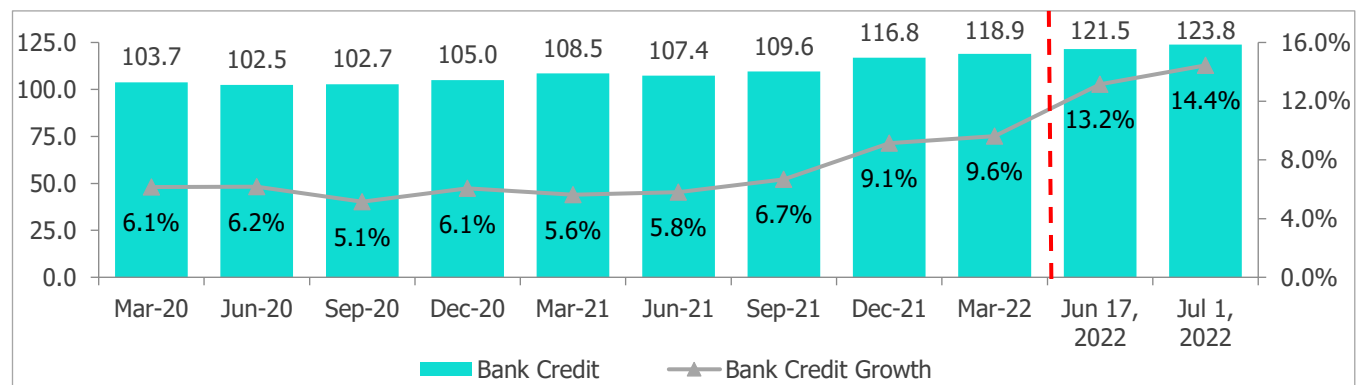


# Banking Credit and Deposits Update: Robust Credit Growth Continues

July 18, 2022 | BFSI Research

## Bank Credit Growth Remains on Strong Footing; Deposits near the Rs.170 Lakh Crore Mark

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



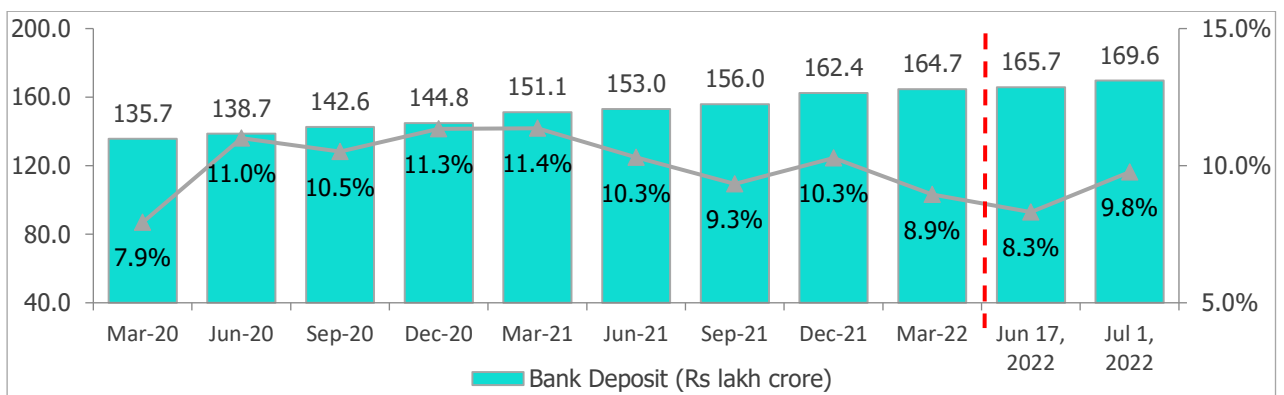
Note: Bank credit growth and related variations for all fortnights since December 3, 2021, are adjusted for past reporting errors by select scheduled commercial banks (SCBs). However, RBI has not yet updated these numbers in its database except for fortnightly documents. The quarter-end data reflect,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

