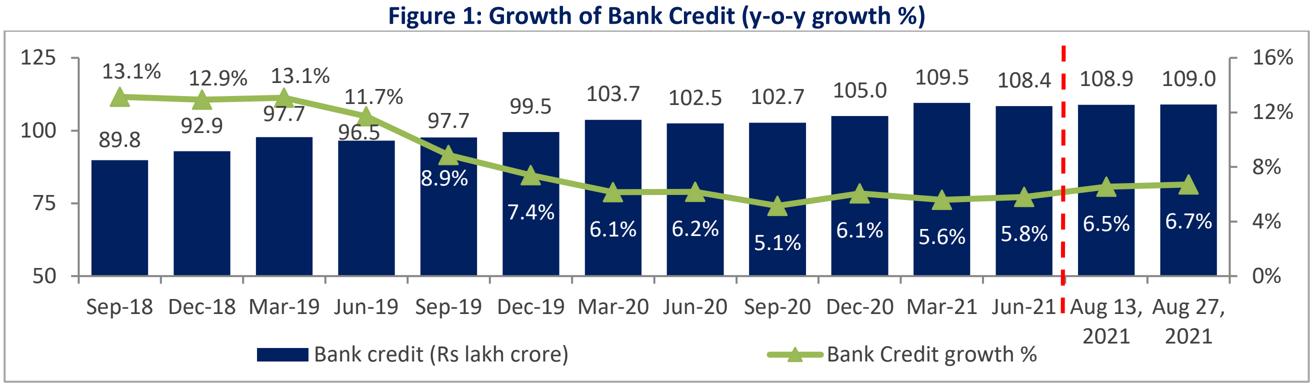
Update – Growth in Deposits and Credit

September 14, 2021

Bank credit growth improved marginally over last fortnight while deposits growth decelerated

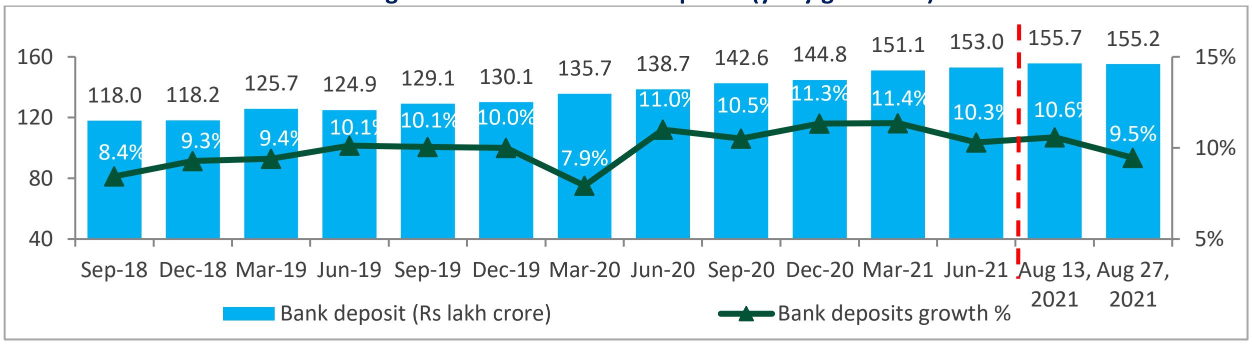
Figure 1: Growth of Bank Credit (y-o-y growth %)



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

- Due to the low base effect and easing of lockdown restrictions across regions in India, the y-o-y bank credit growth rate increased by 20 bps for the fortnight ended August 27, 2021, vs. previous fortnight. If compared with previous year, credit growth rate improved by 120 bps to 6.7% (5.5% for fortnight ended August 28, 2020). In absolute terms, credit offtake increased by Rs.6.8 lakh crore over the last twelve months and by Rs. 0.1 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 this year to curb the spread of coronavirus. However, following the relaxation in lockdown since June 2021 the bank credit growth has been improving gradually. This is expected to be supported with rate cuts by banks to push credit e.g.: banks like Karur Vyas Bank cut 1-year MCLR rate (on m-o-m basis) by 53 bps to 8.23% in Aug-21, IndusInd Bank by 10 bps, and Bank of India, RBL Bank and South Indian Bank by 5 bps respectively.
- With the arrival of the festive season, bank credit is expected to improve further in the coming fortnights led by growth in the retail segment. 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 July 2021. However, slower growth in industry and services segment continues to restrict the overall credit growth.
- 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, 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 %)

