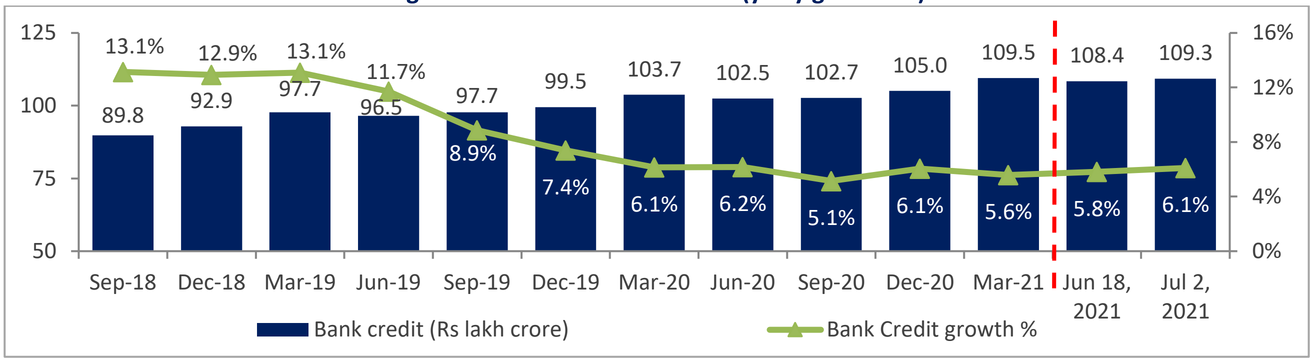
CARE Ratings
Professional Risk Opinion

Update – Growth in Deposits and Credit

July 17, 2021

Credit offtake improves, even as deposit growth declines marginally when compared against the last fortnight. In absolute terms, bank deposits scaled a new peak.

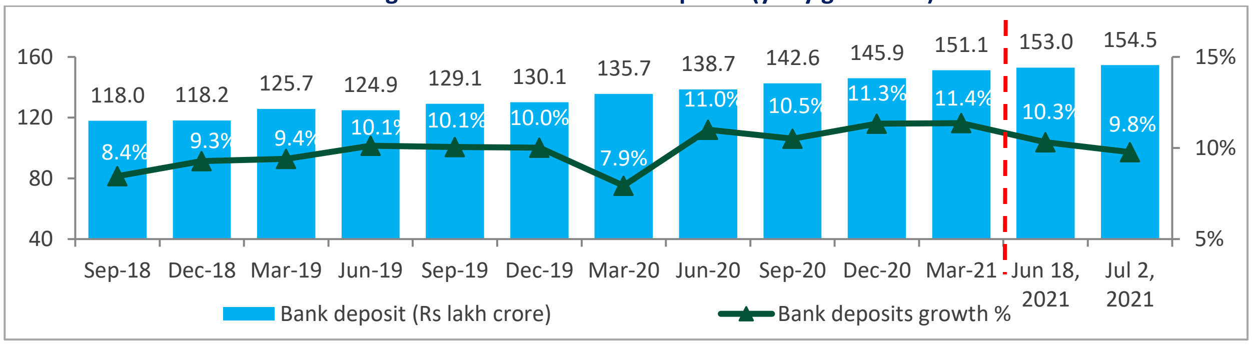
Figure 1: Growth of Bank Credit (y-o-y growth %)