- Bank credit witnessed a vigorous growth of 14.4% year-on-year (y-o-y), expanding by a significant 834 basis points (bps), for the fortnight ended July 01, 2022, up from 6.1% in the year-ago period (reported July 02, 2021). In absolute terms, credit outstanding stood at Rs.123.8 lakh crore as of July 01, 2022, growing by Rs.15.6 lakh crore over the last 12 months. Sequentially, bank credit also rose by 1.9% from the immediate fortnight (June 17, 2022). The growth continues to be driven by a low base effect, retail loans particularly channelised by small ticket size loans, an additional working capital requirement due to higher inflation and a shift to bank borrowings on account of high yields in the capital market.
- Credit outstanding of the retail segment saw continued double-digit growth at 16.4% y-o-y in May 2022 due to growth in other personal loans, credit card receivables and consumer durable loans driven by improvement in economic activities and the job market. The credit outstanding of the industry segment registered a growth of 8.7% y-o-y in May 2022 from a drop of 0.2% in the year-ago period. The rise was on account of robust growth in the micro and small (33.0%), and medium (49.3%) enterprise segments which were driven by ECLGS and digitisation. Credit for the services sector also accelerated by 12.9% y-o-y in May 2022 from a growth of 3.4% in the year-ago period primarily due to a rise in NBFCs, trade and shipping segments.
- CPI inflation marginally inched down to 7.01% in June 2022 from 7.04% in the previous month on account of moderation in food inflation. It, however, continued to remain above the 7.0% mark for the third month in a row. Besides, this is the second quarter for inflation which has been ruling higher than RBI's inflation target of 4% (+/-2%) for the medium term. To manage the situation, RBI increased the repo rate twice in Q1FY23. Thus, the two-year G-Sec yield rose from 4.53% as of March 31, 2021, to 6.37% as of May 31, 2022, and 6.53% as of June 30, 2022. Given the situation, many banks have also raised their marginal

cost of lending rate (MCLR) and deposit rates. The rise in the repo rate will increase the cost of lending and borrowing.

- After witnessing modest growth in recent years, the outlook for bank credit growth is expected to remain healthy due to economic expansion, rise in government and private capital expenditure, commodity prices, implementation of PLI schemes retail credit push and wholesale credit. The medium-term prospects look promising with diminished corporate stress and a substantial buffer for provisions. CPI too is trending up, which is likely to add to the credit growth. On the other hand, rising rates could offset this growth by curbing the demand for credit. The Retail loan segment is expected to do well as compared with the industry and service segments.

**Figure 2: Growth of Bank Deposits (y-o-y %, Rs. lakh crore)**

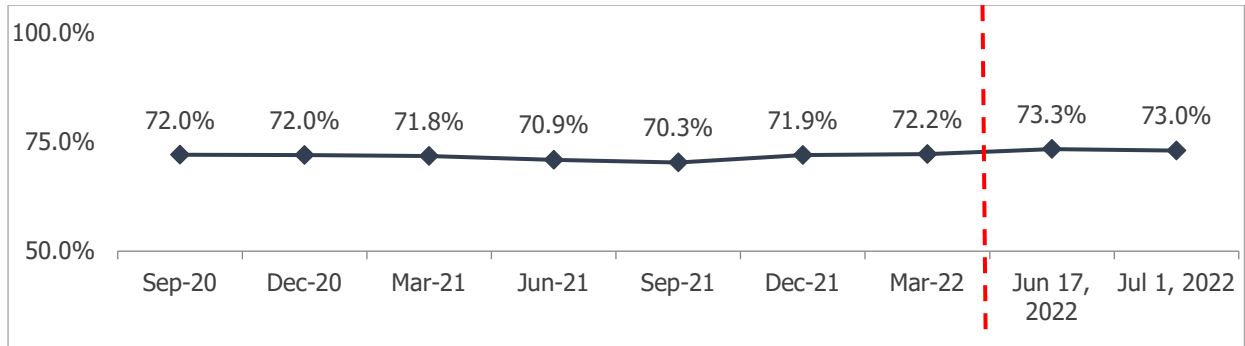


Note: The quarter-end data reflect, the last fortnight data of that particular quarter; Source: RBI, CareEdge

