Credit Offtake Remains at Near Decadal High; Almost Overcomes Covid-induced Lag Relative to Deposit Growth.

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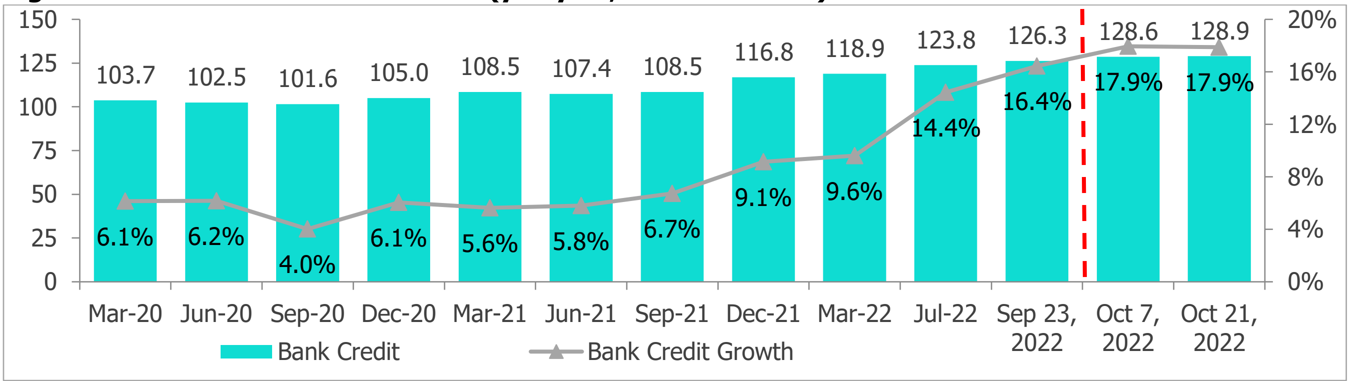
Synopsis

- Credit offtake accelerated at 17.9% y-o-y reaching a decadal high mark, reporting robust growth for the fortnight ended October 21, 2022. The growth is driven by NBFCs, retail credit, inflation-led working capital demand, lower funds raised in the capital market and lower base and is expected to remain elevated in the short term due to the festival season.
- Deposits saw a slower growth at 9.5% y-o-y, leading to higher Deposit rates. For the short-term rates, the Weighted Average Call Rate (WACR) too has increased to 5.98% as of November 04, 2022, from 3.34% as of November 05, 2021. Deposits rates are expected to go up even further due to elevated credit offtake, widening credit deposit gap, festival season, lower liquidity in the market, and inflation.
- Over the last two years and half years, (i.e., from the last reporting Friday of March 2020) credit offtake **has overcome Covid-induced lag** and has grown by around 25.5% to almost catch up with deposit growth of 26.8% over the period.

Bank Credit Growth Remains Elevated

Figure 1: Bank Credit Growth Trend (y-o-y %, Rs. Lakh crore)

