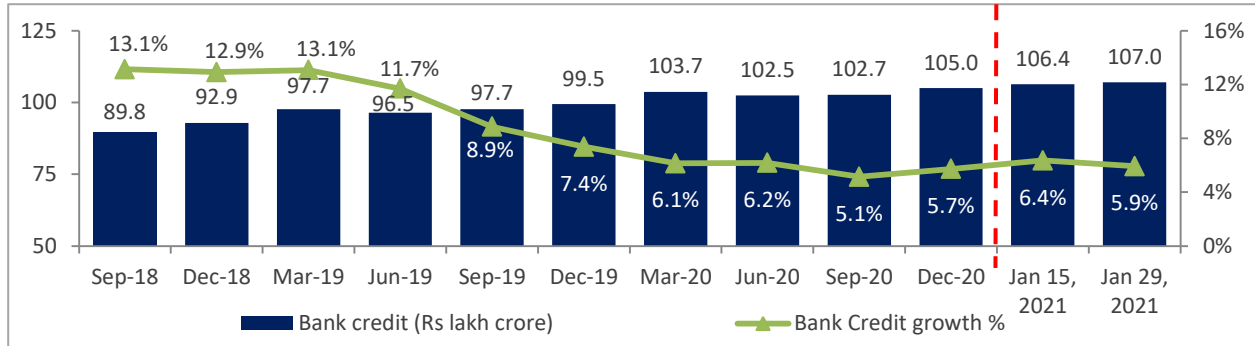


**Growth in deposits and credit declined vs. growth in the last fortnight**

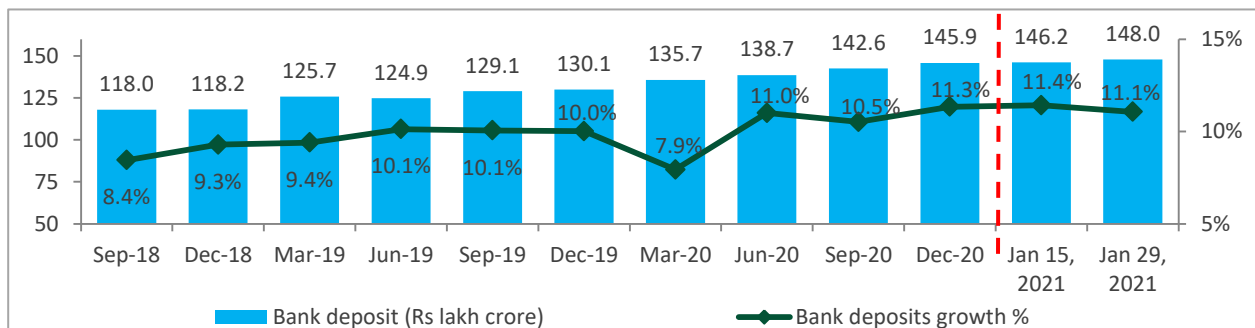
**Figure 1: Growth of Bank Credit (y-o-y growth %)**



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

- The bank credit growth decelerated to 5.9% for the fortnight ending Jan 29, 2021, compared with 6.4% growth registered during fortnight ended January 15, 2021 and 8.3% growth (January 31, 2020) witnessed in the same period last year. Furthermore, the credit growth is also lower by ~60 bps than the levels observed in early months of pandemic (e.g. average bank credit growth in March and April 2020 was ~6.5%). The incremental credit growth has been lower during last two fortnights, 3.2% for the fortnight ended January 29, 2021 and 2.6% for the fortnight ended January 15, 2021 compared with last year (~3.5% incremental growth registered during fortnight ended January 31, 2020). In absolute terms, incremental bank credit increased by around Rs.3.3 lakh crore in the last fortnight ending Jan 29, 2021. The credit growth is largely supported by the growth in retail segment led by various offers announced by banks to push retail housing finance.

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



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

- Deposit growth declined marginally during the fortnight ended January 29, 2021 compared with 11.4% during the fortnight ended January 15, 2021, but increased compared to previous year (9.9% growth during fortnight ended January 31, 2020). Moreover, as on January 29, 2021 the liquidity surplus in the banking system stood at Rs.5.76 lakh crores. The liquidity surplus can be ascribed to deposit growth outpacing credit growth persistently. However, government borrowings (Central: Rs. 20,920 crores and States: Rs. 28,456 crores) limited the banking system liquidity surplus during the fortnight. However, banking system liquidity is expected to remain in a surplus position aided by sustained growth in bank deposits as against slower growth in the bank credit. However, going forward the banking system liquidity surplus could witness moderation owing to additional government borrowing program announced in the budget.
- As given in Figure 3, time deposits account for 88.6% of aggregate deposits (89.3% share as on January 31, 2020) grew at a slower pace compared to demand deposits which account for the balance 11.4% (10.7% share as on January 31, 2020).