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

- The bank credit growth rate increased when compared with previous fortnight largely due to gradual unlocking across select regions in India. If compared with previous year bank credit growth stood flat at 6.1% (6.1% for fortnight ended July 3, 2020). In absolute terms, bank credit increased by Rs.6.4 lakh crore as compared with fortnight ended July 3, 2020, and increased by Rs.0.9 lakh crore as compared with the previous fortnight. However, the bank credit growth continues to remain subdued which can be ascribed to risk aversion (both lenders and borrowers) and continued parking of excess liquidity with RBI.
- The incremental non-food credit growth for FY22 stood at -0.2 as compared with -0.8% in FY21, which indicates that the incremental growth has been better than last year but yet to return to normal level. The retail and agriculture sectors continue to drive the overall credit growth (double-digit y-o-y growth in the month of May 2021). Whereas slower growth in industry and services segments (excl. micro & small and medium segment) restricted the overall credit growth. The lower credit offtake by industry and the service sector can be attributed to lower borrowing by businesses, consequent to restrictions under the pandemic's second wave.
- The credit growth for FY22 is likely to remain in low double digit with growth largely expected in H2FY22 led by gradual expansion in the economic activities. The recent additional measures by Government to mitigate pandemic related stress are expected to improve credit offtake. The downside risks include limited capex plans, partial restrictions in key states and concerns over the third wave, which may impact the industrial as well as 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 declined marginally during the fortnight ended July 2, 2021, as compared with previous fortnight. Additionally, the growth is also lower as compared with 11.0% y-o-y growth registered in the previous year (fortnight ended July 3, 2020). In absolute terms, the bank deposits have increased by around Rs.14.0 lakh crore over the previous year and reached a new high since last 24 years. If we compare it with previous fortnight, bank deposits grew by Rs.1.5 lakh crore. The lower growth rate (y-o-y) in deposits can be partly attributed to the base effect and fall in deposits rate of banks (weighted average domestic term deposit rate of SCBs fell by 80 bps between May 2020 to May 2021). Further, as depositors had been conserving cash post the pandemic and with economic activity likely to gradually resume, deposit growth is expected to be lower than the earlier periods.
- Moreover, as on July 2, 2021, the liquidity surplus in the banking system stood at around Rs.6.0 lakh crores (attributed to month end inflows towards salaries, wages, and pensions). The liquidity surplus can be primarily attributed to deposit growth consistently outpacing credit growth. The excess liquidity is being parked with the RBI under the reverse-repo window earning just above 3% close to the savings deposit rate for banks.
- As given in figure 3, time deposits account for 88.7% of aggregate deposits (89.3% share as on July 3, 2020) grew at a slower pace compared to demand deposits, which accounted for the balance 11.3 % (10.7% share as on July 3, 2020).

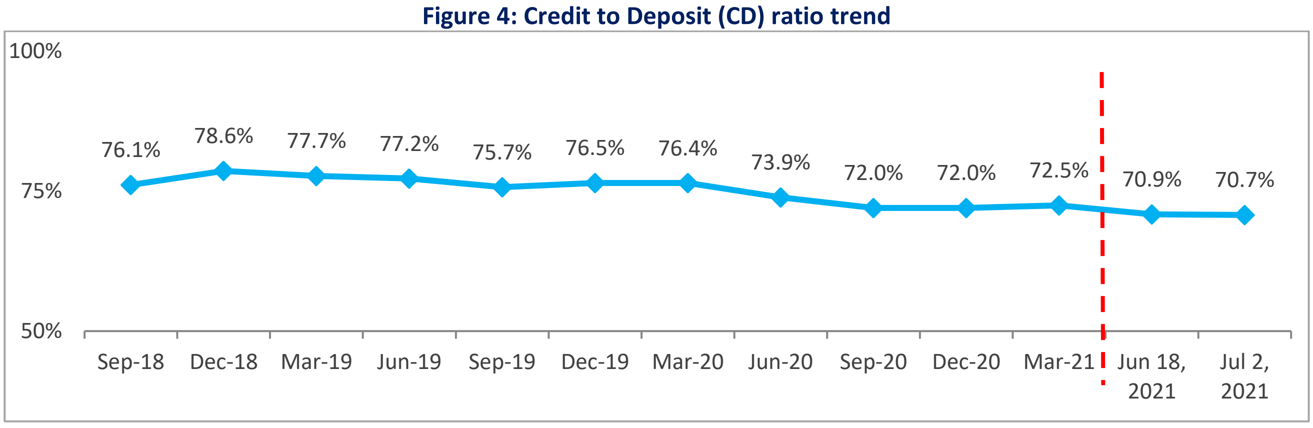
Figure 3: Demand Deposits and Time Deposits growth trend