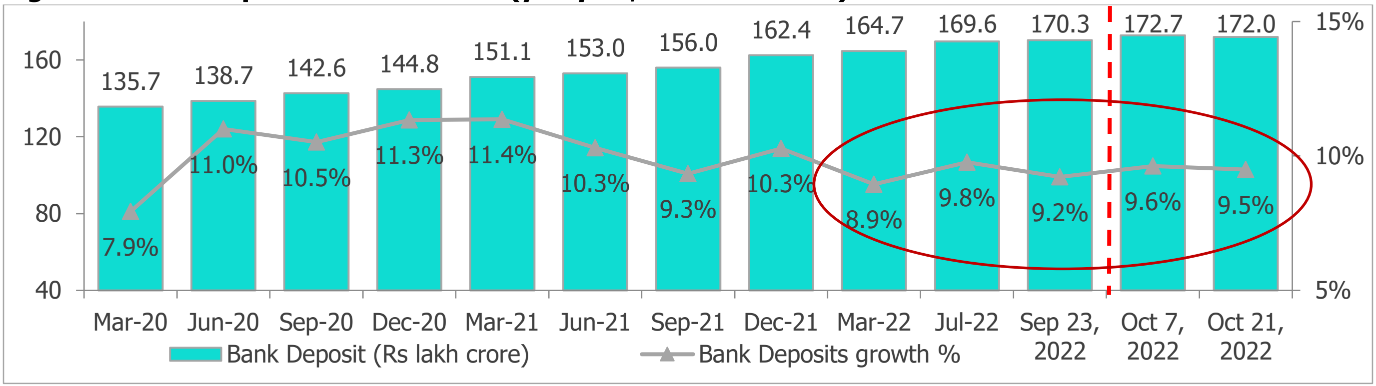


Note: Bank credit growth and related variations for all fortnights since December 3, 2021, are adjusted for past reporting errors by select scheduled commercial banks (SCBs). However, RBI has not yet updated these numbers in its database except for fortnightly documents. The quarter-end data reflect, the last fortnight's data of that particular quarter; Source: RBI, CareEdge

- Credit offtake saw a 17.9% y-o-y robust growth, expanding by a massive ~1,000 bps, for the fortnight ended October 21, 2022, due to a low base, retail credit, inflation-led working capital requirement, and low funds raised in the capital market. It also increased sequentially by 0.2% from the immediate fortnight (ended October 07, 2022). In absolute terms, credit outstanding stood at Rs.128.9 lakh crore as of October 21, 2022, rising by Rs.19.6 lakh crore over the last 12 months.
- The growth has been on an upward movement with both retail and wholesale contributing to the same. Credit for the services sector accelerated primarily due to a rise in NBFCs and trade segments. Retail credit growth has been strongly led by the miniaturisation of credit, housing, and vehicle loans. Driven by ECLGS, MSME growth too has remained elevated. Corporate loans indicate a shift from the capital market to bank borrowings as hardening bond yields have prompted companies to optimize their borrowing cost. Despite a significant increases in lending rates of banks, the headline rates continue to be attractive compared to yields charged in the capital markets.

- The credit outstanding of the industry segment also grew due to inflation-induced higher working capital demand.
- The credit growth is likely to remain elevated in the short term due to the base effect, festival season and inflation however rate hikes could dampen credit growth. Global inflation has remained high despite hawkish policies. This may lead to demand issues globally causing second-order effects in India.

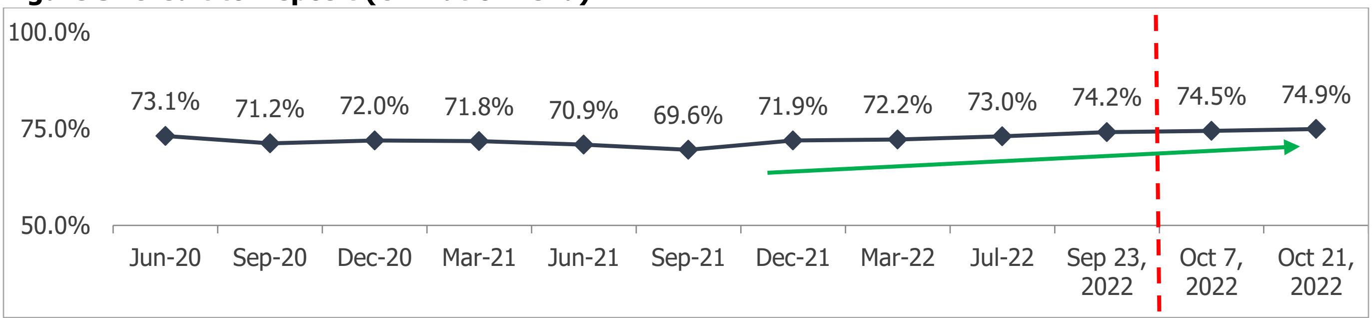
Figure 2: Bank Deposit Growth Trend (y-o-y %, Rs. Lakh crore)



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

- Deposits stood at Rs. 172 lakh crore for the fortnight ended October 21, 2022, registering a growth of 9.5% y-o-y. Meanwhile, in absolute terms, bank deposits have increased by Rs.14.9 lakh crore over the last twelve months. The time deposits grew by 9.2% y-o-y, while demand deposits rose by 11.8% in the reporting fortnight when compared with 8.6% and 21.4% y-o-y, respectively, reported in the fortnight ended October 22, 2021.
- Liquidity has generally been trending down with RBI seeking to reduce excess liquidity from the system to manage inflation. The banking system liquidity surplus has narrowed to Rs 0.1 lakh crore (as on October 19, 2022) from Rs 6.3 lakh crore at the start of FY23.
- RBI has already increased the repo rate by 190 bps to 5.9% (four hikes) in FY23, so far, with additional hikes planned in the current financial year. Further, average 10-year G-sec yields crossed 7.4% in October 2022, from 6.84% in March 2022 and 6.63% in December 2019 (Pre-pandemic level) due to elevated domestic inflation, rate hike bets and higher global bond yields. According to CCIL, the 2-year G-sec yield has moved from 4.16% as of October 21, 2020, to 4.60% as of October 21, 2021, to 7.15% as of October 21, 2022 to 6.94% as of November 11, 2022. These bond yields have been driving a shift in the borrowings from the capital market to the banking system.

