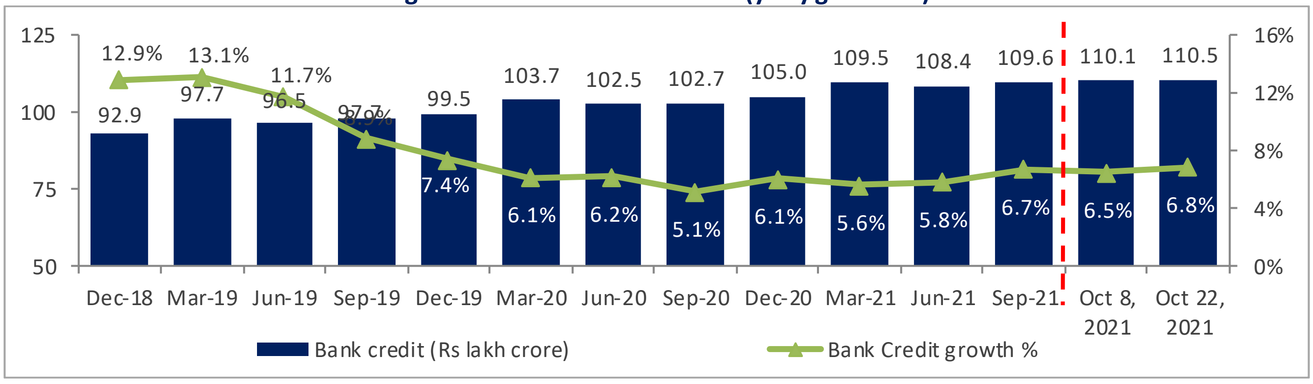
# Update – Growth in Deposits and Credit

November 13, 2021

## Credit Growth Improves

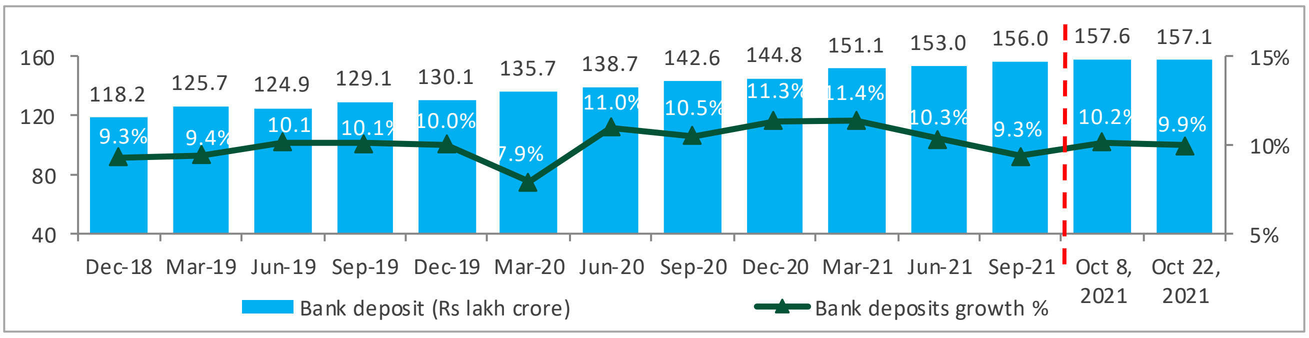
**Figure 1: Growth of Bank Credit (y-o-y growth %)**




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

- The y-o-y bank credit grew by 180 bps from the year ago level of 5.1% (fortnight ended October 23, 2020) and 40 bps from the previous fortnight. The y-o-y increase reflects the low base effect, festival season spending, and the easing of lockdown restrictions across regions in India. In absolute terms, credit offtake increased by Rs.7.1 lakh crore over the last twelve months and by Rs.0.3 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 improved gradually from 5.7% (fortnight, June 04, 2021) to 6.8% (fortnight, October 22, 2021). The overall non-food credit growth continues to be driven by retail, and agriculture & allied activities segments.
- With the onset of the festive season, bank credit has improved led by growth in the retail segment. This rise has been supported with rate cuts by banks to push retail credit as several banks are offering home loans at record low-interest rate ahead of the festive season. E.g. in October 2021, banks like PNB has cut down its benchmark lending rate by 5 basis points to 6.50 per cent and Union Bank of India (UBI) has slashed the interest rate on home loans by 40 basis points.
- 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 (sanctions permitted till March 2022 and disbursements till June 2022), 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 %)**

