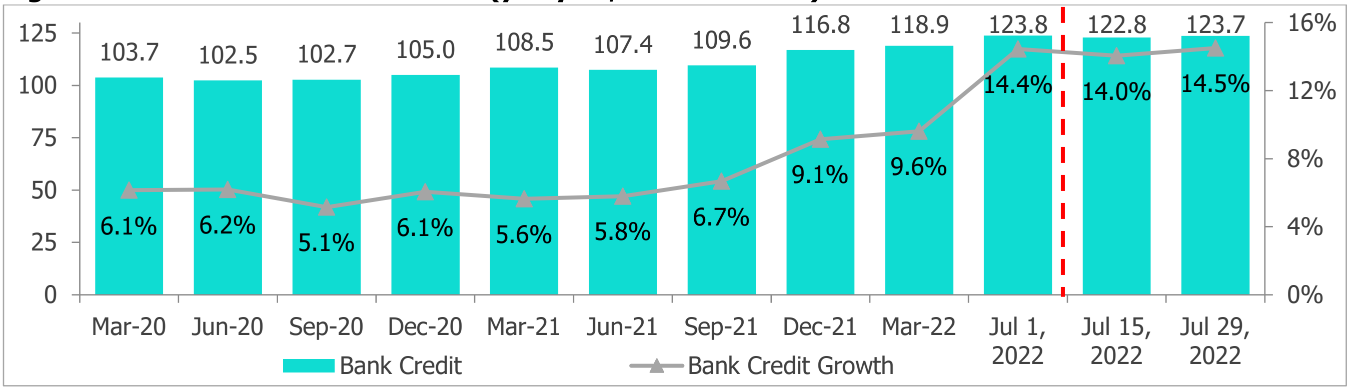
Banking Credit and Deposits Update: Bank Credit Growth Continues to Surge

August 16, 2022 | BFSI Research

Bank Credit Growth Accelerates

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

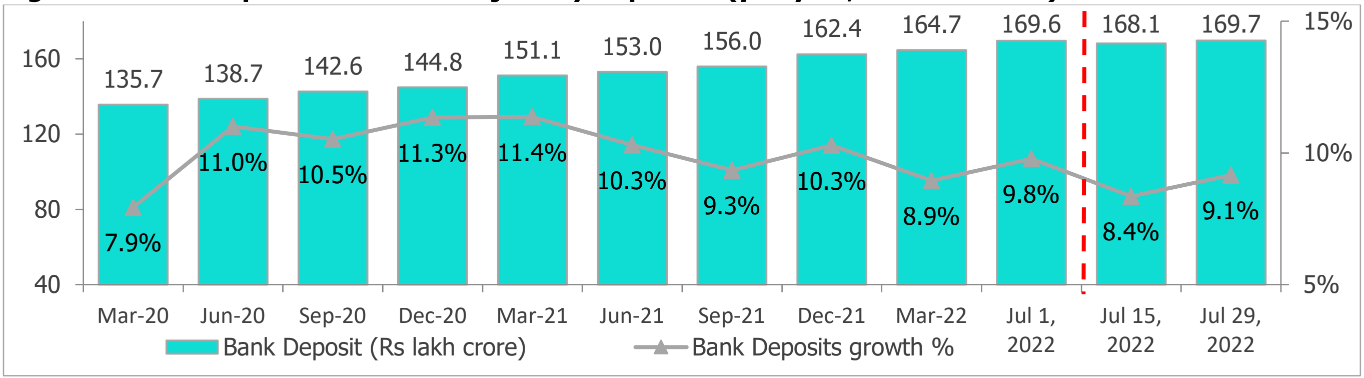
- Bank credit continued to witness robust growth at 14.5% year-on-year (y-o-y), expanding by a significant ~840 basis points (bps), for the fortnight ended July 29, 2022, up from 6.1% in the year-ago period (reported July 30, 2021) and increasing sequentially by 0.7% from the immediate fortnight (July 15, 2022). In absolute terms, credit outstanding stood at Rs.122.8 lakh crore as of July 15, 2022, growing by Rs.15.7 lakh crore over the last 12 months. The growth continues to be driven by a low base effect, small ticket size loans, working capital requirements, and a shift to bank borrowings on account of high yields in the capital market.

