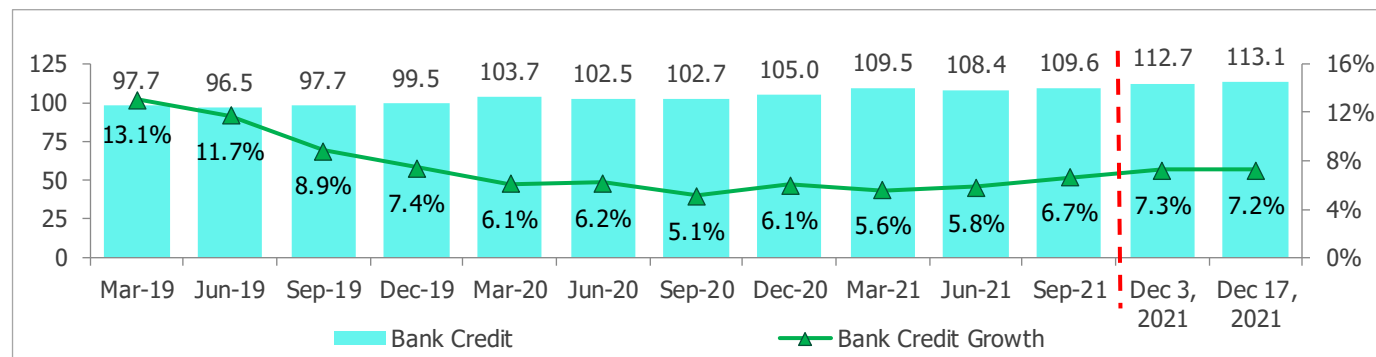


Update on Banking Credit and Deposits

January 09, 2022 | BFSI Research

Credit growth remains higher than the last twelve-month average

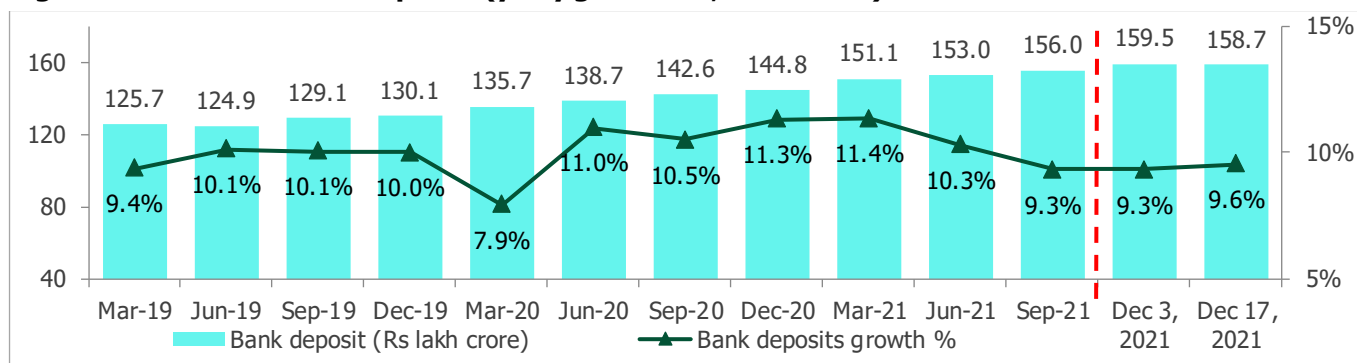
Figure 1: Bank Credit Growth Trend (y-o-y growth %, Lakh-crore)