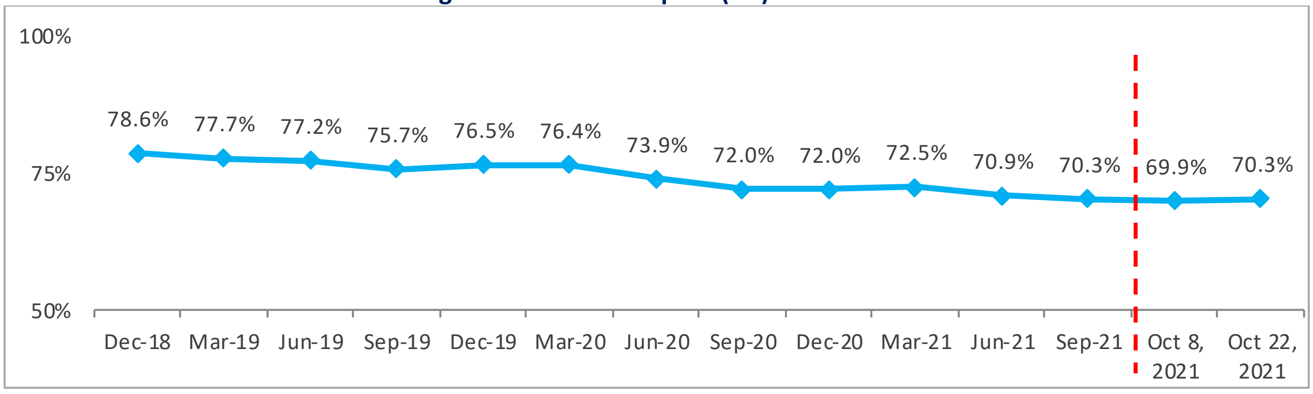



Note: The quarter-end data reflect the last fortnight data of that particular quarter; Source: RBI, CARE Ratings

- Deposits grew by 9.9% y-o-y in the last fortnight ended October 22, 2021. However, the growth rate declined marginally by 20 bps each when compared with the previous fortnight (October 08, 2021) and the last year fortnight (October 23,2021). In absolute terms, the bank deposits have increased by Rs.14.2 lakh crore over the last twelve months. If we compare it with the previous fortnight, it decreased by Rs.0.34 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 coupled with an active equity market. Furthermore, to support NIMs and cover provisions, banks have reduced deposit rates in September 2021. Based on the results released by banks for the quarter ended Sept-2021, NIM of ICICI Bank improved to 4.0% for the Q2FY22 from 3.57% in the previous quarter (Q1FY22) while SBI's NIM also improved to 3.5% for the Q2FY22 from 3.15% in the previous quarter (Q1FY22).
- The banking system liquidity surplus as on October 22, 2021, stood at Rs.6.85 lakh crore (Rs.8.11 lakh crores as on October 08, 2021) and was the lowest since mid-August 2021. The liquidity surplus can be primarily attributed to deposit growth consistently outpacing credit growth. However, the liquidity surplus has narrowed (from over Rs.8 lakh crore at the start of October 2021) which can be partly attributed to the excess liquidity of banks being tied up in the VRRR auctions (variable reverse rate repo auctions carrying tenure of 8 to 14 days).
- Bank deposits have continuously grown faster than bank credit in every fortnight since late September 2019. 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%, improved by 40 bps as compared to last fortnight, while it declined by 203 bps as compared with previous year (72.3% as on October 24, 2020). On the other hand, if

we assume credit investments to be at Rs.8.6 lakh crores (As on August 27, 2021, as per latest data released by RBI) for the fortnight ended October 22, 2021, then the CD ratio would be around 75.8%. Considering the addition in credit outstanding over the last 12 months to be at Rs.7.1 lakh crore over additions in deposits (Rs.14.2 lakh crore), the proportion would have been at around 49.8% which is higher than previous fortnight of 46.8% (addition in credit outstanding plus additions in credit investment over additions in deposits).

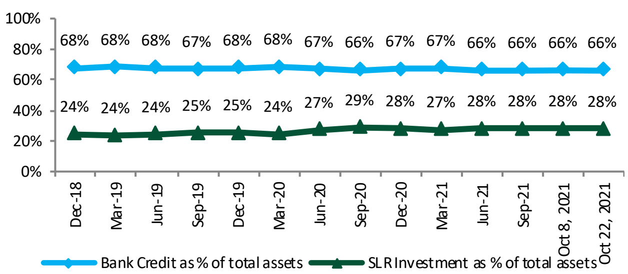
**Figure 3: Credit to Deposit (CD) ratio trend**




Note: The quarter-end data reflect the last fortnight data of that 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

