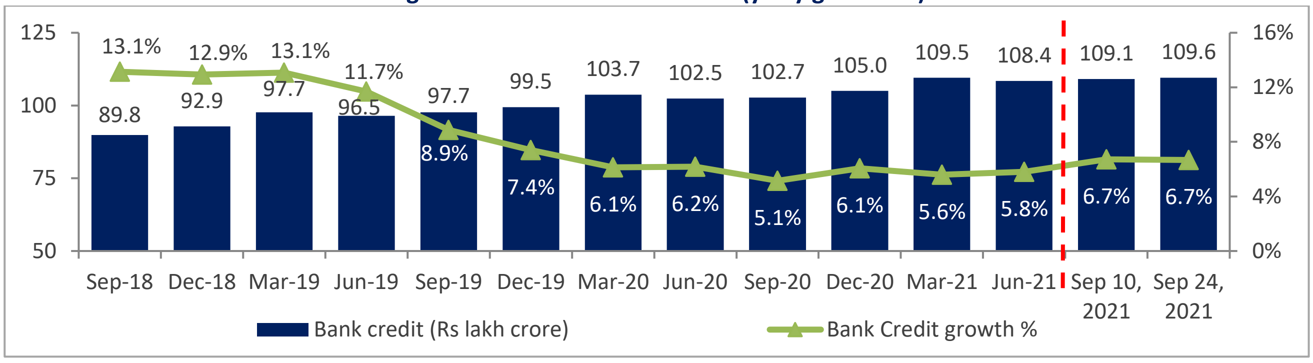
Credit and Deposit growth remains stable over the last fortnight

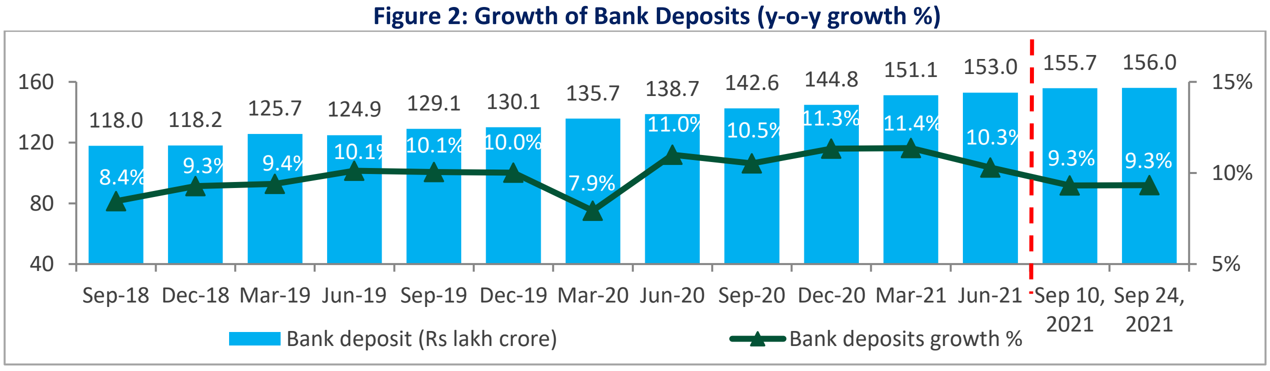
Figure 1: Growth of Bank Credit (y-o-y growth %)