- Deposits stood at Rs.169.6 lakh crore for the fortnight ended July 01, 2022, registering a growth of 9.8% y-o-y. Meanwhile, in absolute terms, bank deposits have increased by Rs.15.1 lakh crore over the last twelve months. It also grew by 2.4% from the immediately preceding fortnight (reported June 17, 2022). The time deposits grew by 17.1% y-o-y, while demand deposits rose by 8.8% in the reporting fortnight when compared with 15.9% and 9.0% y-o-y, respectively, reported in the previous fortnight July 02, 2021).
- The banking system has been sustaining a liquidity surplus since June 2019 on account of build-up deposits due to higher growth in bank deposits versus credit disbursement, barring for the last couple of months. The outstanding (net) liquidity surplus stood at Rs.3.75 lakh crore on July 01, 2022, up from Rs.3.30 lakh crore on June 17, 2022. However, market liquidity has generally been trending down for the last couple of months as RBI is trying to reduce liquidity from the system to manage inflation.
- The Credit to Deposit (CD) ratio stood at 73.0%, expanding by 298 bps y-o-y from the similar fortnight last year (reported July 02, 2021) as the credit base improved. The CD ratio has been increasing since October 2021, which is encouraging for the banks. However, it was marginally down by 32 bps over the immediate fortnight (reported June 17, 2022) due to faster growth in deposits during the period compared to growth in credit.
- If we assume credit investments to be at Rs.8.6 lakh crore (as of April 22, 2022, as per the latest data released by RBI) for the fortnight ended July 1, 2022, then the CD ratio would be around 78.1%, higher

than the 75.6% in the similar fortnight last year (reported July 02, 2021) due to higher credit growth. However, it was marginally down from 78.5% over the immediate fortnight (reported on June 17, 2022) as the deposit growth was faster than credit growth on a sequential basis.

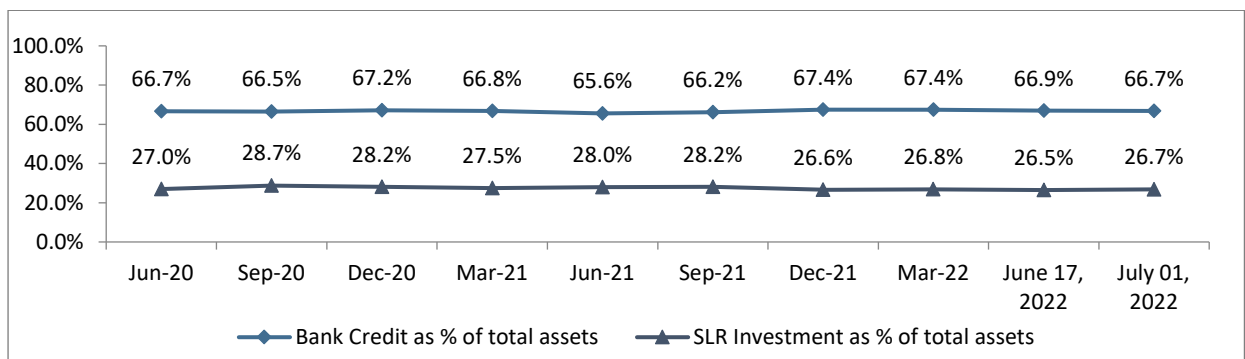
**Figure 3: Credit to Deposit (CD Ratio Trend)**



