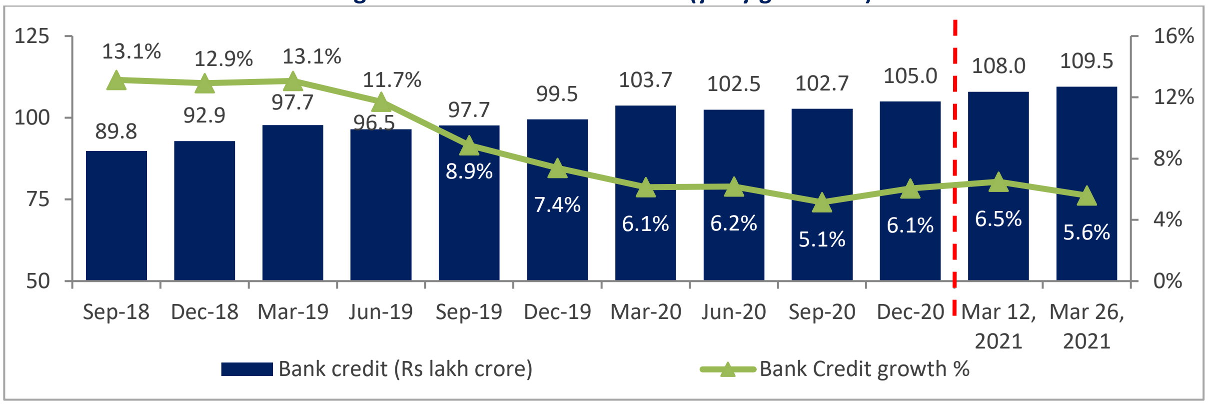
Update – Growth in Deposits and Credit

April 10, 2021

Bank credit and deposits growth declined vs. the last fortnight

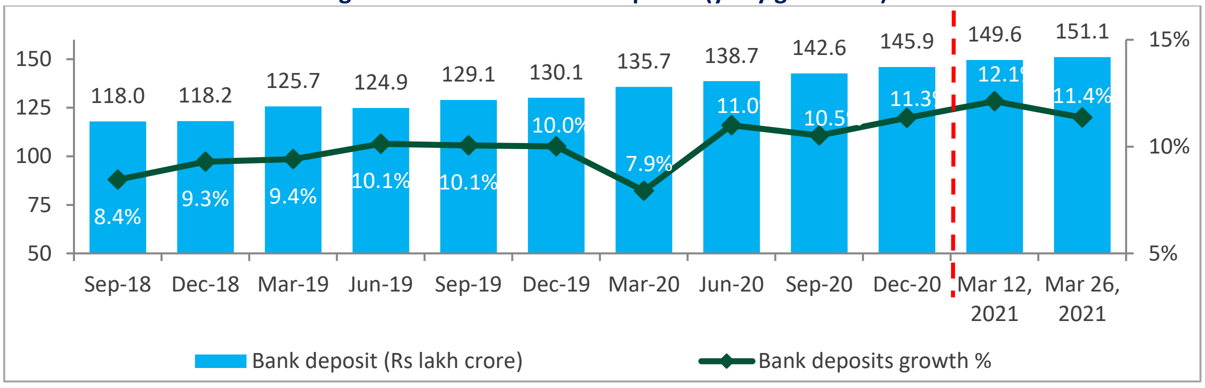
Figure 1: Growth of Bank Credit (y-o-y growth %)



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

- The bank credit growth declined compared to the last fortnight, however in absolute terms it increased by Rs 5.8 lakh crore as compared with fortnight ended March 27, 2020 and by Rs 1.5 lakh crore as compared with previous fortnight. However, the growth rate has been higher than the expected low single digit growth anticipated earlier in the year.
- The bank credit growth stood at 5.6% and 6.5% during the last two fortnights as compared with last year's level of 6.1%. The growth figures of fortnight ended March 26, 2021 have the benefit of lower base of previous year-end (initial period of lockdowns).
- Though the interest rates (Monthly fresh loans WALR) of SCBs have reduced by 107 bps from February 2020 to February 2021, the overall credit growth 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 Housing and NBFCs segment (as compared with previous year) restricted the overall bank credit growth.
- In FY22, bank credit is likely to increase given the growth in the economy and the base effect coming into play. Downside risks include lockdowns in key states impacting the industrial as well as the service segments. Another risk includes the ending of the ECLGS scheme, which had propped up the SME credit. However, the extension of the TLTRO operations and on lending norms could support growth.

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 11.4% declined during the fortnight ended March 26, 2021 as compared with fortnight ended March 12, 2021, but increased as compared with previous year (7.9% growth during fortnight ended March 27, 2020).
- Moreover, as on March 26, 2021, the liquidity surplus in the banking system stood at Rs.3.8 lakh crores. The liquidity surplus can be primarily attributed to deposit growth outpacing credit growth persistently. The bank CDs have reduced by over 70.0% on y-o-y basis, due to surplus liquidity in the system. However, government borrowings (Central: Rs.33,000 crore and State: Rs.41,402 crore) limited the banking system liquidity surplus.
- As given in figure 3, time deposits account for 87.7% of aggregate deposits (88.1% share as on March 27, 2020) grew at a slower pace compared to demand deposits, which accounted for the balance 12.3% (11.9% share as on March 27, 2020).