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

- The y-o-y bank credit growth rate increased by 160 bps from the year ago level of 5.1% (fortnight ended September 25, 2020) and remained stable when compared with the previous fortnight. The y-o-y increase reflects the low base effect and the easing of lockdown restrictions across regions in India. In absolute terms, credit offtake increased by Rs.6.8 lakh crore over the last twelve months and by Rs. 0.5 lakh crore as compared with the previous fortnight.
- Amid the second wave of the pandemic, the bank credit growth has remained tepid owing to the risk aversion by both lenders and borrowers and regional lockdowns imposed by states in the earlier part of this year to curb the spread of coronavirus. However, following the relaxation in lockdown since June 2021, bank credit growth has been improving gradually. The overall non-food credit growth continues to be driven by retail and agriculture & allied activities segments (double-digit y-o-y growth) during the month of August 2021. However, slower growth in industry and services segment continues to restrict the overall credit growth.
- With the onset of the festive season, bank credit is expected to improve further in the coming fortnights led by growth in the retail segment. This rise is expected to be supported with rate cuts by banks to push retail credit as several banks are offering loans at record low-interest rate ahead of the festive season. e.g. in September 2021, banks like Kotak Mahindra Bank and Punjab & Sind Bank cut 1-year MCLR rate (on m-o-m basis) by 5 bps each, respectively. Also, to attract borrowers several banks have slashed the home loan interest rates as a special offer in the festive season, e.g., State Bank of India, Bank of Baroda and Kotak Mahindra Bank have reduced their home loan rates by 45bps, 25bps, and 15bps, respectively. Similarly, foreign banks have also started to pitch for home loans at lower interest rates, such as HSBC India reduced home loan interest rates by 10 bps to 6.45%.
- The outlook for bank credit growth is expected to be in the range of 7.5% to 8.0% for FY22 with a low base effect, economic expansion, extended ECLGS support, and retail credit push. The medium-term prospects look promising with diminished corporate stress and increased provisioning levels across banks. Retail loan segment is expected to do well as compared with industry and service segments.

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

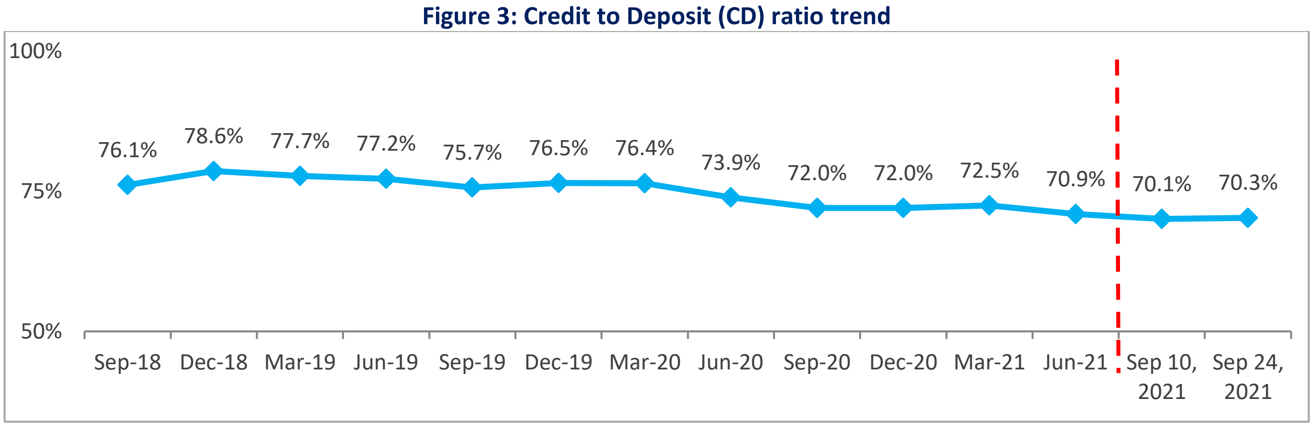


Note: The quarter-end data reflect the last fortnight data of that particular quarter; Source: RBI, CARE Ratings

- Deposit growth too remained at similar level in the fortnight ended September 24, 2021, when compared with previous fortnight however, it declined by 120 bps as compared to the last year (10.5% in the fortnight ended September 25, 2020). In absolute terms, the bank deposits have increased by Rs.13.4 lakh crore over the last twelve months. If we compare it with the previous fortnight, bank deposits increased by Rs.0.3 lakh crore. The lower growth rate (y-o-y) in deposits can be partly attributed to the base effect and fall in deposit rates of banks (weighted average domestic term deposit rate of SCBs fell by 71 bps between August 2020 to August 2021). Furthermore, to support NIMs, banks such as Axis Bank, Kotak Mahindra Bank and Punjab National Bank have cut deposit rates in September 2021.
- Moreover, as on September 24, 2021, the liquidity surplus in the banking system stood at around Rs.7.3 lakh crores (Rs.7.8 lakh crores as on September 10, 2021). The liquidity surplus can be primarily attributed to deposit growth consistently outpacing credit growth.
- Bank deposits have continuously grown faster than bank credit in every fortnight since late September 2019 pushing down the CD ratio by around 5%. 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 70.3%, largely at similar level compared to last fortnight, while it declined by 1.7% as compared with previous year (72.0% as on September 25, 2020), owing to muted growth in credit. On the other hand, if we assume credit investments to be at Rs.8.6 lakh crores (at July 2021 level as per latest data released by RBI) for the fortnight ended September 24, 2021, then the CD ratio would be around 76% (level that was last observed in March 2020).

- Considering the addition in credit outstanding over the last 12 months to be at Rs.6.8 lakh crore and additions in credit investment to be at Rs.0.1 lakh crore over additions in deposits (Rs.13.4 lakh crore), the proportion would have been at around 52% which is similar level (52%) as compared with previous fortnight (addition in credit outstanding plus additions in credit investment over additions in deposits).

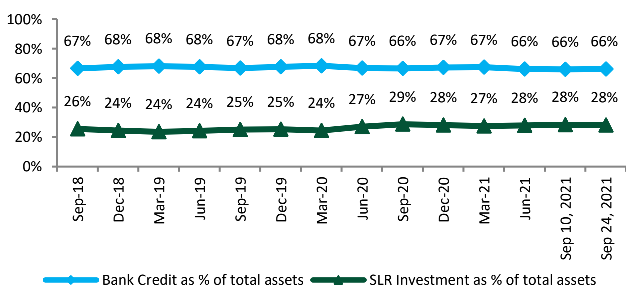
Figure 3: Credit to Deposit (CD) ratio trend



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 stable

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

- The share of bank credit to total assets stood stable in the fortnight ended September 24, 2021, as compared with the previous fortnight.

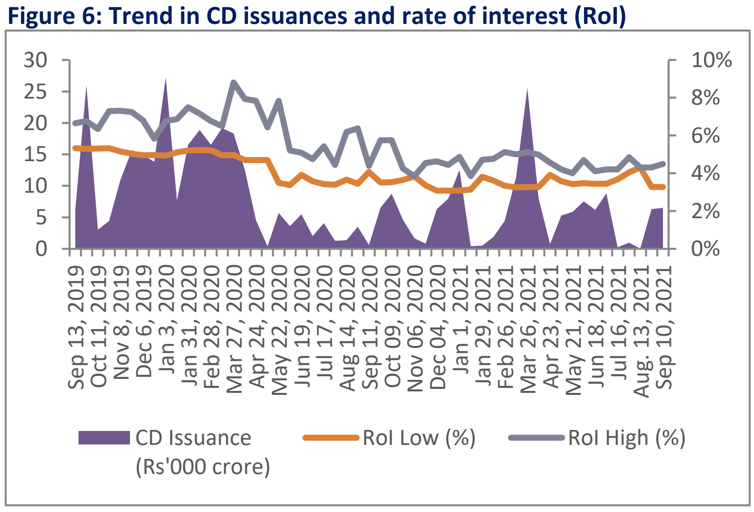
- Considering credit investments to be at Rs.8.6 lakh crore (as on July 30, 2021), bank credit (including credit investments) to total assets would have been around 71.4% for the fortnight ended September 24, 2021.
- Proportion of SLR investment to total assets stood at similar levels during the last two fortnights. In absolute terms, SLR investments grew by 5.0% y-o-y (slow growth which can be partly ascribed to base effect) as compared with a growth of 20.2% a year ago and 6.8% in the previous fortnight. 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.