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

**Proportion of SLR Investments to Total Assets Falls; Bank Credit to Total Assets Rises**

**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 66.75%, expanding by 132 bps y-o-y in the fortnight ended July 01, 2022, as compared with the previous fortnight (reported July 02, 2021) due to higher credit growth. However, it was marginally down by 15 bps on a m-o-m basis (reported June 17, 2022) due to higher deposit growth.
- Considering credit investments to be at Rs.8.6 lakh crore (as of April 22, 2022, as per the latest data released by RBI), bank credit (including credit investments) to total assets would have been around 71.4% for the fortnight ended July 01, 2022, dropping by 25 bps as compared with previous fortnight (reported June 17, 2022). However, it was up by 77 bps y-o-y from the fortnight ended on July 02, 2021, due to faster growth in credit as compared to total assets.
- Proportion of SLR investment to total assets rose by 26 bps in the fortnight ended July 01, 2022, compared to the previous fortnight (reported June 17, 2022) due to higher growth in deposits compared to credit.

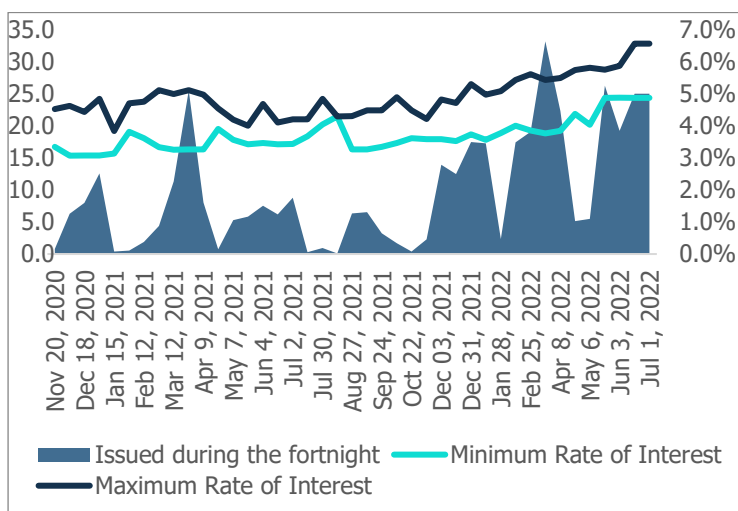
The SLR investments stood at Rs.49.6 lakh crore as of July 01, 2022, reporting a 6.3% y-o-y growth. It also rose by 3.2% from the immediate fortnight ended on June 17, 2022.

## O/s CDs Report Significant Rise, O/s CPs Fall

**Figure 5: CD Outstanding**

Fortnight ended	Amount Outstanding (Rs'000 crore)	Y-o-Y growth %
Mar 27, 2020	173.0	-36.5%
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%
Jun 17, 2022	194.4	185.0%
July 1, 2022	223.8	222.9%

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

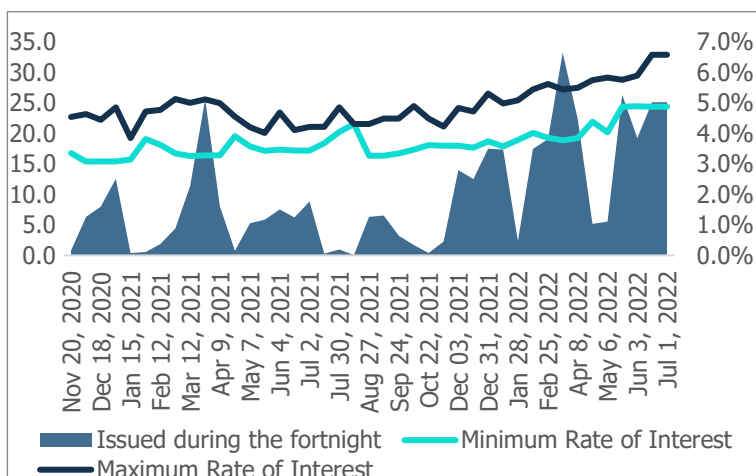


Note: The quarter-end data reflect the last fortnight data of that particular quarter; Source: RBI

**Figure 7: Commercial Paper Outstanding**

Fortnight ended	Amount Outstanding (Rs'000 crore)	Y-o-Y growth %
Mar 31, 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 15, 2022	389.3	-3.8%
Jun 30, 2022	372.5	-1.0%

**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

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