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

- Bank credit growth expanded by 119.6 bps y-o-y and rose by 7.2% y-o-y for the fortnight ended December 17, 2021, up from 6.1% in the year ago period (fortnight ending December 18, 2020) due to uptick in economic activities, retail credit push coupled with a low base. However, it marginally declined by 03 bps in the previous fortnight ended December 03, 2021. In absolute terms, credit offtake expanded to Rs.113.1 lakh crore, increasing by Rs.7.6 lakh crore over the last twelve months, and it also expanded by 0.5 lakh crore as compared with the previous fortnight (December 03, 2021).
- The credit growth had been languishing through 2021 due to Covid-19 and also deleveraging of balance sheets by large corporates. However, it has been showing some signs of improvement over the last couple of months on account of growth in retail and agriculture loans. Credit outstanding of the retail segment rose by 11.6% y-o-y in November 2021 due to growth in other personal loans, housing, vehicles, and loans against gold jewelry driven by uptick in economic activities, festive seasons, lower interest rate, push for the retail credit by banks, discounts offered by real estate developers. The agriculture & allied segment also rose by 10.4% y-o-y in November 2021. Industry segment too registered a growth of 3.6% y-o-y growth in November 2021 from 0.7% a year ago due to a strong growth of 49% in MSME credit driven by ECLGS and reclassification. Incremental credit growth rose by 1.7% in November 2021, up from 0.2% in November 2020. CPI is trending up which is likely to support to the GDP growth, hence pushing up credit growth. In order to capture the growth in the festival seasons, several banks are offering home loans at record low-interest rate and many banks have reduced their interest rate to push retail credit. Bank of Baroda also announced reduction of 25 bps in its home loan rates from 6.75% to 6.50% w.e.f. from October 7, 2021, till December 31, 2021.
- The outlook for bank credit growth is expected to be in the range of 8.0% to 9.0% for FY22 with a low base effect, economic expansion, rise in government and private capex (specially, capex for road, renewables and production linked incentive (PLI) schemes, extended ECLGS support (sanctions permitted till March 2022 and disbursements till June 2022), and retail credit push mortgage finance as well as small ticket lending. The medium-term prospects look promising with diminished corporate stress and increased provisioning levels across banks. The Retail loan segment is expected to do well as compared with industry and service segments. However, the new coronavirus variant (omicron) could dampen momentum if localized lockdown measures increase.

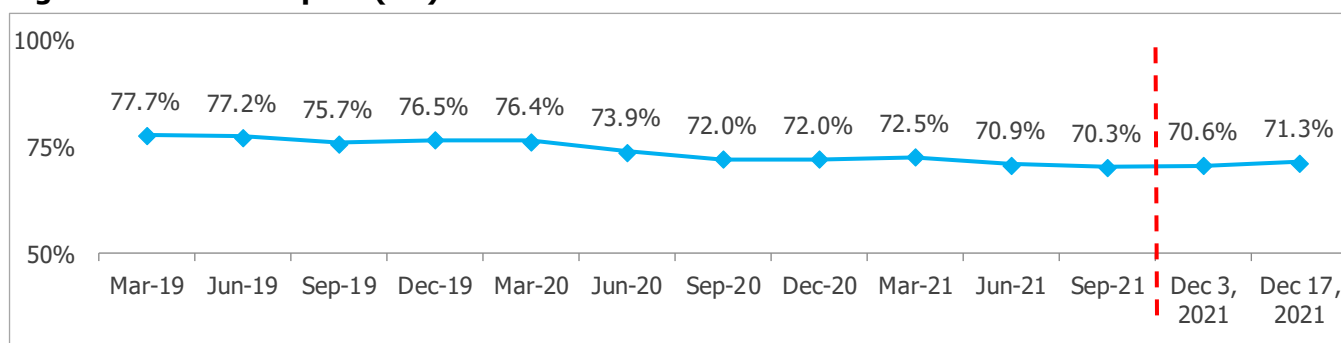
Figure 2: Growth of Bank Deposits (y-o-y growth %, Lakh Crore)