Rs in lakh crore	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun 18, 2021	Jul 2, 2021
Demand Deposits	13.1	11.9	15.1	12.9	14.1	13.5	16.2	14.5	15.8	15.7	18.6	17.5	17.5
% growth y-o-y	5.9%	4.9%	10.3%	9.6%	7.6%	13.8%	7.0%	12.7%	11.9%	15.7%	15.1%	20.8%	15.9%
Time Deposits	104.9	106.3	110.6	112.0	115.0	116.5	119.5	124.1	126.9	129.2	132.5	135.4	137.0
% growth y-o-y	8.4%	9.7%	10.0%	10.1%	9.6%	9.7%	8.1%	10.8%	10.3%	10.8%	10.9%	9.1%	9.0%

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

- Bank deposits have continuously grown faster than bank credit in every fortnight since late September 2019 pushing down 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 70.7%, similar level in last fortnight, while declined by around 3% as compared with previous year (73.1% as on July 3, 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 May 2021 level as per latest data released by RBI) for the fortnight ended July 2, 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.6.4 lakh crore and additions in credit investment to be at Rs.0.1 lakh crore over additions in deposits (Rs.14.0 lakh crore), the proportion would have been around 47% (addition in credit outstanding plus additions in credit investment over additions in deposits).

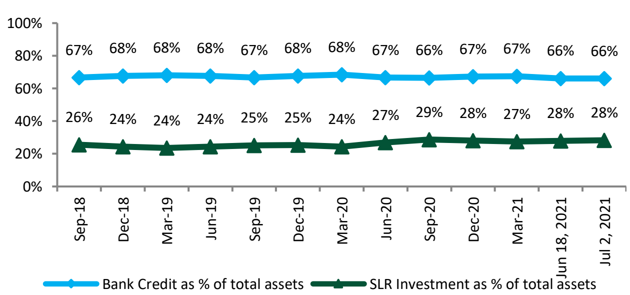
Figure 4: Credit to Deposit (CD) ratio trend



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 largely remained stable

Figure 5: 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

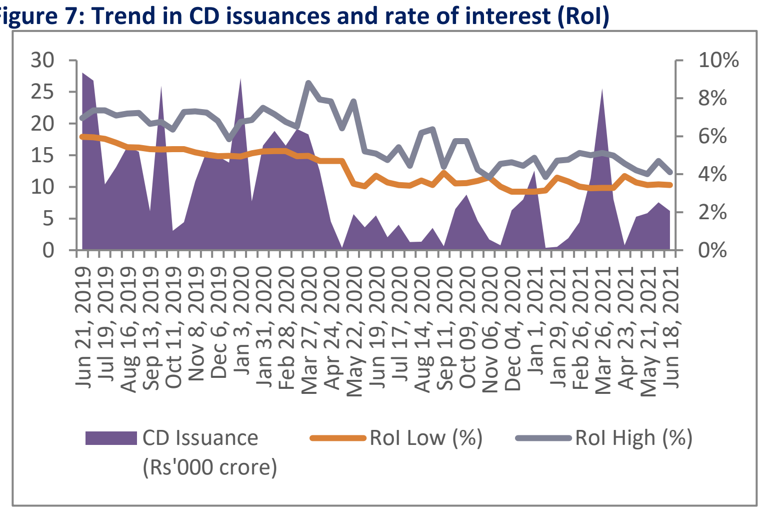
- The share of bank credit to total assets stood stable in the fortnight ended July 2, 2021, as compared with previous fortnight.
- Considering credit investments to be at Rs.8.6 lakh crore (as on May 21, 2021), bank credit (including credit investments) to total assets would have been around 71% for the fortnight ended July 2, 2021. Additionally, the growth in credit investments stood at 1.4% y-o-y in May 2021; while bank credit growth stood at 6.0% y-o-y in May 2021.
- Proportion of SLR investment to total assets stood at similar levels during the last two fortnights. In absolute terms, SLR investments stood at record high since last 24 years and grew by 10.6% y-o-y as compared with a growth of 19.0% a year ago, and stood flat as compared with the previous fortnight. 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 *(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 vs. the last fortnight

