Credit Offtake Beats Covid-induced Lag to Marginally Outdo Deposit Growth

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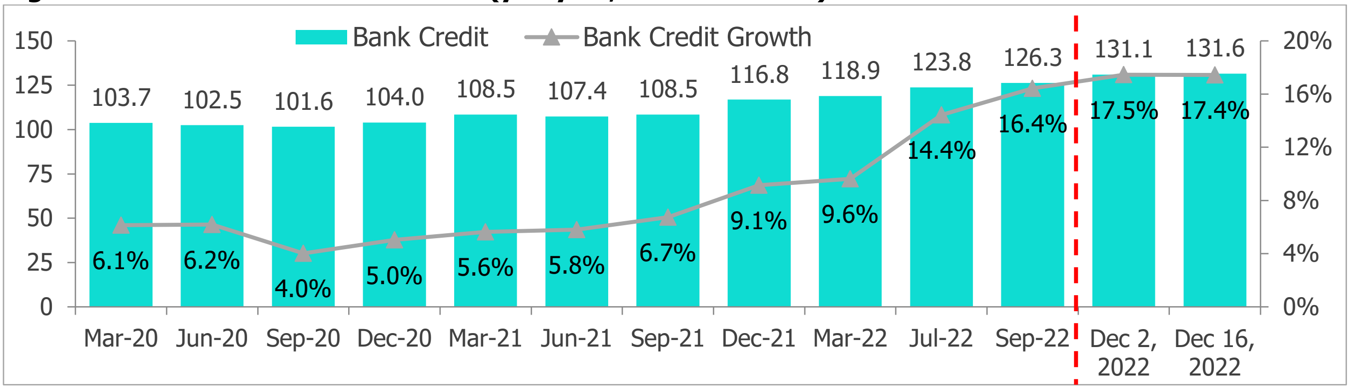
Synopsis

- Credit offtake remained sustained at 17.4% year on year (y-o-y), reporting robust growth for the fortnight ended December 16, 2022. The growth is being driven by a low base, healthy rise in NBFCs, sustained retail credit, and higher working capital demand driven by inflation.
- Deposits saw a slower growth at 9.4% y-o-y compared to credit. Deposit rates have already risen and are expected to go up further due to inflation-induced rising policy rates, intense competition between banks for sourcing deposits to meet strong credit demand, widening credit deposit gap, and lower liquidity in the market. The short-term Weighted Average Call Rate (WACR) has increased to 6.19% as of December 16, 2022, from 3.41% as of December 17, 2021.
- Over the last couple of years, (i.e., from February 28, 2020) credit offtake rising by 30.3% in absolute terms has marginally overcome the Covid-induced lag to surpass deposit rates which rose by 30.2%. Credit growth is expected to sustain in double digits, nonetheless, the benefit of a lower base is expected to ease in the next few fortnights, optically leading to a sharp decline in growth rates.

Bank Credit Growth Remains Resilient

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



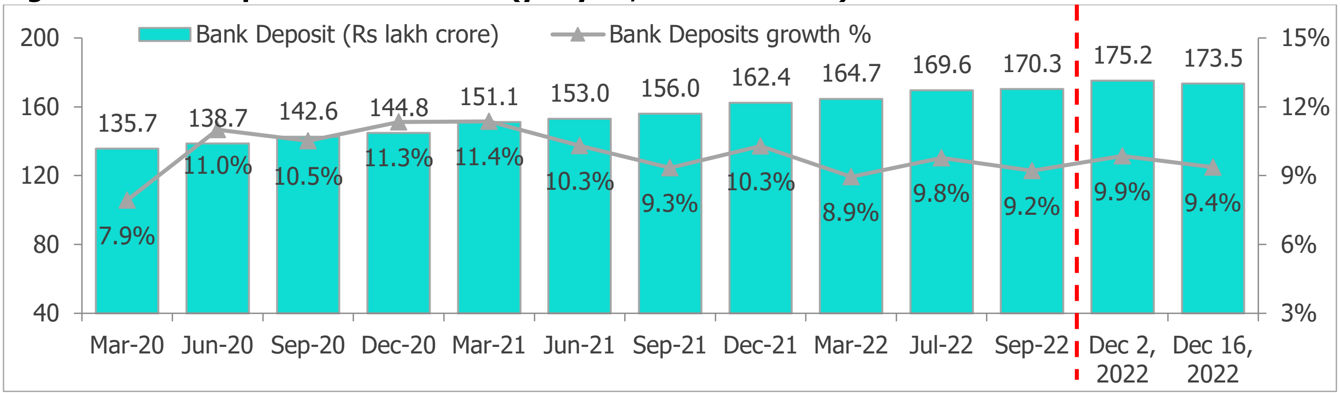
Note: Bank credit growth and related variations for all fortnights since December 3, 2021, are adjusted for past reporting errors by select scheduled commercial banks (SCBs). However, RBI has not yet updated these numbers in its database except for fortnightly documents. The quarter-end data reflect, the last fortnight's data of that particular quarter; Source: RBI, CareEdge