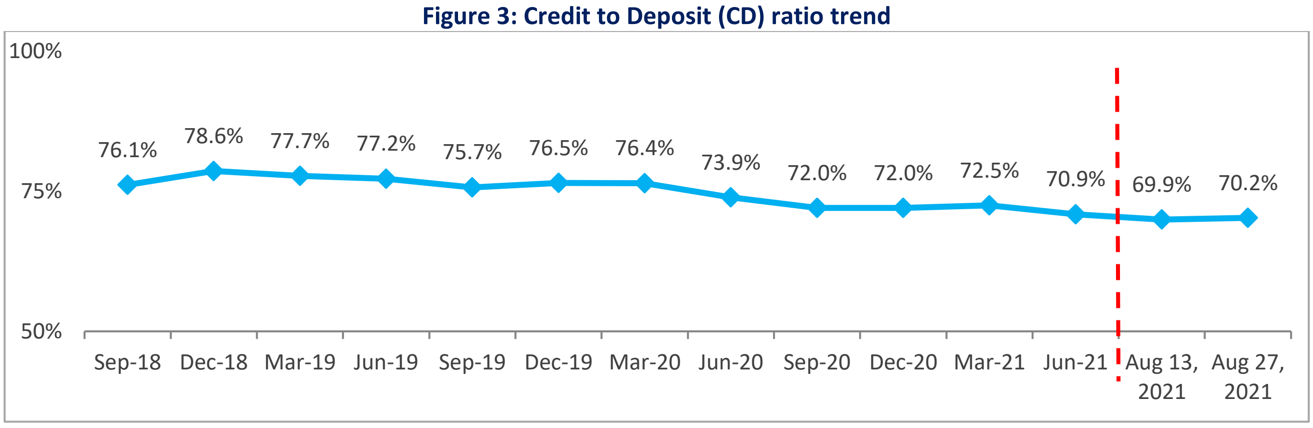


Note: The quarter-end data reflect the last fortnight data of that particular quarter; Source: RBI, CARE Ratings

- Deposit growth decelerated to 9.5% in the fortnight ended August 27, 2021 when compared with previous fortnight as well as last year (9.7% in the fortnight ended August 28, 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 declined by Rs.0.5 lakh crore. The lower growth rate (y-o-y) in deposits can be partly attributed to the base effect and fall in deposit rate of banks (weighted average domestic term deposit rate of SCBs fell by 78 bps between July 2020 to July 2021).
- Moreover, as on August 27, 2021, the liquidity surplus in the banking system stood at around Rs.7.5 lakh crores. 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 70.2%, marginally higher compared to last fortnight, while it declined by 1.8% as compared with previous year (72.0% as on August 28, 2020), owing to slower growth in credit. On the other hand, if we assume credit investments to be at Rs.8.6 lakh crores (at June 2021 level as per latest data released by RBI) for the fortnight ended August 27, 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.6.9 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% as compared with around 46% in previous fortnight (addition in credit outstanding plus additions in credit investment over additions in deposits).

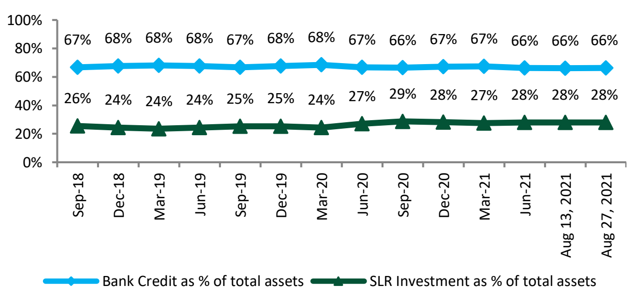
Figure 3: Credit to Deposit (CD) ratio trend



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 August 27, 2021, as compared with the previous fortnight.

- Considering credit investments to be at Rs.8.6 lakh crore (as on Jun 21, 2021), bank credit (including credit investments) to total assets would have been around 72% for the fortnight ended August 27, 2021.