Figure 6: 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%
Dec 18, 2020	68.8	-57.9%
Mar 26, 2021	80.1	-53.7%
Jun 04, 2021	78.3	-44.1%
Jun 18, 2021	68.2	-43.8%

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

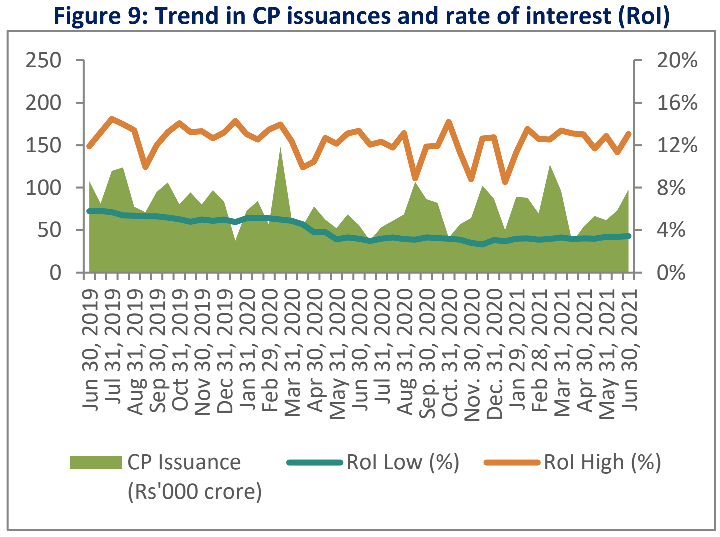


Note: The quarter-end data reflect the last fortnight data of that particular quarter; Source: RBI

Figure 8: 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%
Jun 30, 2020	391.5	-28.2%
Sep. 30, 2020	362.3	-25.5%
Dec. 31, 2020	365.2	-20.1%
Mar 31, 2021	364.4	5.8%
Jun 15, 2021	404.8	-2.1%
Jun 30, 2021	376.1	-3.9%

Figure 9: 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
Reserve Bank of India takes supervisory action on Mastercard Asia / Pacific Pte. Ltd.	• The Reserve Bank of India (RBI) has imposed restrictions on Mastercard Asia / Pacific Pte. Ltd. (Mastercard) from on-boarding new domestic customers (debit, credit or prepaid) onto its card network from July 22, 2021.
New Definition of Micro, Small and Medium Enterprises - Addition of Retail and Wholesale Trade	• Ministry of Micro, Small and Medium Enterprises has decided to include Retail and Wholesale trade as MSMEs for the limited purpose of Priority Sector Lending.
Review of Instructions on Interest on overdue domestic deposits	• It has been decided that if a Term Deposit (TD) matures and proceeds are unpaid, the amount left unclaimed with the bank shall attract rate of interest as applicable to savings account or the contracted rate of interest on the matured TD, whichever is lower.
Cessation of LIBOR: Transition arrangements	• Reserve Bank of India (RBI) issued an advisory to banks and other RBI-regulated entities emphasizing the need for preparedness for the transition away from London Interbank Offered Rate (LIBOR)
Retail Direct Scheme: Allowing Retail Investors to Open Gilt Accounts with RBI	• The step taken for improving ease of access by retail investors through online access to the government securities market along with the facility to open their gilt securities account (Retail Direct) with the RBI.

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