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

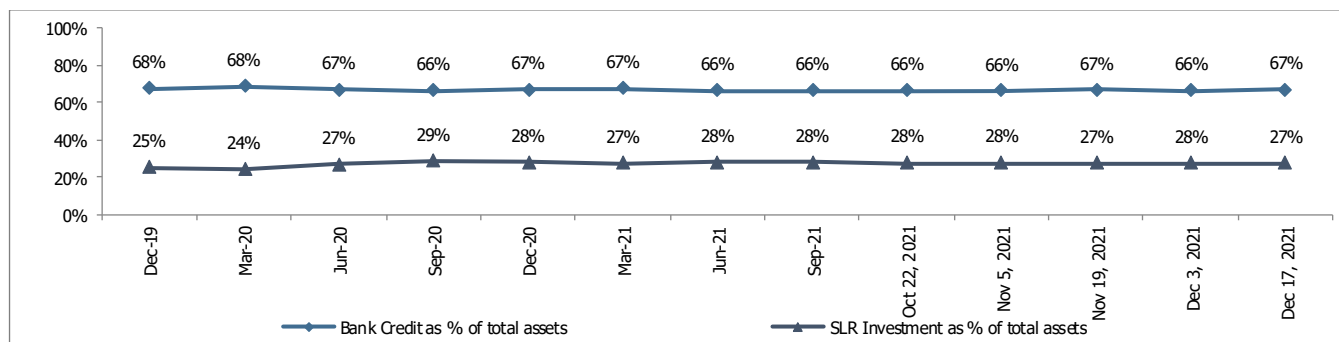
- Deposits stood at Rs.158.7 lakh crore for the fortnight ended December 17, 2021, reporting a growth of 9.6% y-o-y, however the growth rate contracted by 178 bps (y-o-y). It reported a growth of 24-bps when compared with the previous fortnight (December 03, 2021). This dip is likely to be largely due to advance tax payment due on December 15, 2021. The deposit growth ranged between 9.3-11.6% from April 2021 to December 2021, and has been trending down since March 21, except in few cases (fortnightly). Meanwhile, in absolute terms, the bank deposits have increased by Rs.13.8 lakh crore over the last twelve months. If we compare it with the previous fortnight (December 03, 2021), deposits decreased by Rs.0.85 lakh crore, within this, demand deposit increased by 0.30 lakh crore.
- The banking system liquidity surplus as on December 17, 2021, stood at Rs.7.5 lakh crore (Rs.8.0 lakh crores as on December 03, 2021). This decline can be attributed to the outflows towards advance taxes. The liquidity surplus can be primarily attributed to deposit growth consistently outpacing credit growth. However, the liquidity surplus has also narrowed (from over Rs.8 lakh crore at the start of October 2021) which can be partly attributed to the excess liquidity of banks being tied up in the VRRR auctions (variable reverse rate repo auctions carrying tenure of 8 to 14 days).
- Bank deposits have continuously grown faster than bank credit in every fortnight since late September 2019. 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 71.3% higher than 67 bps as compared to last fortnight (ended on December 03, 2021) due to consistently improving bank credit, while it declined by 154-bps as compared with previous year (72.8% as on December 18, 2020). On the other hand, if we assume credit investments to be at Rs.8.75 lakh crores (as on October 22, 2021, as per latest data released by RBI), for the fortnight ended December 17, 2021, then the CD ratio would be around 76.8%. Considering the addition in credit outstanding over the last 12 months to be at Rs.7.7 lakh crore over additions in deposits (Rs.13.8 lakh crore), the proportion would have been at around 55.2% which is lower than previous fortnight of 56.0%.

Figure 3: Credit to Deposit (CD) ratio trend



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

Proportion of SLR investments declines 16-bps, while bank credit to total assets increases 35-bps
Figure 4: 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 Ltd.

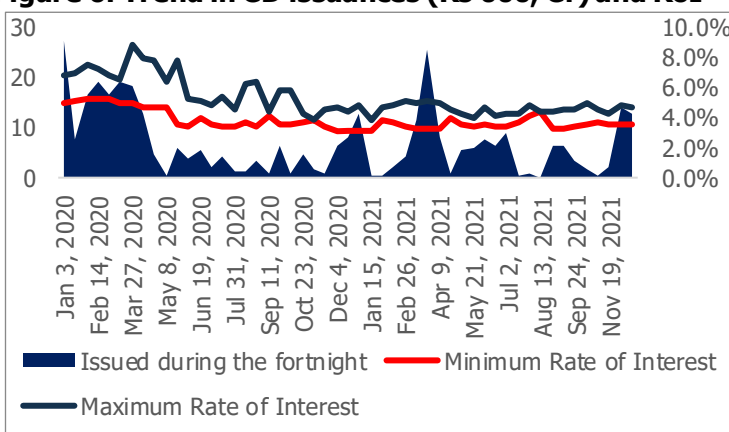
- The share of bank credit to total assets stood at 66.8%, increased by 35-bps in the fortnight ended December 17, 2021, as compared with the previous fortnight (Ending on December 03, 2021).
- Considering credit investments to be at Rs.8.75 lakh crore (as on October 21, 2021), bank credit (including credit investments) to total assets would have been around 72.0% for the fortnight ended December 17, 2021.
- Proportion of SLR investment to total assets has declined by 16-bps in fortnight ended December 17, 2021, compared to the previous fortnight (ended on December 03, 2021) due to decline in SLR investments. SLR investments grew by 1.2% y-o-y in fortnight ended on December 17, 2021 (slower growth which can partly be ascribed to base effect and credit offtake increasing a tad) as compared with a growth of 22.1% a year ago, it also declined 1.6% from the previous fortnight (ended on December 03, 2021).

