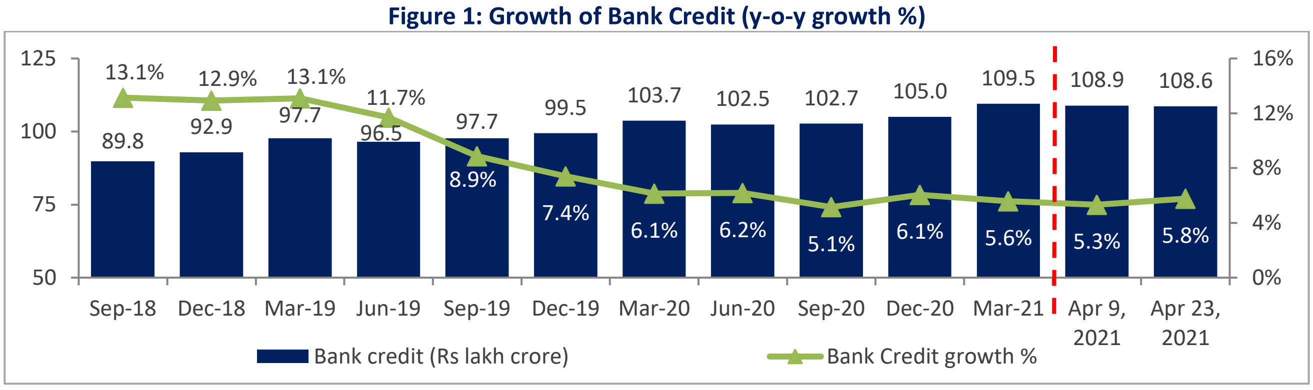
# Update – Growth in Deposits and Credit

May 8, 2021

## Despite a fall in absolute values over previous fortnight, bank credit growth marginally improved, while deposits growth was lower vs. the previous fortnight

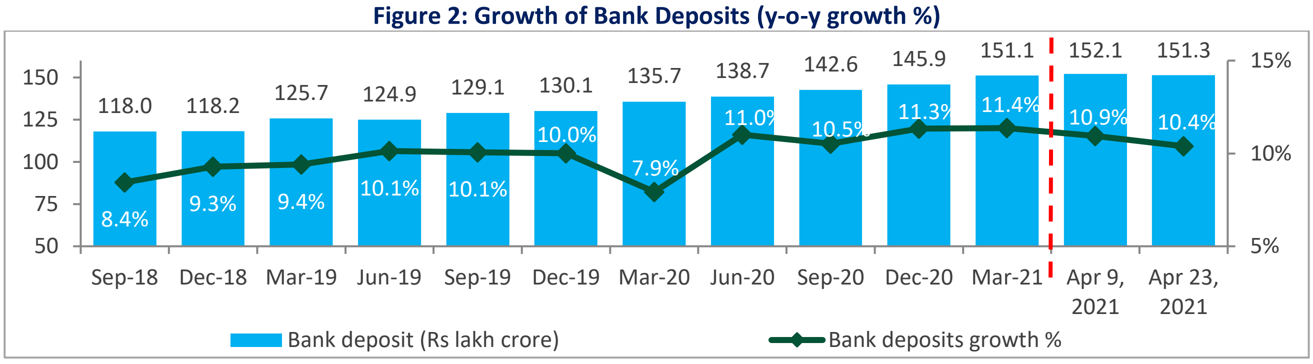
**Figure 1: Growth of Bank Credit (y-o-y growth %)**




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

- The bank credit y-o-y growth rate has improved marginally as compared with previous fortnight. This increase can be partly ascribed to the lower base of previous year (due to regional lockdown in April 2021 as compared with strict nationwide lockdown in April 2020)
- In absolute terms, bank credit increased by Rs 5.9 lakh crore as compared with fortnight ended April 24, 2020. If we compare it with previous fortnight, bank credit has declined by Rs 0.3 lakh crore, which is a general trend observed in last five years.
- The bank credit growth stood at 5.8% and 5.3% on y-o-y basis during the last two fortnights as compared with last year's level of 6.7% and 7.2% for the similar periods. The overall credit growth has continued to moderate due to risk aversion and continued parking of excess liquidity with RBI. In addition, de growth in large industries and slower growth in services segment (growth of 1.4%) has also restricted the overall bank credit growth.
- The credit growth for FY22 is likely to remain in low double digit led by growth in the economy and base effect coming into play. The downside risks include lockdown in key states, which may impact the industrial as well as service segments. However, the extension of the TLTRO operations and on lending norms could support growth. As per recent RBI announcement which allowed priority sector lending (PSL) classification for loans extended by SFBs to MFIs for onward lending is expected to improve access to credit for smaller entities to ease liquidity pressure and increase credit flow to the most vulnerable sections and are facing large scale implications of the lockdowns on their businesses.