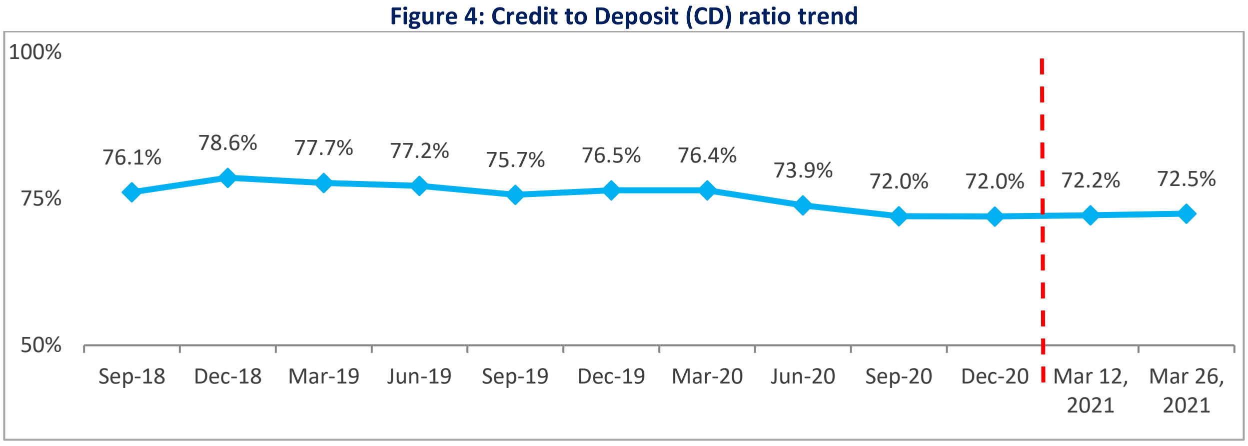
Figure 3: Demand Deposits and Time Deposits growth trend

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 12, 2021	Mar 26, 2021
Demand Deposits	13.1	11.9	15.1	12.9	14.1	13.5	16.2	14.5	15.8	15.7	17.0	18.6
% growth y-o-y	5.9%	4.9%	10.3%	9.6%	7.6%	13.8%	7.0%	12.7%	11.9%	15.7%	16.4%	15.1%
Time Deposits	104.9	106.3	110.6	112.0	115.0	116.5	119.5	124.1	126.9	129.2	132.6	132.5
% growth y-o-y	8.4%	9.7%	10.0%	10.1%	9.6%	9.7%	8.1%	10.8%	10.3%	10.8%	11.6%	10.9%

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 72.5%, improved marginally as compared to last fortnight but remained low compared to March 2020, 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 January 29, 2021 level as per latest data released by RBI) for the fortnight ended March 26, 2021, then the CD ratio would be around 78%.

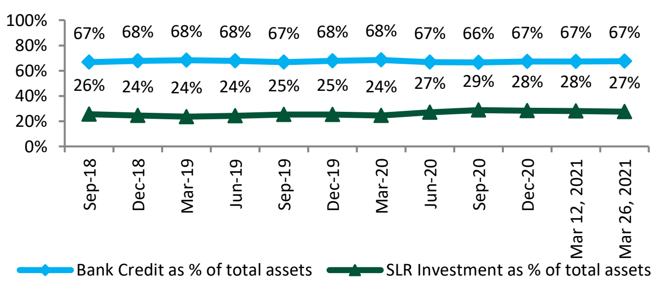
Figure 4: Credit to Deposit (CD) ratio trend



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 largely 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 Mar-20.

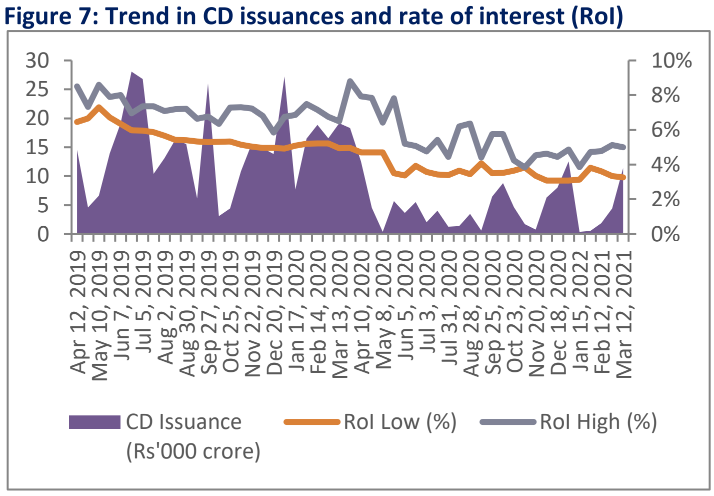
- Considering credit investments to be at Rs.8.3 lakh crore (As on January 29, 2021), bank credit (including credit investments) to total assets would have been around 73% for the fortnight ended March 26, 2021.
- Proportion of SLR investment to total assets declined (by 1%) as compared with last fortnight. In absolute terms, SLR investments grew by 20.8% YoY as compared with a growth of 19.0% in the previous fortnight and 9.2% 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.