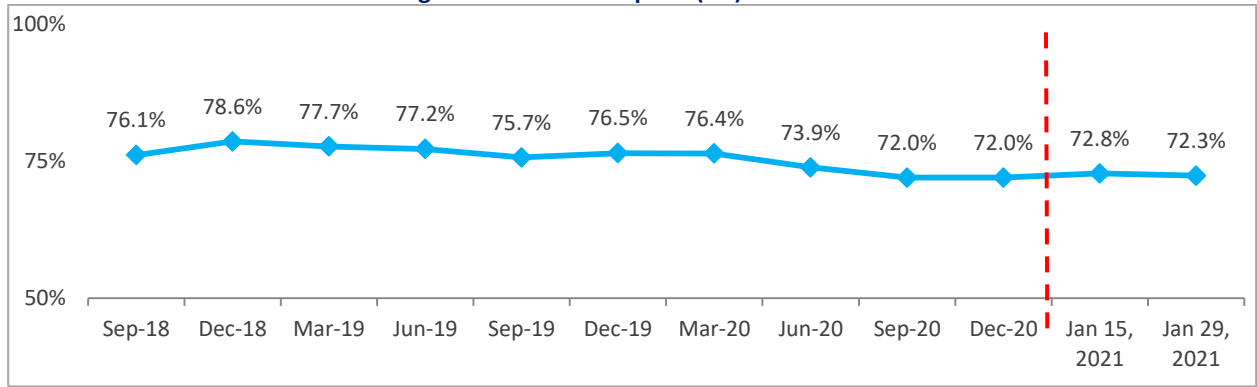
**Figure 3: Demand Deposits and Time Deposits growth trend**

Rs in lakh crore	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Jan 15, 2021	Jan 29, 2021
Demand Deposits	13.1	11.9	15.1	12.9	14.1	13.5	16.2	14.5	15.8	15.7	15.7	16.9
% growth y-o-y	5.9%	4.9%	10.3%	9.6%	7.6%	13.8%	7.0%	12.7%	11.9%	15.7%	18.0%	18.3%
Time Deposits	104.9	106.3	110.6	112.0	115.0	116.5	119.5	124.1	126.9	129.2	130.5	131.1
% growth y-o-y	8.4%	9.7%	10.0%	10.1%	9.6%	9.7%	8.1%	10.8%	10.3%	10.8%	10.7%	10.2%

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

- The Credit to Deposit (CD) ratio largely stood at similar levels as compared to last fortnight, but remained low compared to March 2020 as well as last year’s level; owing to a faster rise in deposits and slower growth in credit. On the other hand, if we assume credit investments (includes regular credit investments and investments due to TLTROs, PCGS, etc.) to be at Rs.8.3 lakh crores (at November 2020 level as per latest data released by RBI) for the fortnight ended January 29, 2021, then the CD ratio would be ~78%. On the other hand, if we assume the CD ratio to be constant at 76.0% (which was last observed in Mar-20) for the fortnight ended January 29, 2021, the incremental lending (considering only bank credit) would have been higher by approximately Rs.5.4 lakh crores, roughly equivalent to surplus liquidity held by banking system.

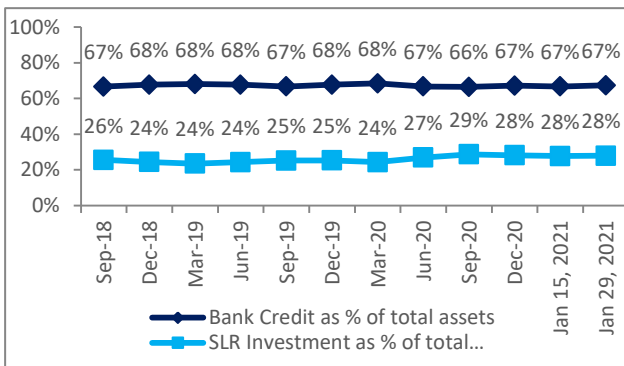
Figure 4: Credit to Deposit (CD) ratio trend



Note: The quarter end data reflects 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 5: Proportion of SLR Investment and Bank Credit to Total Assets



Note: The quarter end data reflects 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% for the last two fortnights but has declined (by 1%) as compared to Mar-20.

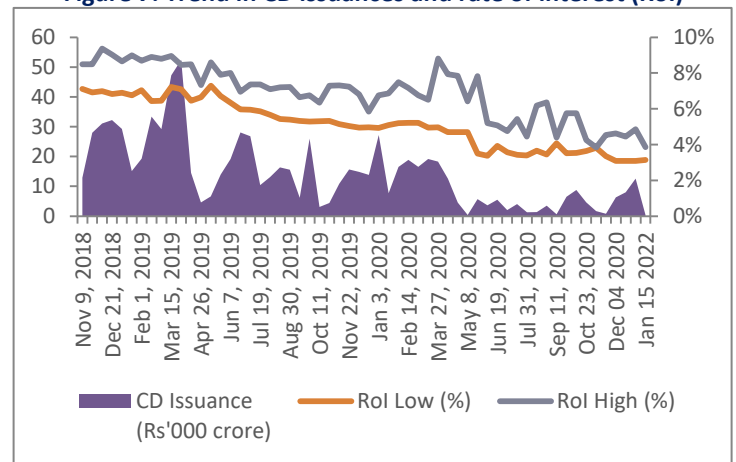
- Considering credit investments to be at Rs.8.3 lakh crore (November 2020 level), bank credit (including credit investments) to total assets would have been ~73% for the fortnight ended January 29, 2021.
- Proportion of SLR investment to total assets stood stable at 28% during last two fortnights. In absolute terms the growth of SLR investments moderated to 18.7% YoY as compared with a growth of 19.1% in the previous fortnight (11.0% 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. 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 declined over last fortnight while that of CPs increased

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%
Jan 1, 2021	75.0	-57.3%
Jan 15, 2021	68.0	-61.9%

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

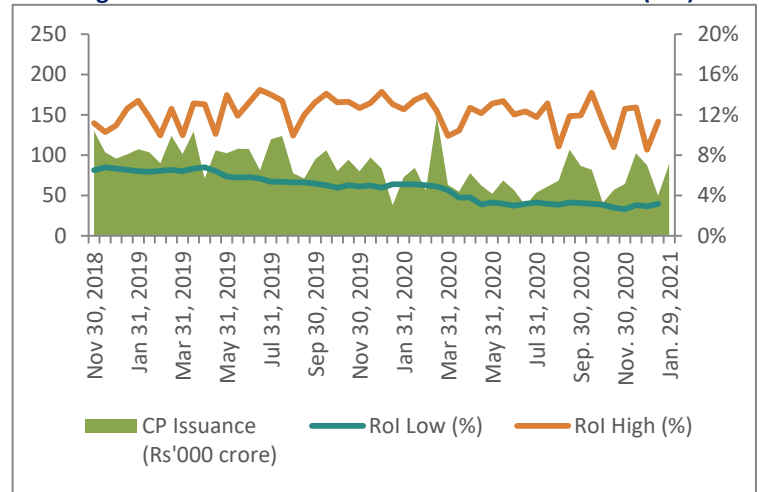


Note: The quarter end data reflects the last fortnight data of that particular quarter; Source: RBI

Figure 8: Commercial Paper Outstanding

Fortnight ended	Amount Outstanding (Rs'000 crore)	Y-o-Y growth %
Jun 30, 2018	491.8	49.3%
Sep 30, 2018	556.2	41.4%
Dec 31, 2018	498.7	21.9%
Mar 31, 2019	483.1	29.7%
Jun 30, 2019	503.9	2.5%
Sep 30, 2019	459.7	-17.3%
Dec 31, 2019	414.9	-16.8%
Mar 31, 2020	344.5	-28.7%
Jun 30, 2020	391.5	-22.3%
Sep. 30, 2020	362.3	-21.2%
Jan. 15, 2021	386.2	-6.9%
Jan. 29, 2021	410.7	-5.6%

Figure 9: Trend in CP issuances and rate of interest (RoI)



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

## Select RBI Announcements

Announcement	Details
<b>SLR Holdings in Held to Maturity category</b>	<ul style="list-style-type: none"> <li>In order to provide certainty to the market participants in the context of the borrowing programme of the centre and states for 2021-22, RBI decided to extend the dispensation of enhanced HTM of 22% up to March 31, 2023 (from earlier March 31, 2022) to include securities acquired between April 1, 2021 and March 31, 2022.</li> <li>The HTM limits would be restored from 22% to 19.5% in a phased manner starting from the quarter ending June 30, 2023. It is expected that banks will be able to plan their investments in SLR securities in an optimal manner with a clear glide path for restoration of HTM limits.</li> </ul>
<b>Restoration of cash reserve ratio (CRR) in two phases to 4%</b>	<ul style="list-style-type: none"> <li>The CRR will go up from 3% to 3.5% effective from March 27, 2021 and to 4% effective from May 22, 2021. Previously, the CRR was relaxed from 4% to 3% in March 2020.</li> </ul>

## Union Budget 2021-22 (Announcement on Banking Industry)

Announcement
<ul style="list-style-type: none"> <li>Asset reconstruction company (ARC) to be set up to take care of NPAs currently in the book of banks</li> </ul>
<ul style="list-style-type: none"> <li>Divest government stake in two Public Sector Banks (PSBs), apart from previously announced IDBI Bank</li> </ul>
<ul style="list-style-type: none"> <li>Public Sector Banks (PSBs) recapitalization plan at Rs 20,000 crore</li> </ul>
<ul style="list-style-type: none"> <li>Streamline Provisions of the DICGC Act so that deposit holders can access their money faster</li> </ul>
<ul style="list-style-type: none"> <li>Agriculture credit availability target set at Rs 16.5 lakh crores (vs. Rs 15 lakh crore in the previous year higher by 10% vs increase of 25% last year)</li> </ul>

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