**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 at 10.4% for the fortnight ended April 23, 2021 was lower when compared with fortnight ended April 9, 2021 but increased as compared with previous year (9.8% growth during fortnight ended April 24, 2020). In absolute terms, the bank deposits have increased by around Rs 14.2 lakh crore over a previous year, which is partly attributed to a net outflow in equity mutual fund during FY21.
- Moreover, as on April 23, 2021, the liquidity surplus in the banking system stood at Rs 4.8 lakh crores. The liquidity surplus can be primarily attributed to deposit growth outpacing credit growth persistently. The bank Certificate of Deposits have reduced by over 54.0% on y-o-y basis, due to surplus liquidity in the system. However, government borrowings (Central: Rs.33,330 crore and State: Rs.8,950 crore) has limited the banking system liquidity surplus.
- As given in figure 3, time deposits account for 88.6% of aggregate deposits (89.3% share as on April 24, 2020) grew at a slower pace compared to demand deposits, which accounted for the balance 11.4% (10.7% share as on April 24, 2020).

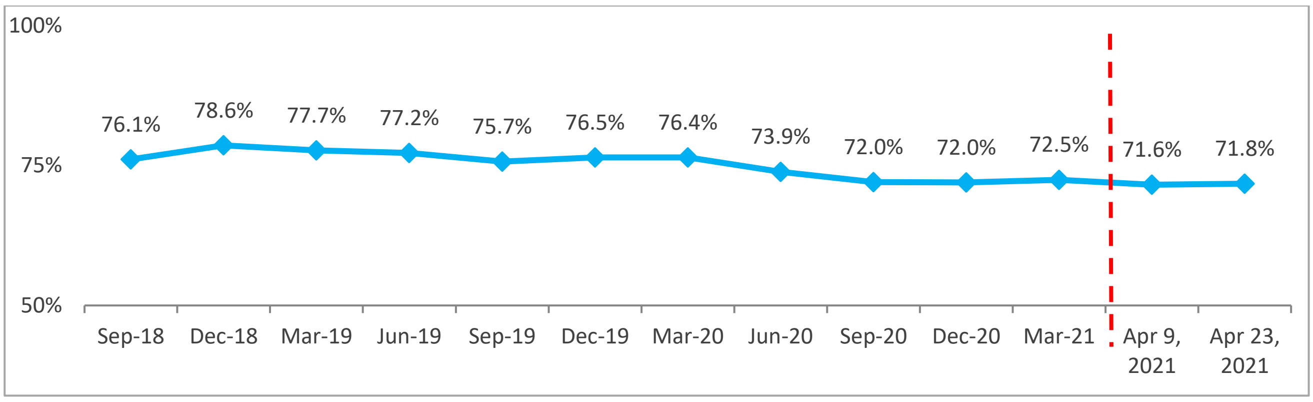
**Figure 3: Demand Deposits and Time Deposits growth trend**

| 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 26, 2021 | Apr 9, 2021 | Apr 23, 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 | 17.4 | 17.3 |
| % 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% | 17.7% | 17.6% |
| Time Deposits | 104.9 | 106.3 | 110.6 | 112.0 | 115.0 | 116.5 | 119.5 | 124.1 | 126.9 | 129.2 | 132.5 | 134.7 | 134.1 |
| % 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% | 10.1% | 9.5% |

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 71.8% stood at similar levels as compared to last fortnight and remained marginally low when compared to March 2021, owing to a faster rise in deposits and slower growth in credit. On the other hand, if we assume credit investments to be at Rs.8.3 lakh crores (As on February 26, 2021 level as per latest data released by RBI) for the fortnight ended April 23, 2021, then the CD ratio would be around 77% (which was last observed in July 2019) .

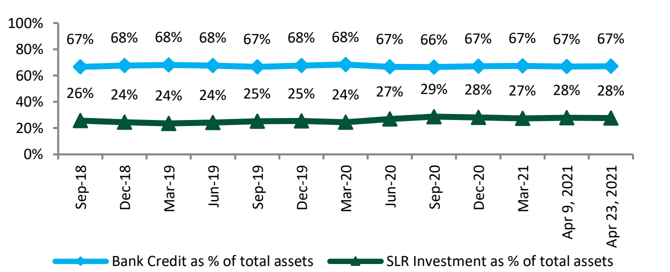
**Figure 4: Credit to Deposit (CD) ratio trend**




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 remained 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 at 67% but declined (by 1%) as compared to April 2020.

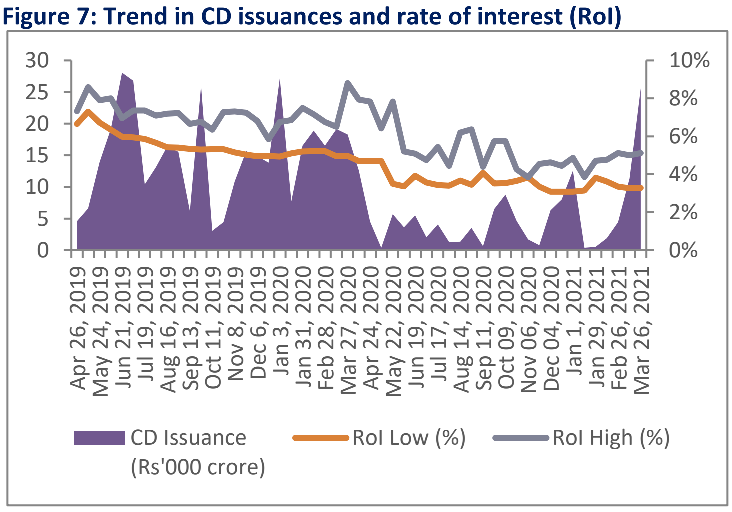
- Considering credit investments to be at Rs.8.3 lakh crore (as on February 26, 2021), bank credit (including credit investments) to total assets would have been around 72% for the fortnight ended April 23, 2021.
- Proportion of SLR investment to total assets stood at similar levels during last two fortnights. In absolute terms, SLR investments grew by 12.8% YoY as compared with a growth of 15.9% in the previous fortnight and 14.9% YoY 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 12 ,2021** | 57.4 | -67.0% |
| **Mar 26, 2021** | 80.1 | -53.7% |