O/s Level of CDs increased, while CPs declined over last fortnight

Figure 6: Certificates of Deposit Outstanding

Fortnight ended	Amount Outstanding (Rs'000 crore)	Y-o-Y growth %
Jun 22, 2018	174.5	57.0%
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%
Dec 18, 2020	68.8	-57.9%
Feb 26, 2021	56.4	-69.7%
Mar 12, 2021	57.4	-67.0%

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

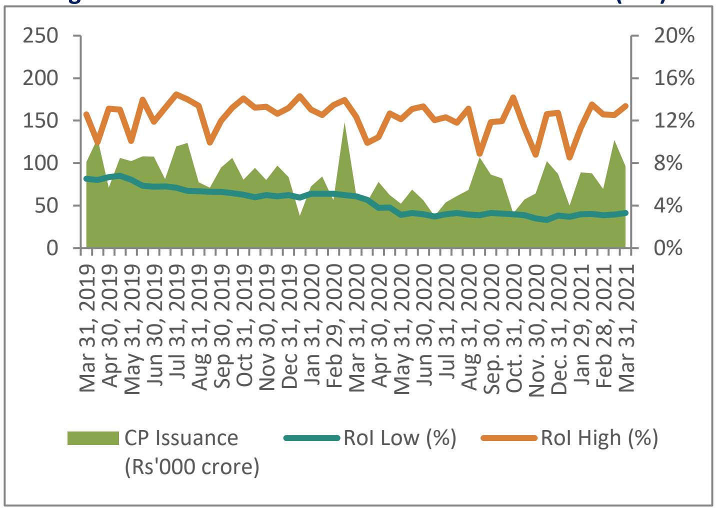


Note: The quarter-end data reflect the last fortnight data of that particular quarter; Source: RBI

Figure 8: Commercial Paper Outstanding

Fortnight ended	Amount Outstanding (Rs'000 crore)	Y-o-Y growth %
Jun 30, 2018	491.8	37.2%
Sep 30, 2018	556.2	16.0%
Dec 31, 2018	498.7	6.2%
Mar 31, 2019	483.1	11.5%
Jun 30, 2019	503.9	-10.5%
Sep 30, 2019	459.7	-22.7%
Dec 31, 2019	414.9	-25.1%
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. 15, 2021	403.4	-0.4%
Mar. 31, 2021	364.4	5.8%

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
On Tap Targeted Long-Term Repo Operations – Extension of Deadline	• The on Tap TLTRO Scheme, which was made available up to March 31, 2021, is now being further extended by a period of six months i.e., up to September 30, 2021 with a view to increasing the focus of liquidity measures on revival of activity in specific sectors.
Priority Sector Lending (PSL) - Lending by banks to NBFCs for On-Lending	• With a view to ensure continued availability of credit to these sectors to aid faster economic recovery, it has been decided to extend the PSL classification for lending by banks to NBFCs for on-lending by six months i.e. up to September 30, 2021.
Enhancement of limit of maximum balance per customer – Payments Banks (PBs)	• Considering the progress made by PBs in furthering financial inclusion and with the objective of giving more flexibility to the PBs, it has been decided to enhance the limit of maximum balance at the end of the day from Rs.1 lakh to Rs.2 lakh per individual customer of PBs.
External Commercial Borrowings (ECB) Policy – Relaxation in the period of parking of unutilised ECB proceeds in term deposits	• With a view to providing relief to the ECB borrowers affected by the Covid-19 pandemic, it has been decided to relax the above stipulation as a one-time measure. • Accordingly, unutilised ECB proceeds drawn down on or before March 01, 2020 can be parked in term deposits with AD Category-I banks in India prospectively for an additional period up to March 01, 2022.
Priority Sector Lending (PSL) – Increase in limits for bank lending against Negotiable Warehouse Receipts (NWRs) / electronic Negotiable Warehouse Receipts (eNWRs)	• With a view to ensure greater flow of credit to the farmers against pledge/hypothecation of agricultural produce, and to encourage use of NWR/eNWR issued by regulated warehouses as a preferred instrument for availing such finance by the farmers, it has been decided to enhance the PSL limit for loans against NWRs/eNWRs from Rs 50 lakh to Rs 75 lakh per borrower. • The PSL limit backed by the warehouse receipts other than NWR/eNWR will continue to be Rs 50 lakh per borrower.
Asset Classification and Income Recognition following the expiry of Covid-19 regulatory package	• All lending institutions shall immediately put in place a Board-approved policy to refund/adjust the 'interest on interest' charged to the borrowers during the moratorium period, i.e. March 1, 2020 to August 31, 2020. • For the period, commencing September 1, 2020, asset classification for all such accounts shall be as per the applicable IRAC Norms.
Liquidity Facility for All India Financial Institutions	• In consonance with the policy objective of nurturing the still nascent growth impulses, it has been decided to extend fresh support of Rs 50,000 crore to the AIFIs for new lending in 2021-22.

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