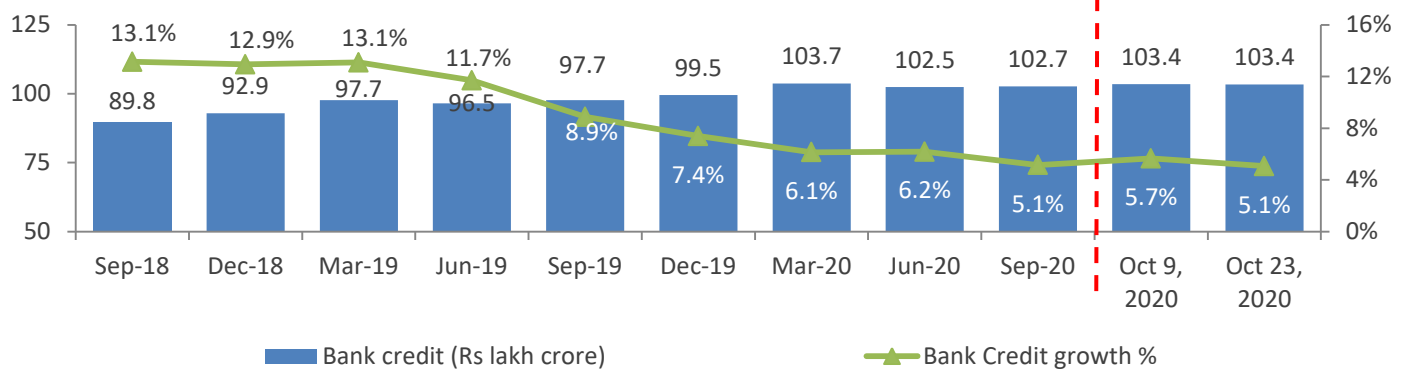


Update – Growth in Deposits and Credit

Credit and Deposit growth moderates further as compared to the last fortnight

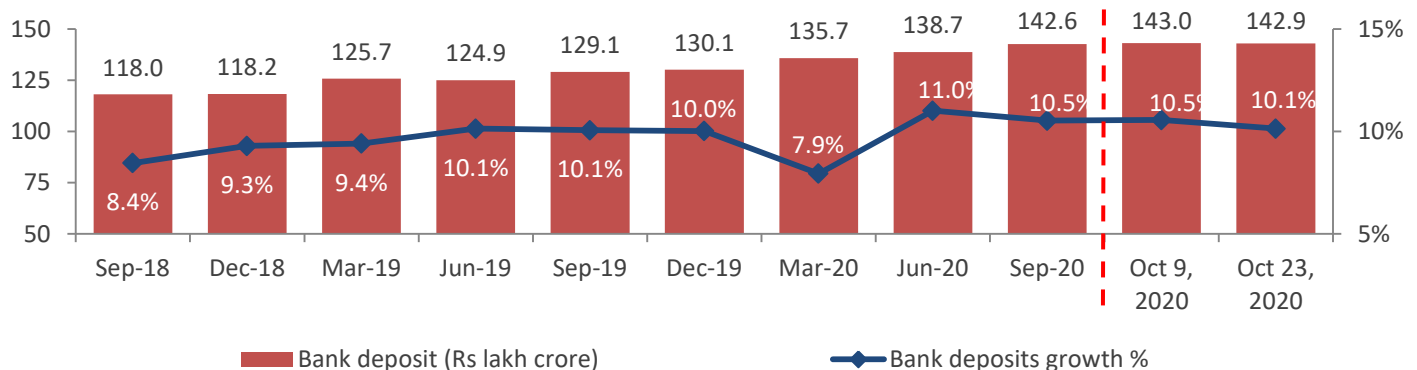
Figure 1: Growth of Bank Credit (y-o-y growth %)