- The retail credit growth was driven by improvement in economic activities and the job market. 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 (which resulted in wholesale credit reporting double-digit growth after witnessing a significant slowdown last year).

- CPI inflation eased to a five-month low of 6.71% in July due to lower edible oil and vegetable prices. It, however, has continued to remain above the 6.0% mark. To manage the situation, RBI has already increased the repo rate thrice in FY23. Thus, the 10-year benchmark G-Sec yield rose from 6.79% as of March 31, 2022, to 6.53% as of June 30, 2022, and 7.29% as of July 31, 2022. Given the situation, many banks have continued to raise their marginal cost of lending rate (MCLR) and deposit rates.

- 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. Hence, CareEdge estimates the credit growth to be in the range of 12%-13% during FY23, however, inflation and rate hikes could adversely impact credit growth.

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



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

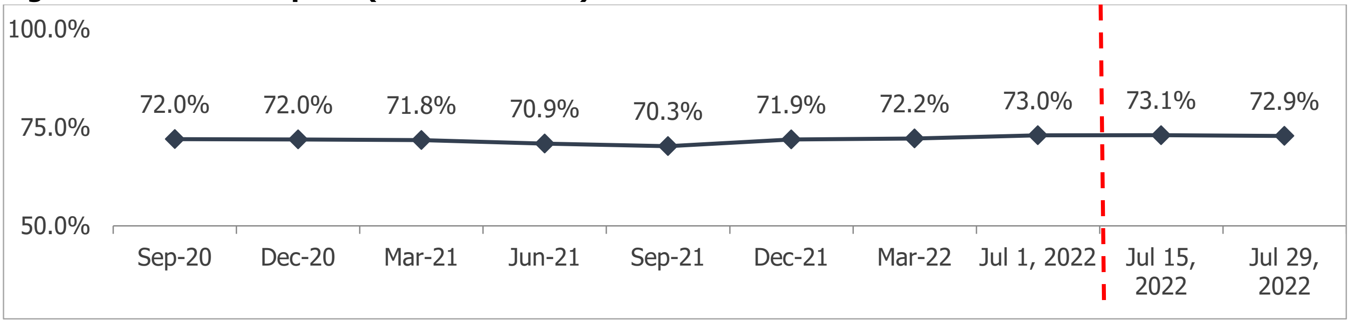
- Deposits stood at Rs.169.7 lakh crore for the fortnight ended July 29, 2022, registering a growth of 9.1% y-o-y. Meanwhile, in absolute terms, bank deposits have increased by Rs.14.2 lakh crore over the last twelve months. Deposits also increased by 1% from the immediately preceding fortnight (reported July 15, 2022). The time deposits grew steadily by 8.4% y-o-y, while demand deposits rose by 13.8% in the reporting fortnight when compared with 8.6% and 19.9% y-o-y, respectively, reported in the fortnight ended July 30, 2021.

- The banking system has been sustaining a liquidity surplus since June 2019 as the build-up deposits due to higher growth in bank deposits versus credit disbursement, however, this trend has reversed in the last few months. Consequently, market liquidity has generally been trending down for the last couple of months with RBI seeking to reduce excess liquidity from the system to manage inflation. This is also reflected in an increase in short-term funding through Certificates of Deposits (CD) by banks. The outstanding CDs stand at Rs 2.49 lakh crores as of July 29, 2022, as compared to just Rs 0.64 lakh crore a year ago. CareEdge anticipates that the rise in deposit rate would pick up steam given the fact that the credit growth has picked up and the liquidity is narrowing in the banking system.

- The Credit to Deposit (CD) ratio which has been increasing since October 2021, stood at 72.9%, expanding by 341 bps y-o-y from the similar fortnight last year (reported July 30, 2021) due to faster growth in credit as compared to deposits. However, was marginally down by 2 bps over the immediate fortnight (reported July 15, 2022).