O/s CPs reports a decline, while O/s CDs report a Rise

Figure 5: CD Outstanding

Fortnight ended	Amount Outstanding (Rs'000 crore)	Y-o-Y growth %
Mar 27, 2020	173.0	-36.5%
Sep 25, 2020	75.6	-59.8%
Mar 26, 2021	80.1	-53.7%
Jun 18, 2021	68.2	-43.8%
Sep 10, 2021	67.1	-23.4%
Sep 24, 2021	60.2	-20.3%
Oct 08, 2021	59.2	-20.9%
Nov 19, 2021	55.6	-17.9%
Dec 03, 2021	63.4	-8.7%
Dec 17, 2021	73.3	6.6%

Figure 6: Trend in CD issuances (Rs'000, Cr) and RoI

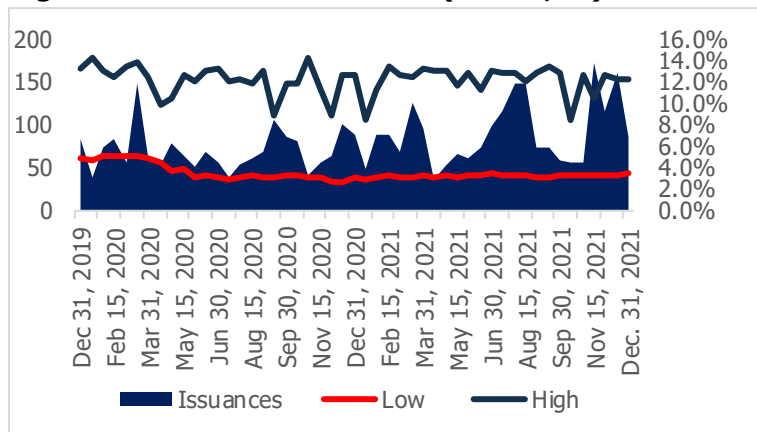


Note: The quarter-end data reflect the last fortnight data of that particular quarter; Source: RBI

Figure 7: Commercial Paper Outstanding

Fortnight ended	Amount Outstanding (Rs'000 crore)	Y-o-Y growth %
Mar 31, 2019	483.1	11.5%
Sep 30, 2019	459.7	-22.7%
Mar 31, 2020	344.5	-39.9%
Sep. 30, 2020	362.3	-25.5%
Mar 31, 2021	364.4	5.8%
Jun 30, 2021	376.1	-3.9%
Sep. 30, 2021	371.0	2.4%
Nov. 30, 2021	388.4	-0.6%
Dec. 15, 2021	447.0	22.4%
Dec. 31, 2021	350.1	-4.1%

Figure 8: Trend in CP issuances (Rs'000, Cr) and RoI



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

Select RBI Announcements

Announcement	Details
Basel III Framework on Liquidity Standards – Liquidity Coverage Ratio, Liquidity Risk Monitoring Tools and LCR Disclosure Standards and Net Stable Funding ratio – Small Business Customers	<ul style="list-style-type: none"> With the objective to better align our guidelines with the BCBS standard and enable banks to manage liquidity risk more effectively, it has been decided to increase the threshold limit for deposits and other extensions of funds made by non-financial Small Business Customers from ₹ 5 crore to ₹ 7.5 crore for the purpose of maintenance of Liquidity Coverage Ratio (LCR).
Master Circular - Bank Finance to Non-Banking Financial Companies (NBFCs)	<ul style="list-style-type: none"> This Master Circular consolidates instructions for the NBFCs issued up to June 30, 2015. <ul style="list-style-type: none"> Purpose - To lay down the RBI's regulatory policy regarding financing of NBFCs by banks. Classification - A statutory guideline issued under Section 35A of Banking Regulation Act, 1949. Previous guidelines superseded Application- To all Scheduled Commercial Banks (excluding Regional Rural Banks).
RBI releases eligibility criteria for 'specified users' of CICs	<ul style="list-style-type: none"> The RBI released the eligibility criteria for entities to be categorised as 'Specified User' of Credit Information Companies. The criteria sets out the requirements for the entities to become eligible as Specified User of CIC under the Credit Information Companies (Amendment) Regulations, 2021.

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