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 overall credit growth in the banking sector continued to moderate over the last fortnight. Despite the festive season and banks offering various festival offers to push retail credit, the bank credit growth decelerated during the fortnight ended October 23, 2020 reflecting risk aversion in the banking system towards corporate segment. The credit growth was at 8.9% during the same period last year (as of October 25, 2019 and October 11, 2019). Also, SCBs are being very selective with their credit portfolios due to asset quality concerns.
- Despite the overall slow growth in incremental bank credit, disbursements to MSMEs continued to be strong under the Emergency Credit Line Guarantee Scheme (“ECLGS scheme”). Out of Rs.3.0 lakh crore of ECLGS for MSMEs, banks have sanctioned Rs. 2.03 lakh crore out of which Rs. 1.48 lakh crore has been disbursed till October 2020 (which is higher than gross bank credit growth of Rs.0.75 lakh crore in absolute terms from May 2020 to September 2020). Additionally, the scheme has been extended by one month to November-end to enable MSME’s avail additional funds under this scheme.

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

- Growth in deposits reduced marginally to 10.1% (as of October 23, 2020) compared with 10.2% in the year ago period (October 25, 2019) and 10.5% as compared with the previous fortnight (October 9, 2020). Moreover, the liquidity surplus in the banking system for the fortnight ended October 09, 2020 stood at around Rs. 4.0 lakh crore. However, due to the COVID-19 outbreak and risk aversion, the available liquidity has largely been invested in SLR securities.
- 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 growth. However, the liquidity surplus will continue to be weighed down by upcoming government borrowings (Central: Rs 31,000 crore and states: Rs 13,500 crore).
- As given in Figure 3, time deposits account for 89.5% of aggregate deposits (89.5% share as on October 25, 2019) grew at a similar pace compared to demand deposits which account for the balance 10.5% (10.5% share as on October 25, 2019).

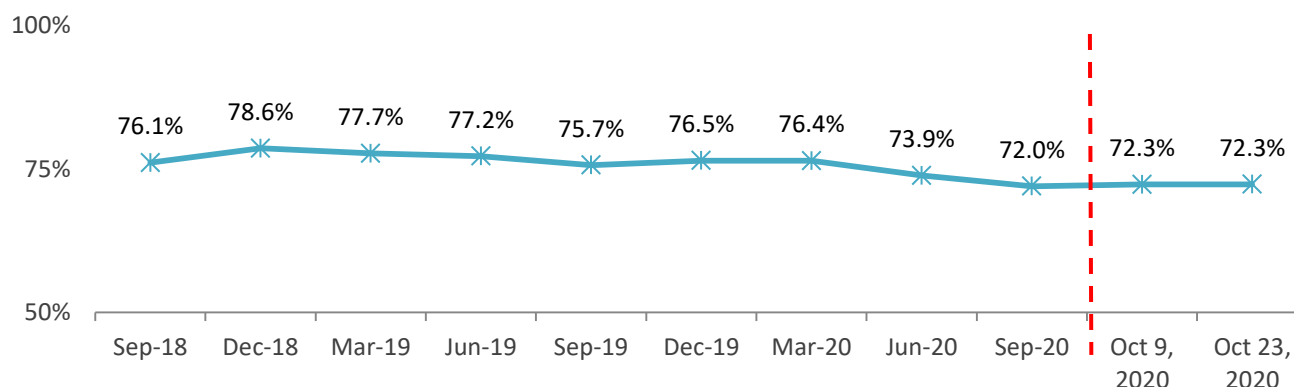
Figure 3: Demand Deposits and Time Deposits growth trend

| Rs in lakh crore | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Oct 9, 2020 | Oct 23, 2020 |
|------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------------|--------------|
| Demand Deposits | 13.1 | 11.9 | 15.1 | 12.9 | 14.1 | 13.5 | 16.2 | 14.5 | 15.8 | 14.7 | 15.1 |
| % growth y-o-y | 5.9% | 4.9% | 10.3% | 9.6% | 7.6% | 13.8% | 7.0% | 12.7% | 11.9% | 9.6% | 10.6% |
| Time Deposits | 104.9 | 106.3 | 110.6 | 112.0 | 115.0 | 116.5 | 119.5 | 124.1 | 126.9 | 128.3 | 127.9 |
| % growth y-o-y | 8.4% | 9.7% | 10.0% | 10.1% | 9.6% | 9.7% | 8.1% | 10.8% | 10.3% | 10.7% | 10.1% |

