Credit Offtake Continues to Outpace Deposit Growth, Hits 7-Year High

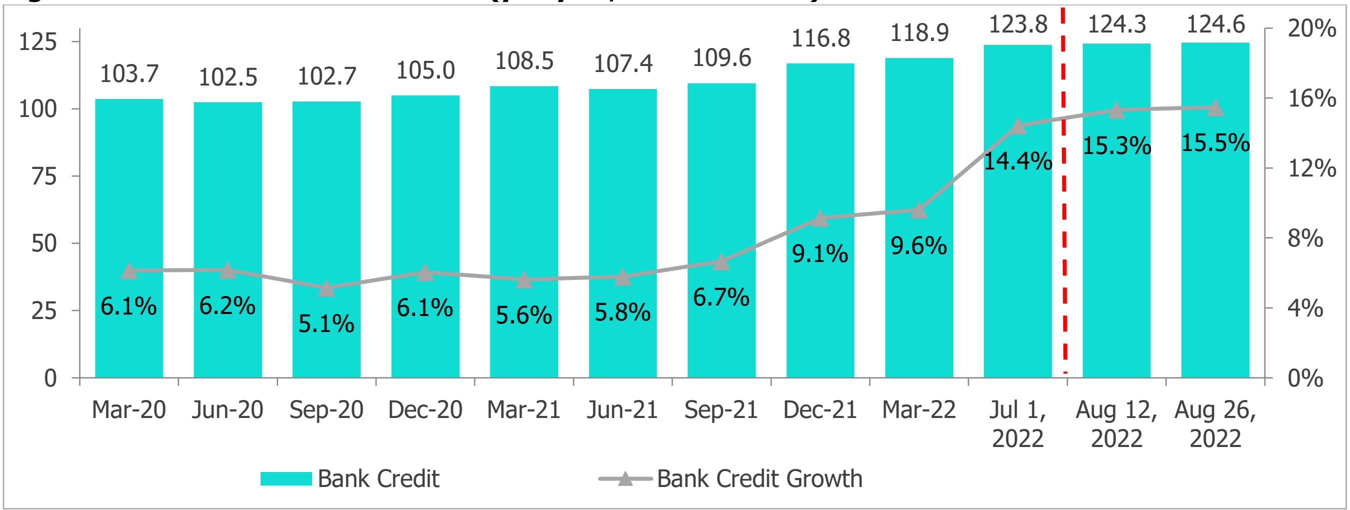
September 12, 2022 | BFSI Research

Synopsis

- Credit growth has maintained its growth momentum driven by sustained retail and rising corporate loan growth. This rise is likely to continue in FY23 however, it could be tempered by inflation ad rate hikes.
- Deposits have been growing albeit at a lower rate than credit offtake. It has gained prominence considering tightening liquidity conditions.

Bank Credit Growth Continues its Upswing

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

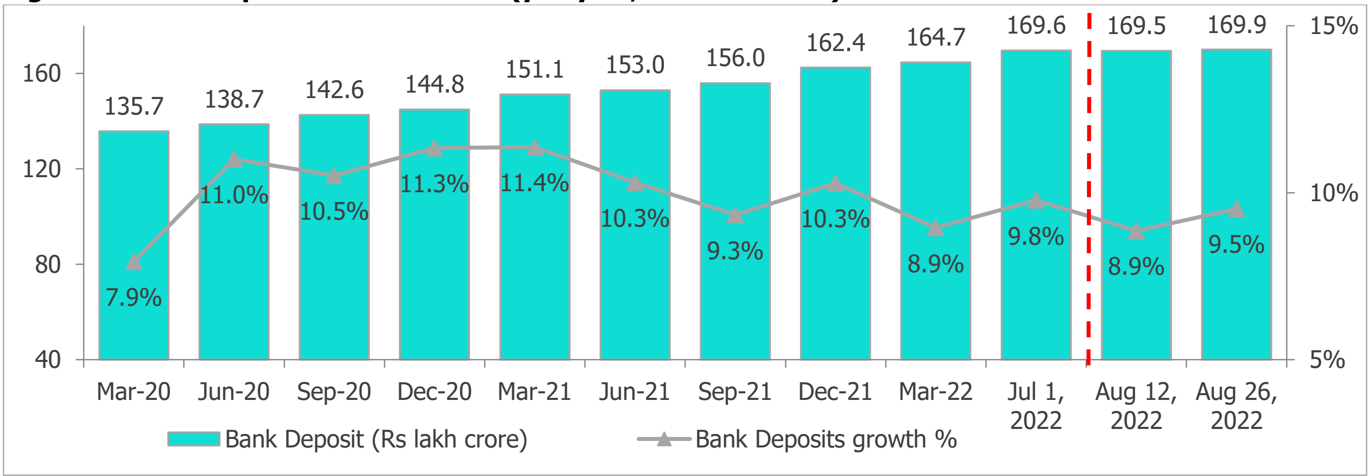
- Credit offtake continued to witness increased growth at 15.5% year-on-year (y-o-y), expanding by a significant ~980 basis points (bps), for the fortnight ended August 26, 2022, up from 5.6% in the year-ago period (reported August 27, 2021) and increasing sequentially by 0.2% from the immediate fortnight (August 12, 2022). In absolute terms, credit outstanding stood at Rs.124.6 lakh crore as of August 26, 2022, growing by Rs.16.7 lakh crore over the last 12 months.