- If we assume credit investments to be at Rs.8.0 lakh crore (as of May 20, 2022, as per the latest data released by RBI) for the fortnight ended July 29, 2022, then the CD ratio would be around 77.6%, higher than the 75.0% in the similar fortnight last year (reported July 30, 2021) due to higher credit growth.

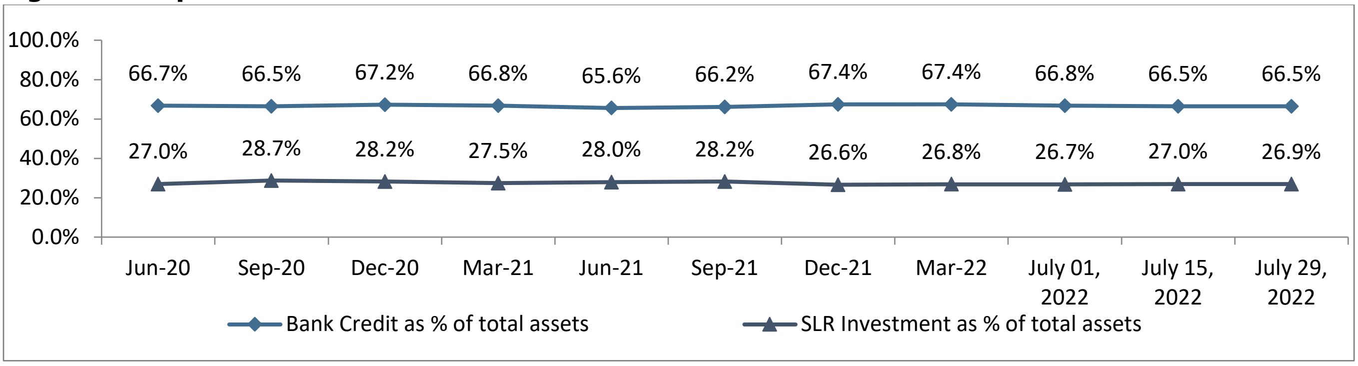
Figure 3: Credit to Deposit (CD Ratio Trend)



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

Proportion of SLR Investments to Total Assets Dips

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, CareEdge

- The share of bank credit to total assets stood at 66.5%, remaining constant on a sequential basis compared to the fortnight ended July 15, 2022, and increased by 110 bps when compared with the same fortnight last year (reported July 30, 2021) due to higher credit growth.

- Considering credit investments to be at Rs.8.0 lakh crore (as of May 20, 2022, as per the latest data released by RBI), bank credit (including credit investments) to total assets would have been around 70.8% for the fortnight ended July 29, 2022, which was similar to the previous fortnight (reported July 15, 2022). However, it was up by 13 bps y-o-y from the fortnight ended on July 30, 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 stood at Rs.8.0 lakh crore as on May 20, 2022, down from Rs.8.7 Lakh crore as on July 30, 2021).

- Proportion of SLR investment to total assets dropped by nearly 10 bps in the fortnight ended July 29, 2022, compared to the previous fortnight (reported July 15, 2022). The SLR investments stood at Rs.50.1 lakh crore as of July 29, 2022, reporting a 8% y-o-y growth. It also rose by 0.5% from the immediate fortnight ended on July 01, 2022.

O/s CDs Continue to Rise, while O/s CPs Maintain their Fall

Figure 5: CD Outstanding

Fortnight ended	Amount Outstanding (Rs'000 crore)	Y-o-Y growth %
Sep 25, 2020	75.6	-59.8%
Mar 26, 2021	80.1	-53.7%
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 15, 2022	235.2	264.2%
July 29, 2022	249.1	287.3%