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 during the last two fortnights ended October 9, 2020 and October 23, 2020 (75.8% in the year-ago period) due to slower growth in credit. On the other hand, if we assume credit investments to be at Rs.8.5 lakh crore for the fortnight ended October 23, 2020 (At August 2020 level as per latest data released by RBI), and 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 October 23, 2020, the incremental lending (considering only bank credit) would have been higher by approximately Rs.5.0 lakh crore.

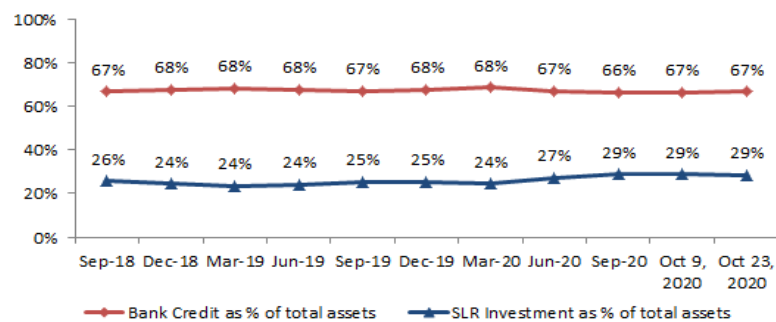
Figure 4: Credit to Deposit (CD) ratio trend



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 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

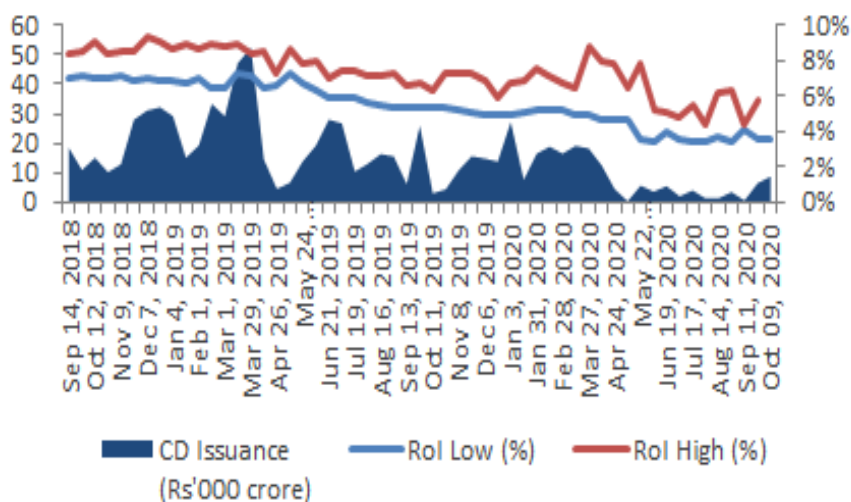
- The share of bank credit to total assets remained stable as compared with previous fortnight but has declined (by 1%) as compared to Mar-20.
- Considering credit investment to be at ~Rs.8.5 lakh crore (August 2020 level), the bank credit to total assets (including credit investments) would be ~72% in the fortnight ended October 23, 2020.
- Proportion of SLR investment to total assets has increased from Mar-20 and stood at 29% for the fortnight ended October 23, 2020. The SLR investments grew at 20.6% YoY compared with 7.2% 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 declined over last fortnight

Figure 6: Certificates of Deposit Outstanding

| Fortnight ended | Amount Outstanding (Rs'000 crore) | Y-o-Y growth % |
|-----------------|-----------------------------------|----------------|
| 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% |