Divergent trends in CDs and CPs: Over last fortnight, CDs increased while CPs declined, while on a y-o-y basis, CDs declined, and CPs increased

Figure 5: 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%
Mar 26, 2021	80.1	-53.7%
Jun 18, 2021	68.2	-43.8%
Aug. 27, 2021	64.2	-29.0%
Sep 10, 2021	67.1	-23.4%

Figure 6: Trend in CD issuances and rate of interest (RoI)

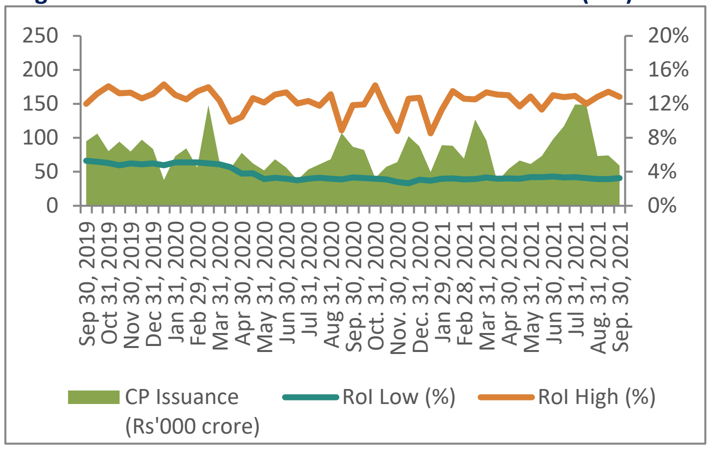


Note: The quarter-end data reflect the last fortnight data of that particular quarter; Source: RBI

Figure 7: 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%
Sep. 30, 2020	362.3	-25.5%
Mar 31, 2021	364.4	5.8%
Jun 30, 2021	376.1	-3.9%
Sept 15, 2021	401.2	-4.1%
Sep. 30, 2021	371.0	2.4%

Figure 8: 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
Monetary Policy Statement, 2021-22 Resolution of the Monetary Policy Committee (MPC) October 6-8, 2021	• Key policy rates left unchanged. • To remove excess liquidity from the system on a temporary basis, a fortnightly calendar of 14-day variable rate reverse repo (VRRR) auctions has been announced. As per the calendar, VRRR auctions amounting to Rs. 21 lakh crores are to be conducted during 22 Oct- 3 Dec'21. • No fresh GSAP (government securities acquisition programme) to be undertaken, unless warranted based on liquidity conditions. • Liquidity management operations such as Operation Twist (OT) and regular open market operations (OMOs) to continue. • Extension of deadline of on-tap special long-term repo operations for small finance banks (SFBs) by a period of 2 months till 31 Dec'21. • For more details refer report *"RBIs Monetary Policy continues to be growth centric while trying to rein in liquidity surplus"*.
Priority Sector Lending- Banks' lending to NBFCs for on-lending – Extension of facility	• RBI announced in the 'Statement on Developmental and Regulatory Policies' dated October 8, 2021, the facility has been extended till March 31, 2022 (from earlier September 30, 2021) keeping in view the increased traction observed in delivering credit to the underserved/unserved segments of the economy.
Basel III Capital Regulations - Perpetual Debt Instruments (PDI) in Additional Tier 1 Capital – Eligible Limit for Instruments Denominated in Foreign Currency/Rupee Denominated Bonds Overseas	• RBI has issued eligibility limit for Instruments Denominated in Foreign Currency/Rupee Denominated Bonds Overseas under Basel III Capital. It is clarified that the "eligible amount" for purpose of issue of PDIs in foreign currency would mean the higher of: a) 1.5% of Risk Weighted Assets (RWAs) and b) Total Additional Tier 1 capital as on March 31 of the previous financial year. • Not more than 49% of the "eligible amount" as above can be issued in foreign currency and/or in rupee denominated bonds overseas as on March 31 of the previous financial year.
Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances	• RBI has issued Master Circular on Prudential Norms for Income Recognition, Asset Classification (IRAC) and Provisioning pertaining to Advances, which consolidates the RBI Guidelines/ Directions/ Instructions/ Revisions on the subject upto September 30, 2021. • RBI has implemented the Prudential Norms for the advance's portfolio of the banks for greater consistency and transparency in the published accounts.

Source: RBI

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