- Credit offtake witnessed a 17.4% y-o-y growth for the fortnight ended December 16, 2022. It expanded by over 1,020 bps due to a low base, strong growth in NBFCs driven by shifting of borrowings to the banking systems on account of cost optimisation, sustained retail credit, inflation-led working capital requirement in large industries, growth in MSMEs, and lower fund raised from the overseas market. It also increased sequentially by 0.4% from the immediate fortnight (ended December 02, 2022). In absolute terms, credit outstanding stood at Rs.131.6 lakh crore as of December 16, 2022, rising by Rs.19.5 lakh crore over the last 12 months.
- The services sector continued to report the highest sectoral growth for the third consecutive month in November 2022, propelled by NBFCs. Credit o/s for services accelerated by 21.3% y-o-y in November 2022 primarily due to a rise in NBFCs and retail trade segments. Retail credit growth at 19.7% y-o-y has been led

by home loans, miniaturization of credit, and vehicle loans. The credit outstanding of the industry segment also grew by 13.1% due to MSMEs, inflation-induced higher working capital demand in select sectors, MSMEs and capex spending.

- The credit growth has sustained in double digits till December 2022 amid the significant rise in interest rates. The growth was also broad-based across the segments and is likely to remain strong in FY23. Retail and NBFCs are expected to be key growth drivers for the fiscal. Besides, demand for new capex is expected to drive industry credit growth. However, the benefit of a lower base will ease out in the next couple of months, optically leading to a sharp decline in growth rates. A slowdown in global growth due to rising interest rates and rate hikes in India could impact credit growth.

Figure 2: Bank Deposit Growth Trend (y-o-y %, Rs. Lakh crore)



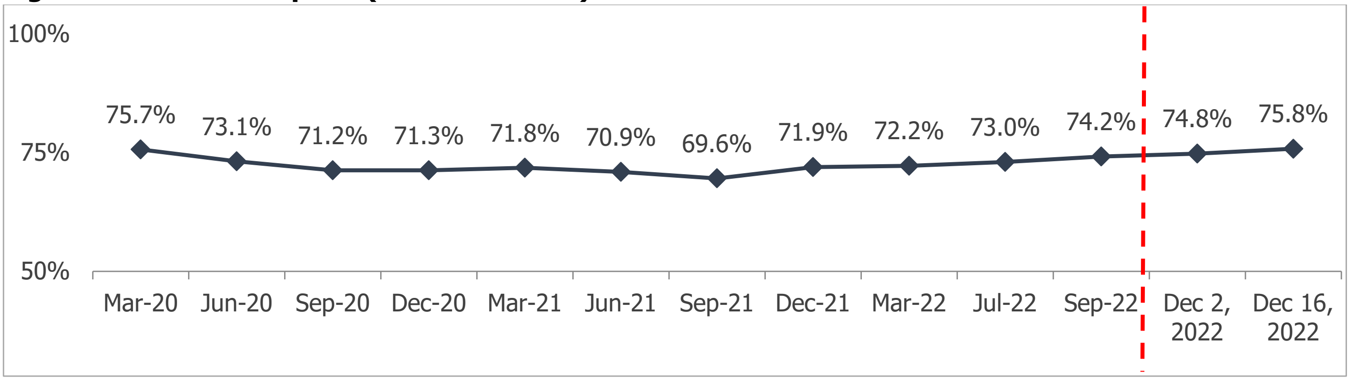
Note: The quarter-end data reflect, the last fortnight's data of that particular quarter; Source: RBI, CareEdge

- Deposits stood at Rs.173.5 lakh crore for the fortnight ended December 16, 2022, registering a growth of 9.4% y-o-y vs 9.6% a year ago. In absolute terms, bank deposits have increased by Rs.14.9 lakh crore over the last twelve months. However, it declined by Rs.1.7 Lakh crore from the immediate previous fortnight (reported December 02, 2022) due to advance tax payment (the third advance tax payment for FY23 was on December 15, 2022). Time deposits grew by 9.2% y-o-y, while demand deposits rose by 10.7% in the reporting fortnight vs. 8.6% and 17.2% y-o-y, respectively, reported in the fortnight ended December 17, 2021. To source additional deposits, banks have already raised term deposit rates of select tenures and are expected to increase these rates even higher.

- Liquidity has generally been trending down with RBI seeking to reduce excess liquidity from the system to manage inflation. As per the CareEdge Report titled "India: The Economic Pathway, the banking system liquidity stayed in deficit in the second half of December due to advance tax outflows and GST payments. Liquidity deficit stood at Rs 0.16 lakh crore (as on 26 December 2022) as against a surplus of Rs 6.4 lakh crore at the start of FY23

- RBI has already increased the repo rate by 225 bps to 6.25% (five hikes) in FY23, with an additional hike anticipated in the current financial year. Due to elevated domestic inflation, rate hikes and higher global bond yields have led to higher yields in the domestic debt capital markets.

Figure 3: Credit to Deposit (CD Ratio Trend)



Note: The quarter-end data reflect the last fortnight's data of that quarter; Source: RBI, CareEdge

- The Credit to Deposit (CD) ratio has been increasing since November 2021 and reached 75.8% when expanding by ~521 bps y-o-y from the similar fortnight last year due to continued faster growth in credit compared to deposits. It reached the pre-pandemic level of 75.8% in Feb 2020 and 75.7% in March 2020.
- Considering credit investments to be at Rs.8.1 lakh crore (as of October 21, 2022, as per latest data released by RBI), the bank credit (including credit investments) to total assets would have been around 71.6% for the fortnight ended December 16, 2022, which was higher by ~30 bps from the fortnight ended December 17, 2021, due to faster growth in credit as compared to total assets. The rise was partially offset by a drop in credit investment (credit investment stood at Rs.8.1 lakh crore down from Rs.8.6 lakh crore in the same period last year).

Figure 4: Trend in y-o-y Movement

	Dec 18, 2020	Dec 17, 2021	Dec 16, 2022
Credit	5.0%	7.2%	17.4%
Deposit	11.3%	9.6%	9.4%

Source: RBI, CareEdge

In the current year, the y-o-y change in credit has continually outpaced deposits reversing the earlier trend of deposits growing at a higher rate when compared to credit. The credit growth has improved due to normalisation of the Indian economy post covid, pent-up demand, higher yields in the capital market, and policy support from the government (ECLGS to MSME and PLI scheme, etc).

Figure 5: Growth in Credit almost Overcomes Covid-induced Lag (Rs. Lakh Crore)

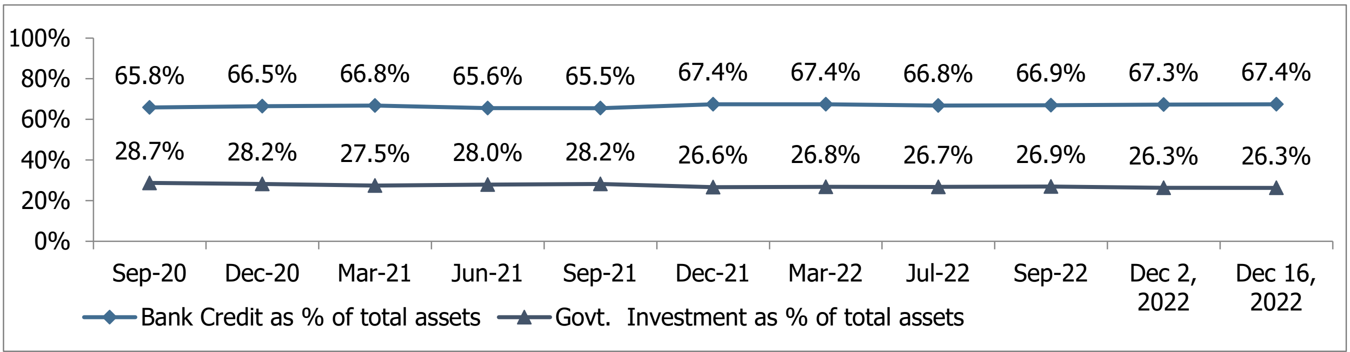
	Deposit	Credit
February 28, 2020	133.3	101.0
December 16, 2022	173.5	131.6
Growth over the period (in abs. terms)	30.2%	30.3%

Source: RBI, CareEdge

- Credit offtake has finally overcome the Covid-induced lag relative to Deposit growth. This has led to a focus on the liability side as well with banks focusing on shoring up their deposit base to meet the elevated credit demand and looking out for short-term funding to bridge any gap. Hence a significant part of the funding gap has been met by the mobilisation of Certificates of Deposit (CD). The outstanding CDs stood at Rs 2.94 lakh crores as of December 30, 2022, vs. Rs 0.85 lakh crore a year ago. Further, the banks are keeping their CD issuance elevated to meet their short-term need amid the lower liquidity and focusing on deposits (bulk and retail). The deposit rates have already increased and CareEdge expects that the rates may increase even further as competition for deposits intensifies as banks focus on sourcing deposits due to rising policy rates, strong credit demand, and lower liquidity in the market. Banks have also lined up market borrowing plans to shore up their liability side.

Proportion of Bank Credit to Total Assets Marginally Increased

Figure 6: Proportion of Govt. Investment and Bank Credit to Total Assets



Note: The quarter-end data reflect the last fortnight's data of that particular quarter; 2) Total assets = Cash in hand + Assets with the Banking System + Investments + Bank Credit; Source: RBI, CareEdge

- The share of bank credit to total assets rose by 15 bps to 67.4%, compared to the fortnight ended December 2, 2022, and rose ~120 bps when compared with the same fortnight last year (reported December 17, 2021) due to higher credit growth.
- Proportion of government investment to total assets too has remained broadly stable for the fortnight ended December 2, 2022, compared to the previous fortnight (reported November 18, 2022). The Government investments stood at Rs.51.3 lakh crore as of December 16, 2022, reporting an 11.5% y-o-y growth.

Growth in O/s CDs Remains Robust, O/s CPs witness a marginal rise (y-o-y)

Figure 7: CD Outstanding

Fortnight ended	Amount Outstanding (Rs'000 crore)	Y-o-Y growth %
Sep 24, 2021	60.2	-20.3%
Oct 08, 2021	59.2	-20.9%
Dec 31, 2021	84.7	13%
Feb 11, 2022	112.6	93.4%
Mar 11, 2022	154.4	168.9%
Apr 22, 2022	201.4	134.8%
May 20, 2022	193.0	113.7%
July 1, 2022	223.8	222.9%
Aug 26, 2022	237.1	269.3%
Sep 23, 2022	252.2	318.7%
Oct 21, 2022	240.8	319.8%
Dec 16, 2022	272.5	271.9%
Dec 30, 2022	294.0	247.1%