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



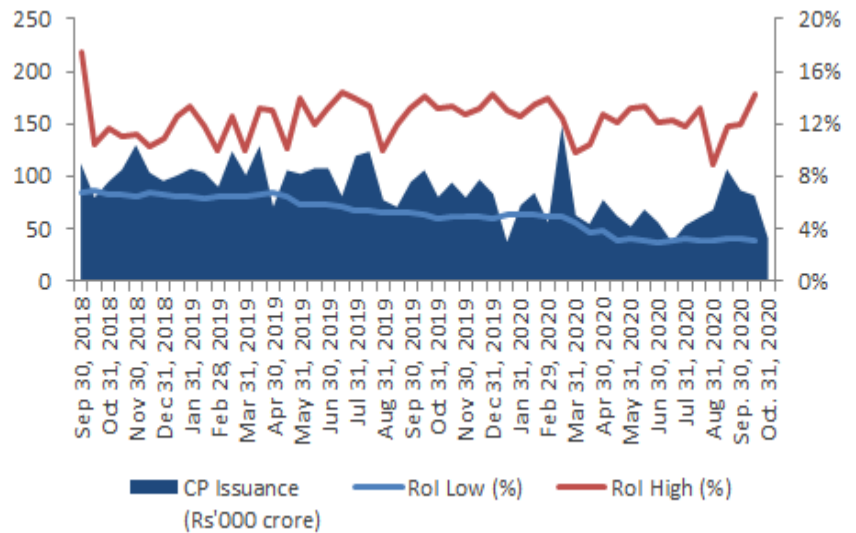
Note: The quarter end data reflects the last fortnight data of that particular quarter; Source: RBI

Figure 8: Commercial Paper Outstanding

| Fortnight ended | Amount Outstanding (Rs'000 crore) | Y-o-Y growth % |
|-----------------|-----------------------------------|----------------|
| 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 | 395.0 | -18.7% |
| Oct. 31, 2020 | 380.1 | -17.8% |

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

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



Select RBI Announcements

| Announcement | Explanation |
|--|---|
| Option of repaying the funds availed under Targeted Long-Term Repo Operations before maturity | <ul style="list-style-type: none"> Banks which had availed funds under TLTRO and TLTRO 2.0 are being provided an option of reversing these transactions before maturity. It has been decided to extend the date for submission of requests up to November 20, 2020. There is no change in other terms and conditions. |
| Co-Lending by Banks and NBFCs to Priority Sector | <ul style="list-style-type: none"> All scheduled commercial banks (excluding Regional Rural Banks and Small Finance Banks) are allowed to co-lend with all registered NBFCs (including Housing Finance Companies) for the creation of priority sector assets under co-lending model (CLM) based in prior agreement. Earlier in September 2018, RBI had allowed all SCBs to co-originate loans with only non-deposit taking systemically important (ND-SI) finance companies. |
| Opening of Current Accounts by Banks - Need for Discipline | <ul style="list-style-type: none"> The banks were advised that in respect of existing current and CC/OD accounts, banks shall ensure compliance with the above instructions within a period of three months from the date of issue of the circular i.e. by November 5, 2020. |

Scheme for grant of ex-gratia payment of difference between compound interest and simple interest for six months to borrowers in specified loan accounts (1.3.2020 to 31.8.2020)

- The Government of India had announced the Scheme for grant of ex-gratia payment of difference between compound interest and simple interest for six months to borrowers in specified loan accounts (1.3.2020 to 31.8.2020) on October 23, 2020, which mandates ex-gratia payment to certain categories of borrowers by way of crediting the difference between simple interest and compound interest for the period between March 1, 2020 to August 31, 2020 by respective lending institutions
- All lending institutions were advised to be guided by the provisions of the Scheme and take necessary action within the stipulated timeline (November 05, 2020).

Source: RBI

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