- The growth numbers have risen steadily since the end of January. Small ticket loans, credit card receivables, housing, vehicle, and consumer durable loans continue to account for the growth of retail credit. Apart from personal loans (driven by the miniaturization of credit), the major driver of this growth has been the MSME segment, and the large segment growth turned positive.

- Retail loan growth (mortgages, personal loans etc.) has been strong due to underlying demand, credit outstanding of the retail segment saw a robust growth at 18.8% y-o-y in July 2022 due to growth in small ticket loans, credit card receivables, housing, vehicle, and consumer durable loans. Corporate loans indicate a shift from debt markets to bank borrowings. This shift can be attributed to companies optimizing their borrowing cost. The credit outstanding of the industry segment registered a growth of 10.5% y-o-y in July 2022 from a flat growth rate of 0.4% in the year-ago period due to demand for working capital in an elevated inflationary situation. The rise was on account of robust growth in the micro and small (28.3%), and medium (36.8%) enterprise segments, while the large segment showed a growth of 5.2% from a drop of 3.8% in the year-ago period. Credit for the services sector also accelerated by 16.5% y-o-y in June 2022 from a growth of 3.8% in the year-ago period primarily due to a rise in NBFCs and trade segments.

- In the short term, given the approaching festival season, the credit growth is likely to remain elevated. After a modest credit growth in recent years, the outlook for bank credit offtake is positive due to the economic expansion tracking nominal GDP growth, rise in government & private capital expenditure, rising commodity prices, implementation of the PLI scheme, the extension of ECLGS for MSME and retail credit push. The medium-term prospects look promising with diminished corporate stress and a substantial buffer for provisions. However, inflation remains a key risk. Even as RBI has managed domestic inflation to some extent, internationally inflation has remained high despite hawkish policies. This may lead to demand issues internationally causing second-order effects in India. Hence, CareEdge estimates the credit growth to be in the range of 12%-13% during FY23, however, rate hikes could adversely impact credit growth.

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



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

- Deposits stood at Rs.169.9 lakh crore for the fortnight ended August 26, 2022, registering a growth of 9.5% y-o-y. Meanwhile, in absolute terms, bank deposits have increased by Rs.14.8 lakh crore over the last twelve months. The deposits increased by 0.3% from the immediately preceding fortnight (reported on August 12, 2022). The time deposits grew by 8.3% y-o-y, while demand deposits rose by 15.4% in the reporting fortnight when compared with 8.6% and 16.2% y-o-y, respectively, reported in the fortnight ended August 27, 2021.

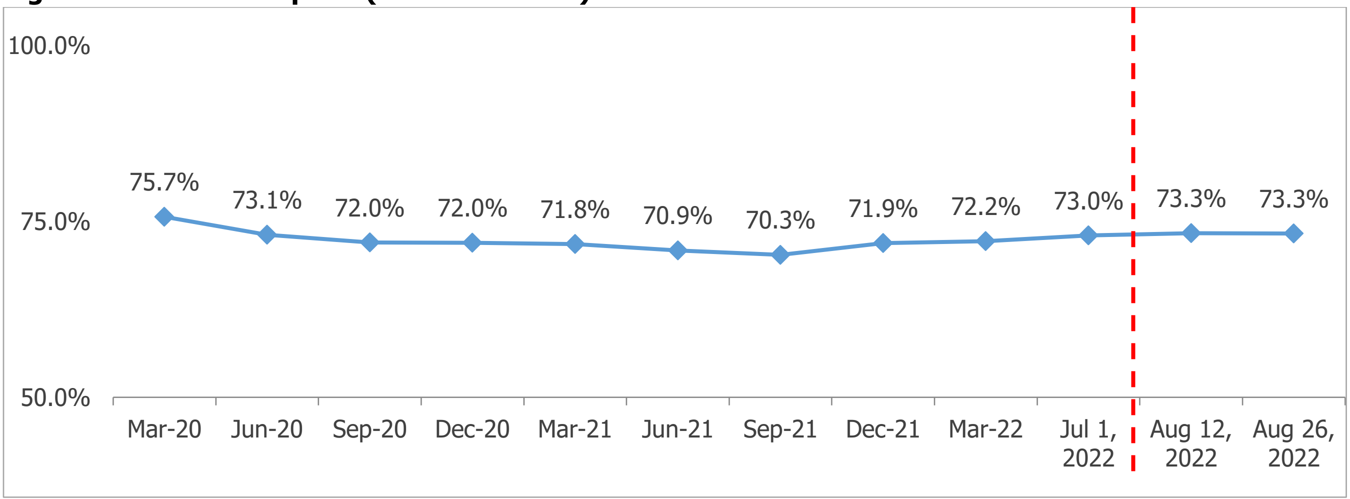
- The banking system has been sustaining a liquidity surplus since the initial months of FY20 because of a faster build-up of deposits versus credit disbursement, however, this trend has reversed in the last few months. Currently, liquidity has generally been trending down with RBI seeking to reduce excess liquidity from the system to manage inflation.

- This widening gap between deposit and credit growth may lead to supply-side issues thereby eventually constraining credit growth. The bulk deposit and retail deposit rates have already gone up but remain around the same level as the inflation, thereby indicating that depositors would not be earning positive interest rates. Hence, CareEdge anticipates that the deposit rate increase would start to gain further given the fact that the credit growth has picked up, banks look to shore up their deposit base and the liquidity is narrowing in the banking system.

- The Credit to Deposit (CD) ratio which has been increasing since October 2021, stood at 73.3%, expanding by around 380 bps y-o-y from the similar fortnight last year (reported August 27, 2021) and remained at a similar level compared to the immediate fortnight (reported August 12, 2022) due to faster growth in credit as compared to deposits.

- If we assume credit investments to be at Rs. 7.97 lakh crore (as of June 17, 2022, as per the latest data released by RBI) for the fortnight ended August 12, 2022, then the CD ratio would be around 78%, higher than the 75.1% in the similar fortnight last year (reported August 27, 2021) due to higher credit growth and was tempered by a fall in investments.

Figure 3: Credit to Deposit (CD Ratio Trend)



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

Figure 4: Trend in y-o-y movement (In Rs lakh crore)

	Aug. 28, 2020	Aug. 27, 2021	Aug. 26, 2022
Credit	5.3	5.8	16.7
Deposit	14.0	13.4	14.8

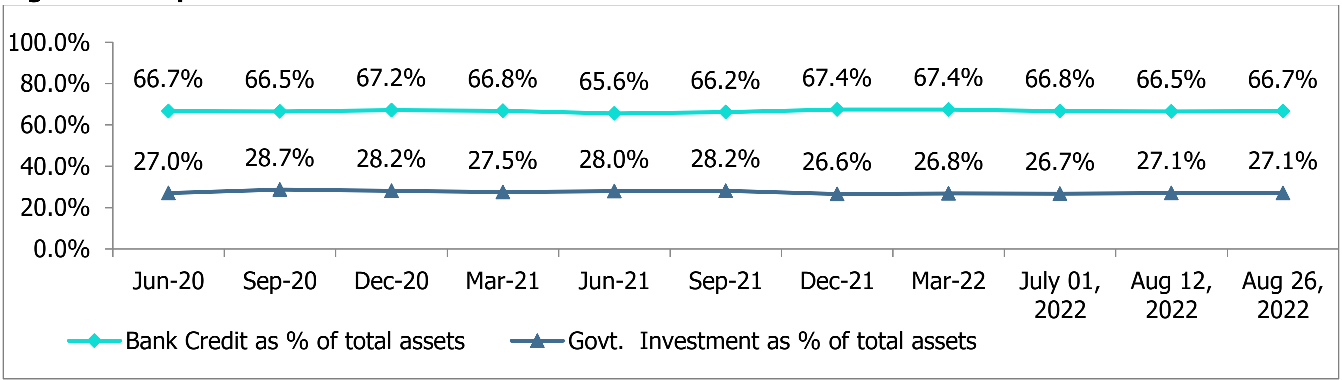
Source: RBI, CareEdge

- For the last few years, deposits had been growing at a fast clip, especially when compared to credit. However, in the current year, with the reversal of this trend, the y-o-y change in credit has outpaced deposits.

- Apparently, a significant part of the funding gap has been met by the mobilisation of Certificates of Deposit (CD). The outstanding CDs stand at Rs 2.37 lakh crores as of August 26, 2022, as compared to just Rs 0.6 lakh crore a year ago.

Proportion of Govt. Investments to Total Assets Stays Put

Figure 5: Proportion of Govt. 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, CareEdge

- The share of bank credit to total assets stood at 66.7%, remaining nearly constant on a sequential basis compared to the fortnight ended August 12, 2022, and increased by nearly 100 bps when compared with the same fortnight last year (reported August 27, 2021) due to higher credit growth.
- Considering credit investments to be at Rs. 7.97 lakh crore (as of June 17, 2022, as per the latest data released by RBI), bank credit (including credit investments) to total assets would have been around 70.9% for the fortnight ended August 26, 2022, which was marginally higher by around 20 bps to the previous fortnight (reported August 12, 2022) and from the fortnight ended on August 27, 2021, due to faster growth in credit as compared to total assets, which however was partially offset by a drop in credit investment (credit investment currently stood at Rs.7.97 lakh crore down from Rs.8.6 lakh crore).
- Proportion of Govt. investment to total assets remained flat for the fortnight ended August 26, 2022, compared to the previous fortnight (reported August 12, 2022). The Govt. investments stood at Rs.50.7 lakh crore as of August 26, 2022, reporting a 10.3% y-o-y growth. Meanwhile, it declined by 0.1% from the immediate fortnight that ended on August 12, 2022.

O/s CDs Remain Elevated, while O/s CPs Stay Steady

Figure 6: 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%
July 29, 2022	249.1	287.3%
Aug 12, 2022	242.2	281.4%
Aug 26, 2022	237.1	269.3%

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

Figure 7: Trend in CD Issuances (Rs'000, crore) and RoI

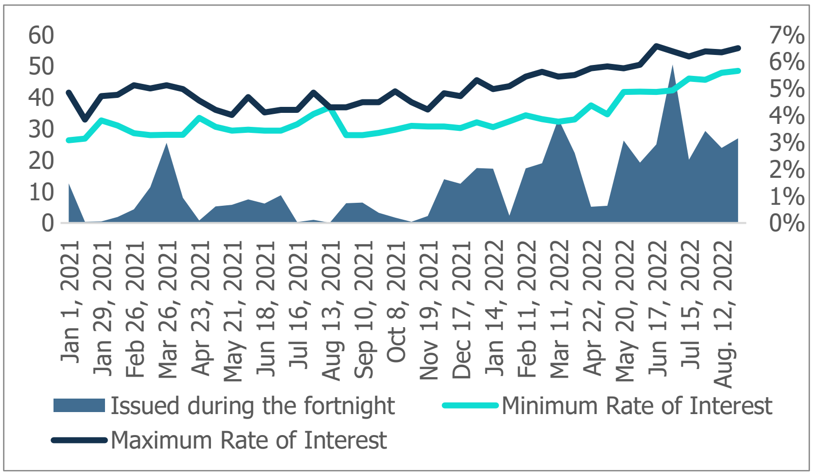
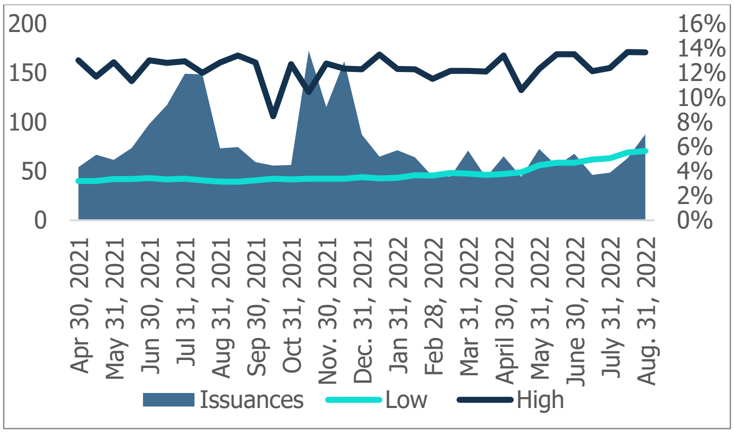


Figure 8: Commercial Paper Outstanding

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%
July 31, 2022	374.2	-9.8%
Aug 15, 2022	411.2	-2.0%
Aug 31, 2022	410.1	4.7%

Figure 9: 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
Review of Prudential Norms – Risk Weights for Exposures guaranteed by Credit Guarantee Schemes (CGS)	Banks would be permitted to apply zero per cent risk weights in respect of claims on Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), Credit Risk Guarantee Fund Trust for Low Income Housing (CRGFTLIH) and individual schemes under National Credit Guarantee Trustee Company Ltd (NCGTC) only if the guarantee is timely, unconditional and would be restricted to the maximum permissible claim, while the residual exposure shall be subjected to applicable risk weight.
Guidelines on Digital Lending	The new digital lending framework would apply to both existing digital loan customers and new customers who will apply for a digital loan in the future and aim to end regulatory arbitrage and protect customers. The entities would have time till November 30, 2022, to put in place adequate systems and processes to ensure that 'existing digital loans' are following these guidelines.

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