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

Figure 6: Trend in CD Issuances (Rs'000, crore) and RoI

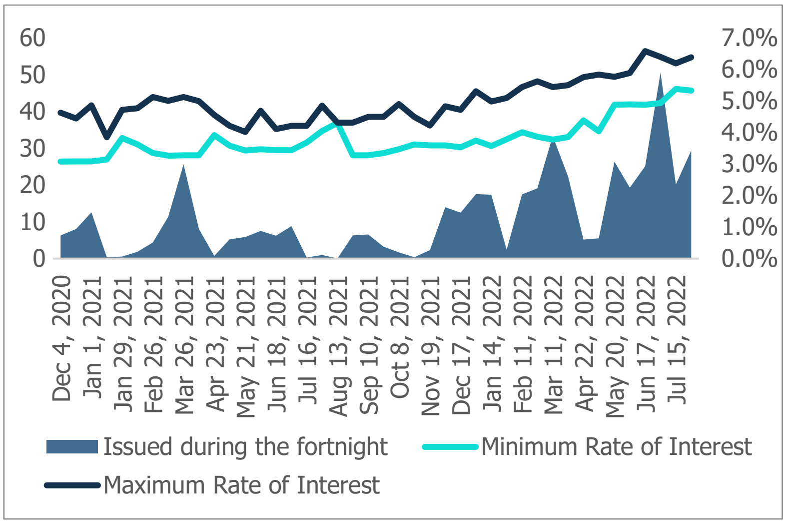
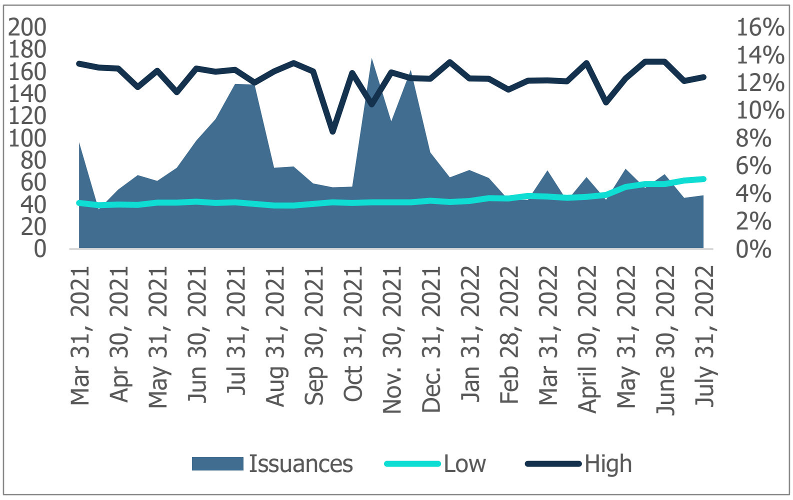


Figure 7: Commercial Paper Outstanding

Fortnight ended	Amount Outstanding (Rs'000 crore)	Y-o-Y growth %
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%
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 15, 2022	381.5	-19.0%
July 31, 2022	374.2	-9.8%

Figure 8: 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
Change in Bank Rate, SDF and MSF Repo Rate	• As announced in the Monetary Policy Statement 2022-23 dated August 05, 2022, the policy repo rate is revised upwards by 50 basis points from 4.90% to 5.40% with immediate effect. • Consequently, the standing deposit facility (SDF) rate stands adjusted to 5.15% and the marginal standing facility (MSF) rate and the Bank Rate to 5.65%.
Standing Liquidity Facility for Primary Dealers	• The Standing Liquidity Facility provided to Primary Dealers (PDs) (collateralised liquidity support) from the Reserve Bank would be available at the revised repo rate of 5.40 per cent with effect from August 05, 2022.

Contact

Sanjay Agarwal	Senior Director	sanjay.agarwal@careedge.in	+91-22-6754 3582 / +91-81080 07676
Saurabh Bhalerao	Associate Director – BFSI Research	saurabh.bhalerao@careedge.in	+91-22-6754 3519 / +91-900 495 2514
Mradul Mishra	Media Relations	mradul.mishra@careedge.in	+91-22-6754 3596

CARE Ratings Limited

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Phone : +91 - 22 - 6754 3456 I CIN: L67190MH1993PLC071691

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