Figure 3: Credit to Deposit (CD Ratio Trend)



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

- The Credit to Deposit (CD) ratio has been increasing since the last twelve months and touched 74.9%, expanding by ~530 bps y-o-y from the similar fortnight last year (reported October 22, 2021) and by ~45 bps as compared to the immediate fortnight (reported October 22, 2022) due to continued faster growth in credit as compared to deposits. Meanwhile, the CD ratio is yet to reach its pre-pandemic levels of 75.9% as of February 2020.

- Considering credit investments to be at Rs.8.15 lakh crore (as of August 26, 2022, as per the latest data released by RBI). The bank credit (including credit investments) to total assets would have been around 79.7% for the fortnight ended October 22, 2022, which was higher by ~50 bps to the previous fortnight (reported October 07, 2022) and by ~400 bps from the fortnight ended October 22, 2021, due to faster growth in credit as compared to total assets. It was partially offset by a drop in credit investment (credit investment currently stood at Rs.8.15 lakh crore down from Rs.8.59 lakh crore same period last year).

Figure 4: Trend in y-o-y movement

	Oct 23, 2020	Oct 22, 2021	Oct 21, 2022
Credit	3.9%	6.9%	17.9%
Deposit	10.1%	9.9%	9.5%

Source: RBI, CareEdge

- For the last few years, deposits had been growing at a higher rate, 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.

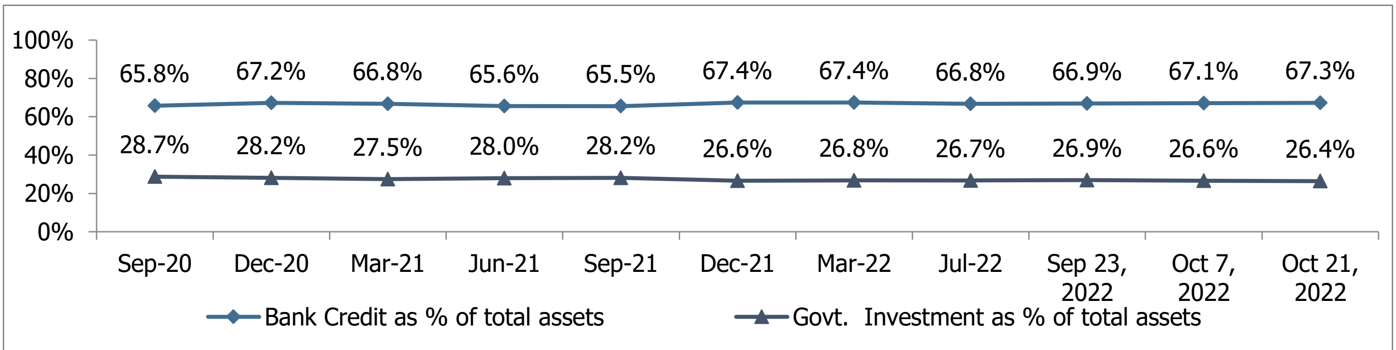
Figure 5: Growth in Credit Almost Overcomes Covid-induced Lag (Rs. Lakh Crore)

	Deposit	Credit
March 27, 2020	135.7	102.7
October 21, 2022	172.0	128.9
Growth over the period	26.8%	25.5%

- With a growth of 25.5% over the period, Credit has almost overcome the Covid-induced lag relative to Deposit growth. A significant part of the funding gap has been met by the mobilisation of Certificates of Deposit (CD). The outstanding CDs stood at Rs 2.4 lakh crores as of October 22, 2022, as compared to just Rs 0.57 lakh crore a year ago. Further, the banks are keeping their CD issuance elevated to meet their short-term need amid the lower liquidity and also focusing on deposits (bulk as well as retail) to meet the improved credit demand. The deposit rates have already started to increase and CareEdge anticipates that the rates are likely to increase even further as competition for deposits intensifies as banks focus on sourcing deposits due to strong underlying credit demand driven by the festival season, elevated inflation, and comparatively lower liquidity in the market.