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

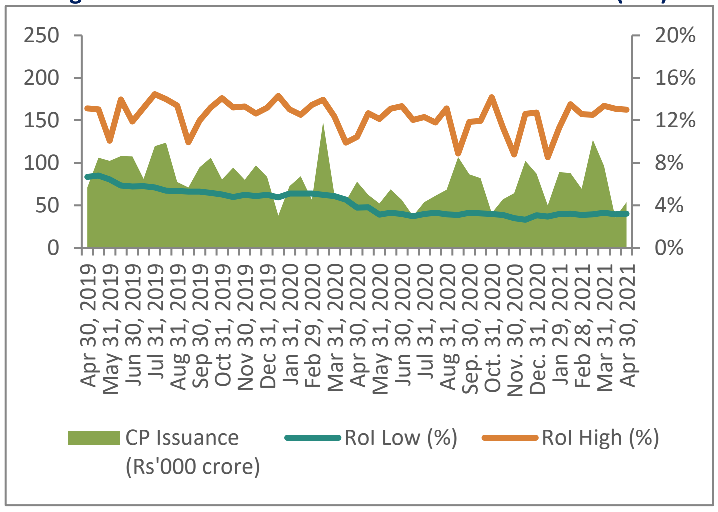



Note: The quarter-end data reflect the last fortnight data of that particular quarter; Source: RBI

**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% |
| **Apr. 15, 2021** | 382.8 | 0.4% |
| **Apr. 30, 2021** | 374.8 | -10.2% |

**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 |
|---|---|
| **Resolution Framework 2.0 – Resolution of Covid-19-related stress of MSMEs, Individuals and Small Businesses** | • The RBI has permitted retail borrowers and small businesses to recast their loans, without being downgraded to non-performing category, under the scheme. (refer report '*RBI Announces Resolution Framework 2.0 for MSMEs and Individuals*') |
| **Credit to MSME Entrepreneurs** | • The credit facility to new MSMEs (up to exposure of Rs.25 lakh) which banks could deduct from the NDTL (Net Demand and Time Liabilities) for calculation of CRR has been extended till December 31, 2021. |
| **Priority Sector Lending (PSL) - On-lending by Small Finance Banks (SFBs) to NBFC-MFIs** | • To address the emergent liquidity position of smaller MFIs, SFBs are now being permitted to reckon fresh lending to smaller MFIs (with asset size of up to Rs.500 crore) for on-lending to individual borrowers as priority sector lending (refer report '*RBI Policy – Access to credit for smaller Microfinance Institutions to improve*'). |
| **Term Liquidity Facility of Rs.50,000 crore for Emergency Health Services** | • On-tap liquidity window for tenor of 3 years at "repo rate", i.e., 4% till March 31, 2022. Services to which banks can lend include – vaccine manufacturers, importers/suppliers of vaccines, hospitals/dispensaries, pathology labs, manufacturers and suppliers of oxygen and ventilators among others. Banks are supposed to create a "COVID Loan Book" under this scheme. |
| **Special Long-term Repo Operations (SLTRO) for Small Finance Banks (SFBs)** | • A Special 3-year long-term repo operations of Rs.10,000 crore at repo rate to be deployed for fresh lending of Rs.10 lakh per borrower. The facility is open till October 31, 2021. |
| **Utilisation of Floating Provisions/Counter Cyclical Provisioning Buffer** | • Banks have been allowed to utilise 100% of floating provisions/ countercyclical provisioning buffer held by them as on December 31, 2020, for making specific provisions for non-performing assets with prior approval of their Boards. Such utilisation is permitted with immediate effect and upto March 31, 2022. |
| **Corporate Governance in Banks - Appointment of Directors and Constitution of Committees of the Board** | • The RBI capped the tenure of managing directors (MDs) and chief executive officers (CEOs) of private banks at 15 years. Promoters or major shareholders, however, cannot hold these posts for more than 12 years, but the RBI can choose to give them a three-year extension under extraordinary circumstances. |
| **Declaration of dividends by banks** | • RBI allowed banks to pay dividend on equity shares from the profits for the financial year ended March 31, 2021, subject to the quantum of dividend being not more than 50% of the amount determined as per the dividend pay-out ratio. |

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