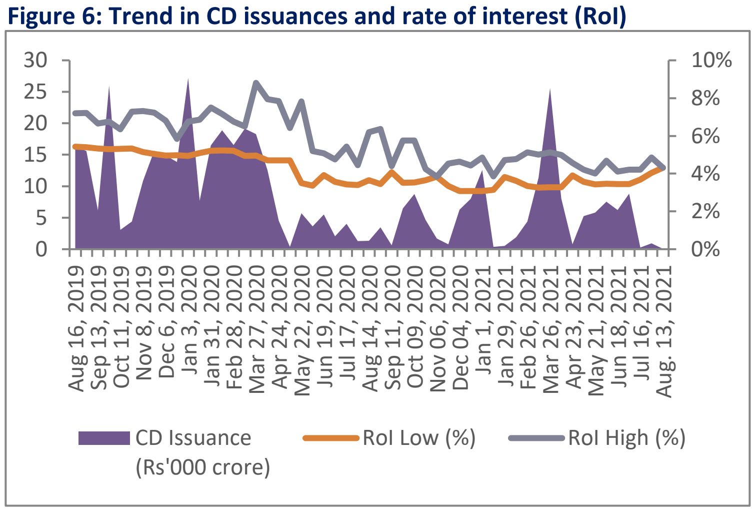
- Proportion of SLR investment to total assets stood at similar levels during the last two fortnights. In absolute terms, SLR investments grew by 5.4% y-o-y (slow growth which can be partly ascribed to base effect) as compared with a growth of 21.7% a year ago and 6.9% in the previous fortnight. RBI 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.

O/s level of CDs and CPs declined over last fortnight

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%
Jul 30, 2021	64.3	-38.6%
Aug. 13, 2021	63.5	-36.4%

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

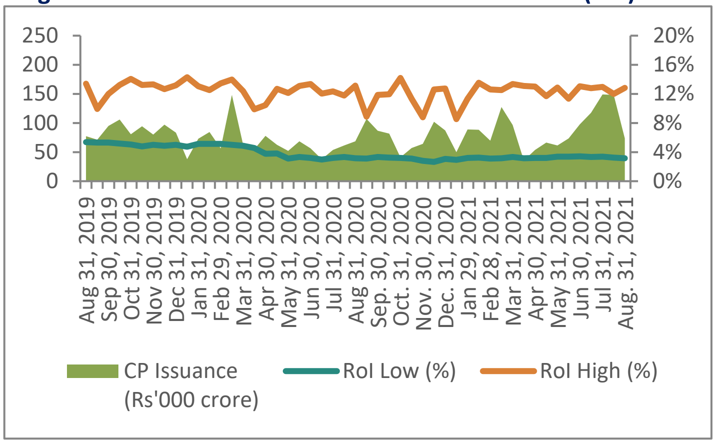


Note: The quarter-end data reflect the last fortnight data of that particular quarter; Source: RBI

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%
Aug 15, 2021	419.7	10.3%
Aug. 31, 2021	391.5	5.1%

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
Master Direction on Financial Statements - Presentation and Disclosures	• RBI has issued several guidelines/instructions/directives to enable banks to have all current instructions on presentation and disclosure in financial statements at one place for reference. However, it may be noted that in addition to these disclosures, Commercial Banks shall comply with the disclosures specified under the applicable regulatory capital framework.
Large Exposures Framework – Credit Risk Mitigation (CRM) for offsetting –non-centrally cleared derivative transactions of foreign bank branches in India with their Head Office	• RBI advised all Indian branches of foreign banks shall be permitted to reckon cash/unencumbered approved securities, the source of which is interest-free funds from Head Office or remittable surplus retained in Indian books held with RBI as CRM, for offsetting the gross exposure of the foreign bank branches in India to the Head Office (including overseas branches) for the calculation of Large Exposures Framework (LEF) limit.

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
Shobhna Kanojia	Lead Analyst – BFSI Research	shobhna.kanojia@careratings.com	+91-22-6754 3519	+91- 816 945 9228
Mradul Mishra	(Media Contact)	mradul.mishra@careratings.com	+91-22-6754 3573	

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

Connect: