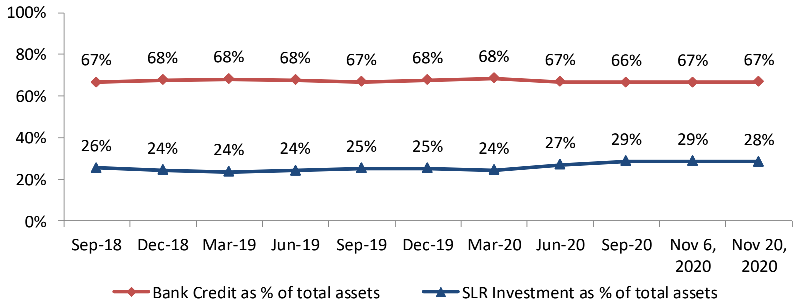
Figure 4: Credit to Deposit (CD) ratio trend



Note: The quarter end data reflects 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 reflects 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

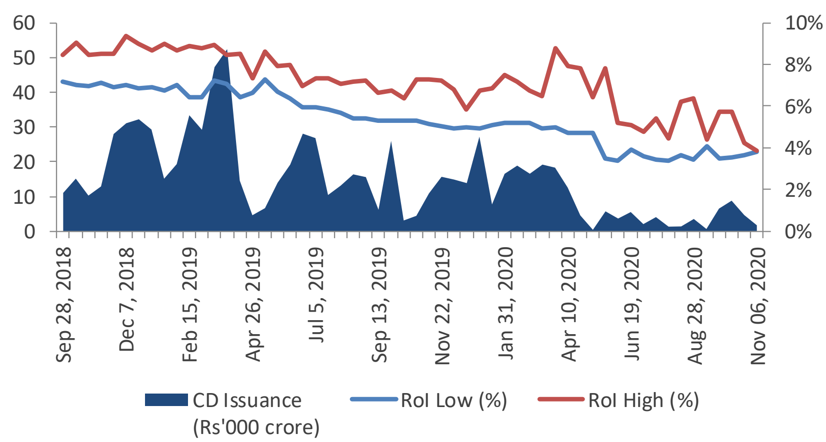
- The share of bank credit to total assets remained stable as compared with previous fortnight but has declined (by 1%) as compared to Mar-20.
- Considering credit investment to be at ~Rs.8.3 lakh crore (September 2020 level), the bank credit to total assets (including credit investments) would be ~72% for the fortnight ended November 20, 2020.
- Proportion of SLR investment to total assets has increased from Mar-20 and stood at 28% for the fortnight ended November 20, 2020. The SLR investments grew at 19.0% YoY compared with 8.6% in the previous year due to banks increased preference for government securities and as RBI has allowed banks to hold fresh acquisitions of SLR investments under HTM.

O/s Level of CDs and CPs increased over last fortnight

Figure 6: Certificates of Deposit Outstanding

Fortnight ended	Amount Outstanding (Rs'000 crore)	Y-o-Y growth %
Jun 22, 2018	174.5	57.0%
Sep 28, 2018	151.0	31.9%
Dec 21, 2018	180.7	42.3%
Mar 29, 2019	272.3	46.6%
Jun 21, 2019	215.9	23.8%
Sep 27, 2019	188.1	24.6%
Dec 20, 2019	160.7	-11.1%
Mar 27, 2020	173.0	-36.5%
Jun 19, 2020	121.5	-43.8%
Sep 25, 2020	75.6	-59.8%
Oct 09, 2020	74.8	-58.7%
Nov 06, 2020	76.3	-55.5%

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

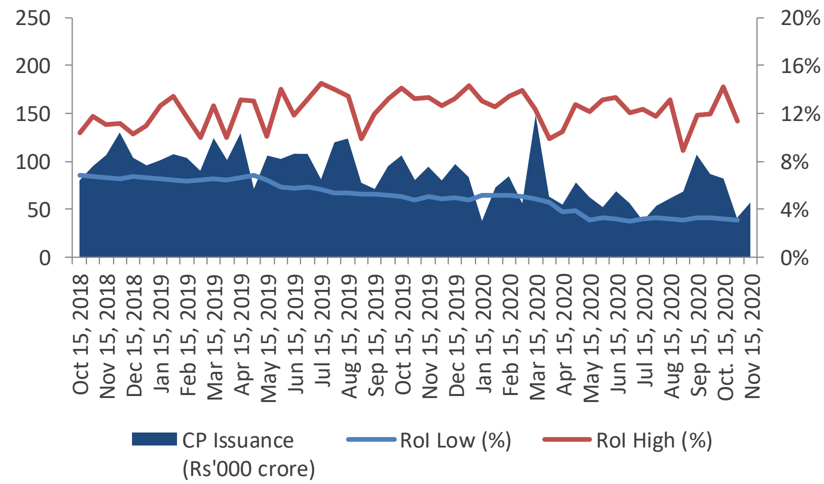


Note: The quarter end data reflects the last fortnight data of that particular quarter; Source: RBI

Figure 8: Commercial Paper Outstanding

Fortnight ended	Amount Outstanding (Rs'000 crore)	Y-o-Y growth %
Jun 30, 2018	491.8	49.3%
Sep 30, 2018	556.2	41.4%
Dec 31, 2018	498.7	21.9%
Mar 31, 2019	483.1	29.7%
Jun 30, 2019	503.9	2.5%
Sep 30, 2019	459.7	-17.3%
Dec 31, 2019	414.9	-16.8%
Mar 31, 2020	344.5	-28.7%
Jun 30, 2020	391.5	-22.3%
Sep. 30, 2020	362.3	-21.2%
Oct. 15, 2020	380.1	-21.8%
Nov 15, 2020	389.4	-15.8%

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



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

Select RBI Announcements

RBI's Monetary Policy Review

	Details
Key Monetary Policy Announcements	• Policy repo rate unchanged at 4%. • Reverse repo unchanged at 3.35%, MSF and bank rate maintained at 4.25%. • Accommodative policy stance to continue as long as necessary i.e. into FY22. • OMO purchases and operation twists to be used from time to time. • Upward revision in GDP growth for FY21 to -7.5% (from -9.5%). • Extended liquidity support to 26 stressed sectors
Policy Measures - Developmental and Regulatory	• Liquidity Measures to Revive Activity: - On Tap TLTRO- Extension of Sectors and Synergy with ECLGS 2.0: 26 stressed sectors identified by the Kamath Committee along with the health sector to be bought within the ambit of sectors eligible under on tap TLTRO. - Facilitating More Efficient Liquidity Management for Regional Rural Banks (RRBs): RRBs permitted to participate in the Call/Notice money market, both as borrowers and lenders. • Regulation and Supervision - Dividend Distribution by Banks: Scheduled commercial banks (SCBs) and cooperative banks shall not make any dividend payouts from profits pertaining to the financial year 2019-20. - Dividend Distribution Policy for NBFCs: Guidelines on dividend distribution by NBFCs to be formulated. - Discussion Paper on Scale-based Regulatory Framework for NBFCs: To review the regulatory framework is in line with the changing risk profile of NBFCs. - Strengthening Audit Systems of Supervised Entities from January 1, 2021.

Note: For detailed report refer 'RBIs Credit Policy Review - December 2020'; Source: RBI

Other Announcements

Key recommendations of RBIs Internal Working Group
• The cap on promoters' stake in the long run (15 years) may be raised from the current level of 15% to 26% of the paid-up voting equity share capital of the bank. As regards non-promoter shareholding, a uniform cap of 15% of the paid-up voting equity share capital of the bank may be prescribed for all types of shareholders. • Large corporate/industrial houses may be allowed as promoters of banks only after necessary amendments to the Banking Regulation Act, 1949 (to prevent connected lending and exposures between the banks and other financial and non-financial group entities); and strengthening of the supervisory mechanism for large conglomerates, including consolidated supervision. • Well run large Non-banking Financial Companies (NBFCs), with an asset size of Rs 50,000 crore and above, including those which are owned by a corporate house, may be considered for conversion into banks subject to completion of 10 years of operations and meeting due diligence criteria and compliance with additional conditions specified in this regard. • For Payments Banks intending to convert to a Small Finance Bank, track record of 3 years of experience as Payments Bank may be considered as sufficient. • Small Finance Banks and Payments Banks may be listed within '6 years from the date of reaching net worth equivalent to prevalent entry capital requirement prescribed for universal banks' or '10 years from the date of commencement of operations', whichever is earlier. • The minimum initial capital requirement for licensing new banks should be enhanced from Rs 500 crore to Rs 1000 crore for universal banks, and from Rs 200 crore to Rs 300 crore for small finance banks. • Non-operative Financial Holding Company (NOFHC) should continue to be the preferred structure for all new licenses to be issued for universal banks. However, it should be mandatory only in cases where the individual promoters / promoting entities/ converting entities have other group entities. • RBI may take steps to ensure harmonization and uniformity in different licensing guidelines, to the extent possible. Whenever new licensing guidelines are issued, if new rules are more relaxed, benefit should be given to existing banks, and if new rules are tougher, legacy banks should also conform to new tighter regulations, but a non-disruptive transition path may be provided to affected banks.

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