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

Figure 8: Trend in CD Issuances (Rs'000, crore) and RoI

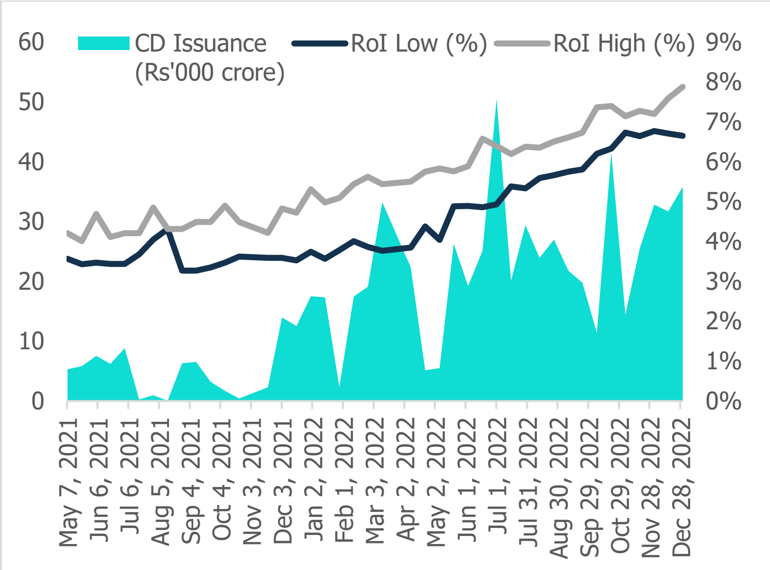
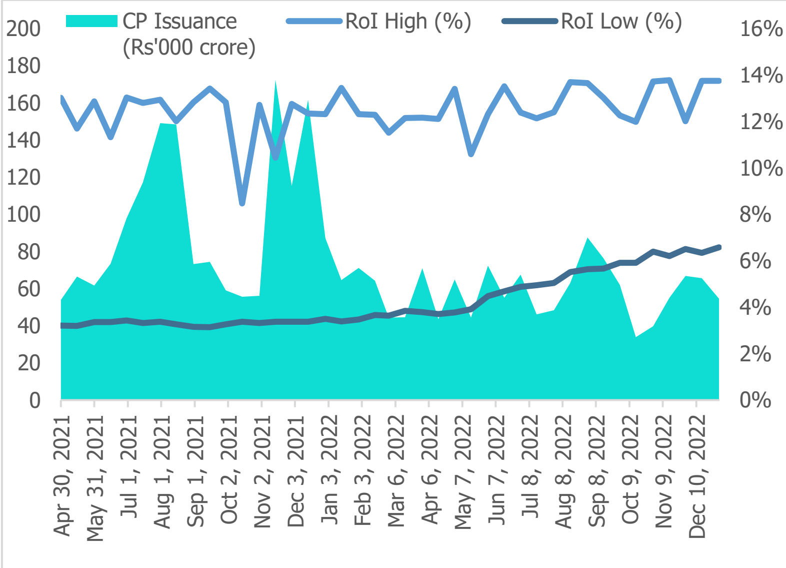


Figure 9: Commercial Paper Outstanding

Fortnight ended	Amount Outstanding (Rs'000 crore)	Y-o-Y growth %
Sep 30, 2020	362.3	-25.5%
Mar 31, 2021	364.4	5.8%
Sep 30, 2021	371.0	2.4%
Nov 30, 2021	388.4	-0.6%
Dec 31, 2021	350.1	-4.1%
Mar 31, 2022	352.3	-3.3%
Jun 30, 2022	372.5	-1.0%
Aug 31, 2022	410.1	4.7%
Sep 15, 2022	438.7	9.3%
Sep 30, 2022	400.9	8.1%
Oct 15, 2022	415.8	4.0%
Oct 31, 2022	373.3	-1.6%
Dec 15, 2022	363.7	-18.6%
Dec 31, 2022	359.7	2.7%

Figure 10: Trend in CP Issuances (Rs'000, crore) and RoI



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

Select RBI Announcements

Announcement	Details
RBI Releases Financial Stability Report December 2022	• The global economy is facing formidable headwinds with recessionary risks looming large. The interplay of multiple shocks has resulted in tightened financial conditions and heightened volatility in financial markets. • Indian economy is confronting strong global headwinds. Yet, sound macroeconomic fundamentals and healthy financial and non-financial sector balance sheets are providing strength and resilience and engendering financial system stability. • Buoyant demand for bank credit and early signs of a revival in the investment cycle are benefiting from improved asset quality, return to profitability, and strong capital and liquidity buffers of scheduled commercial banks (SCBs). • The GNPA ratio of scheduled commercial banks (SCBs) fell to a seven-year low of 5.0% and NNPA dropped to a ten-year low of 1.3% in Sep-2022. • Macro stress tests for credit risk reveal that SCBs would be able to comply with the minimum capital requirements even under severe stress scenarios. The system-level capital to risk-weighted assets ratio (CRAR) in September 2023, under baseline, medium and severe stress scenarios, is projected at 14.9%, 14.0% and 13.1%, respectively. • Stress tests for open-ended debt mutual funds showed no breach in limits pertaining to interest rate, credit, and liquidity risks. Consolidated solvency ratio of both life and non-life insurance companies also remained above the prescribed minimum level.

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