Proportion of Govt. Investments to Total Assets Marginally Down

Figure 6: Proportion of Govt. Investment and Bank Credit to Total Assets



Note: The quarter-end data reflect the last fortnight's 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 67.63%, increasing marginally by ~20 bps compared to the fortnight ended October 07, 2022, and increased by ~168 bps when compared with the same fortnight last year (reported October 22, 2021) due to higher credit growth.
- Proportion of Govt. investment to total assets has continued to reduce, dropping by 26 bps for the fortnight ended October 21, 2022, compared to the previous fortnight (reported October 07, 2022). The Govt. investments stood at Rs.50.5 lakh crore as of October 21, 2022, reporting a 9% y-o-y growth.

Growth in O/s CDs Remains Elevated, meanwhile, growth in O/s CPs slows

Figure 7: 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%
Aug 26, 2022	237.1	269.3%
Sep 23, 2022	252.2	318.7%
Oct 07, 2022	226.3	282.3%
Oct 21, 2022	240.8	319.8%

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

Figure 8: Trend in CD Issuances (Rs'000, crore) and RoI

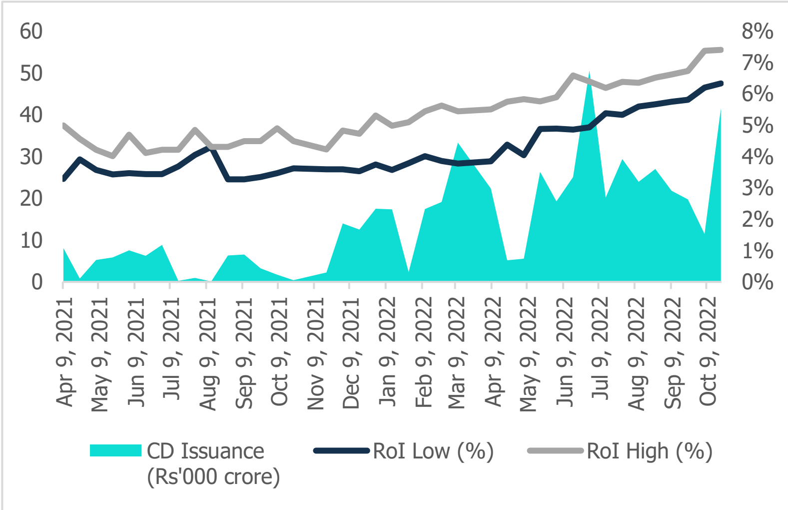
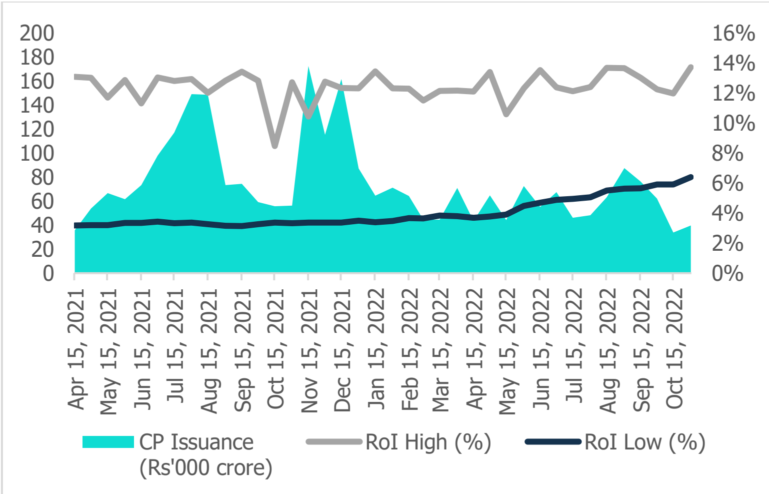


Figure 9: Commercial Paper Outstanding

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%
Aug 31, 2022	410.1	4.7%
Sep 15, 2022	438.7	9.3%
Sep 30, 2022	400.9	8.1%
Oct 15, 2022	415.8	4.0%
Oct 31, 2022	373.3	-1.6%

Figure 10: 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

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