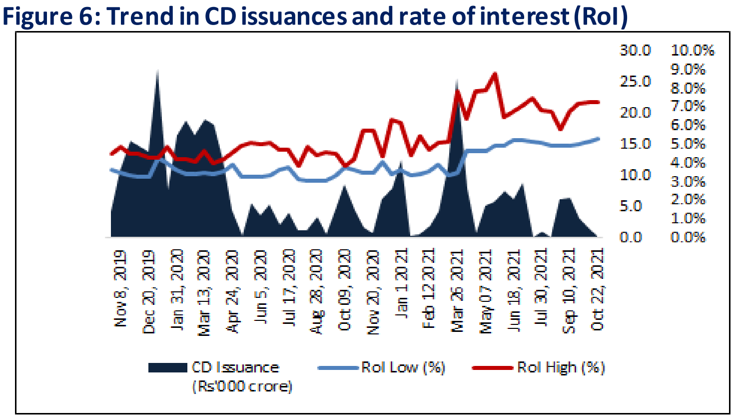
- The share of bank credit to total assets stood stable in the fortnight ended October 22, 2021, as compared with the previous fortnight.
- Considering credit investments to be at Rs.8.6 lakh crore (as on August 27, 2021), bank credit (including credit investments) to total assets would have been around 71.5% for the fortnight ended October 08, 2021.
- Proportion of SLR investment to total assets has remained at similar levels compared to the previous fortnight. In absolute terms, SLR investments grew by 4.4.% y-o-y (slower growth which can be partly ascribed to base effect) as compared with a growth of 20.5% a year ago (remained at similar level in the previous fortnight, October 08, 2021). 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 hasbeen 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 CDs and CPs declined over last fortnight

**Figure 5: Certificates of Deposit Outstanding**

| Fortnight ended | Amount Outstanding (Rs'000 crore) | Y-o-Y growth % |
|---|---|---|
| Mar 27, 2020 | 173.0 | -33.9% |
| 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% |
| Sep 24, 2021 | 60.2 | -20.3% |
| Oct 08, 2021 | 59.2 | -20.9% |
| Oct 22, 2021 | 57.4 | -26.8% |

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

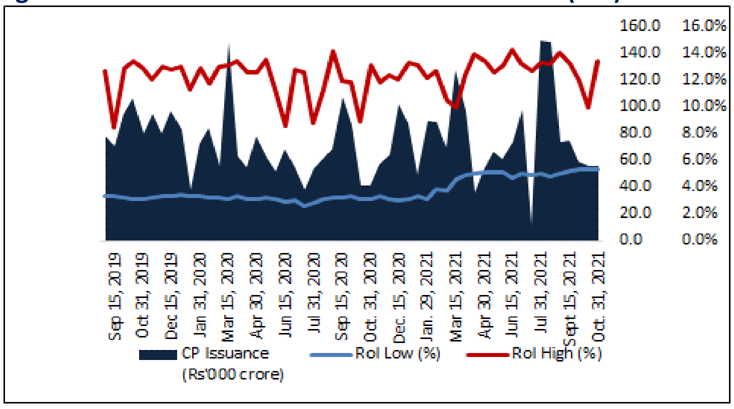



Note: The quarter-end data reflect the last fortnight data of that particular quarter; Source: RBI

**Figure 7: Commercial Paper Outstanding**

| Fortnight ended | Amount Outstanding (Rs'000 crore) | Y-o-Y growth % |
|---|---|---|
| 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% |
| Sep 30, 2021 | 371.0 | 2.4% |
| Oct 15, 2021 | 399.7 | 5.2% |
| Sep 30, 2021 | 371.0 | 2.4% |
| Oct 15, 2021 | 399.7 | 5.2% |
| Oct 31, 2021 | 379.3 | -2.6% |

**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 |
|---|---|
| **RBI issues revised PCA framework for banks** | • "The objective of the PCA framework is to enable supervisory intervention at an appropriate time and require the supervised entity to initiate and implement remedial measures in a timely manner, so as to restore its financial health," the central bank said. |
| **Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances** | • As per Prudential Norms, the income recognition policy should be objective and should enforce that income is recognised based on the record of recovery, instead of any subjective consideration.<br>• The banks are not supposed to charge/ debit interest in any NPA account and for taking to income account.<br>• Banks are required to classify the non-performing assets into three categories, i.e. Sub-standard, Doubtful or Loss Assets, based on the period for which the asset has remained non performing and/ or the dues have remained unrealised.<br>• Also, the Bank Management and Statutory Auditors are responsible for ensuring that requisite/ adequate provisioning has been made. |
| **Opening of Current Accounts by Banks - Need for Discipline** | • The Reserve Bank of India eased current account rules for bank exposures less than Rs 5 crore, allowing lenders to open current account, cash credit and overdraft facilities without any restriction. The regulator asked banks to implement the changes within one month. |

Source: RBI

**Contact:**

| | | | | |
|---|---|---|---|---|
| Sanjay Agarwal | Senior Director | sanjay.agarwal@careratings.com | +91-22- 6754 3582 | +91- 810 800 7676 |
| Saurabh Bhalerao | Associate Director – BFSI Research | saurabh.bhalerao@careratings.com | +91-22-6754 3573 | +91- 900 495 2514 |
| Vijay Singh Gour | Lead Analyst – BFSI Research | vijay.gour@careratings.com | +91-22-6754 3519 | +91- 989 378 9622 |
| Mradul Mishra | (Media Contact) | mradul.mishra@careratings.com | +91-22-6837 4424 | |



**CARE Ratings Limited**
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Connect: