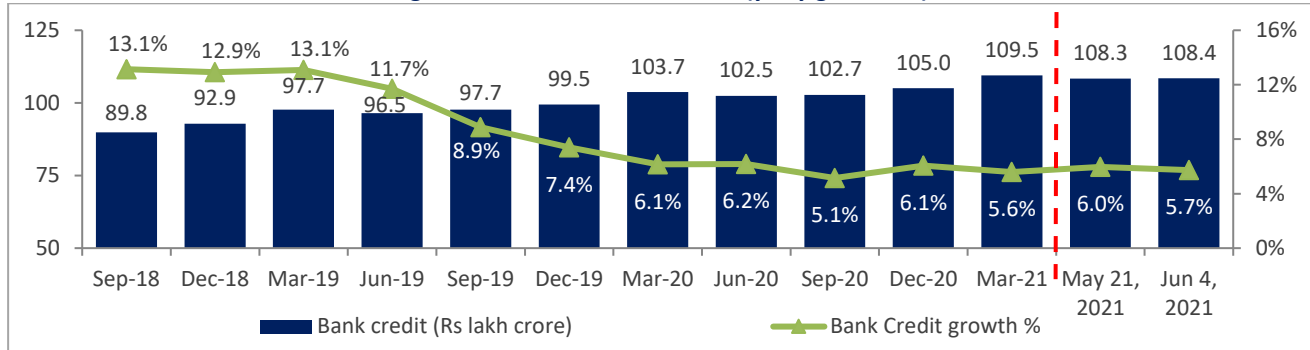


Credit growth decelerated while deposit growth remained flat over last fortnight

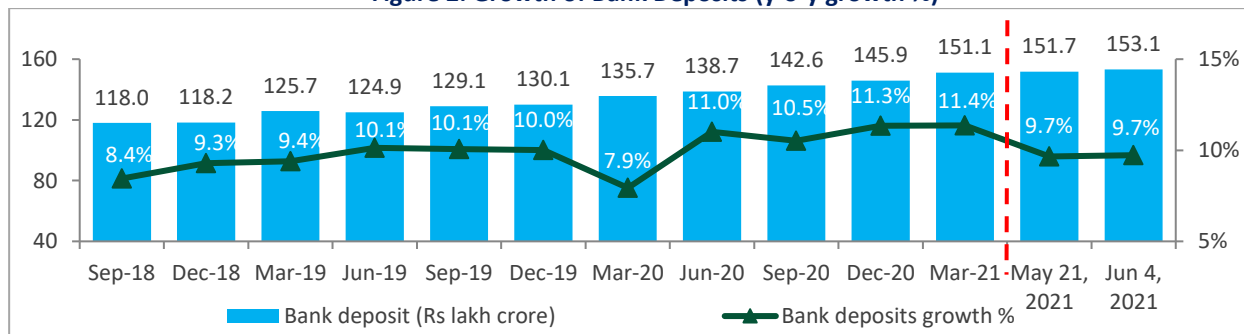
Figure 1: Growth of Bank Credit (y-o-y growth %)



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

- The bank credit growth rate has been marginally lower when compared with previous fortnight and remained largely stable compared to period ended Mar-21. This can be ascribed to risk aversion and regional lockdown imposed by states this year to curb the spread of coronavirus amid the second wave of the pandemic that started in April 2021 and continued in May 2021. However, many states have declared relaxation in lockdown or imposed partial lockdown in June 2021, the result of this on bank credit would be known after reviewing the additions in bank credit by June-end. Additionally, despite of the low base effect of the previous year (as the country was in a complete lockdown last year) the credit growth grew at a slower pace compared with the fortnight ended June 05, 2020 (6.3%).
- Furthermore, agriculture and personal loans segment have been the key drivers of bank credit (growth in low double digits of both segments). On the other hand, industry and services sectors have witnessed subdued credit growth at ~1% y-o-y as of March 2021. Within the Industrial sector, credit to both Micro & Small Industries as well as Large Industries is quite low, however, credit to Medium Industries has steadily accelerated to almost 30% y-o-y, a reflection of support to this segment due to the ECLGS programme.
- In absolute terms, bank credit increased by Rs.5.9 lakh crore as compared with fortnight ended June 05, 2020, and in comparison, with previous fortnight, the bank credit has increased marginally by Rs.0.1 lakh crore. The incremental credit (April to June) growth for FY22 stood at -0.4% as compared with -0.8% in FY21 and 0.1% in FY20, which indicates that the incremental growth has been better than last year but is yet to return to normal.
- The bank credit growth is expected to improve on account of the various schemes/measures by the government (e.g., rate cuts, extension in TLTRO, additions to the ECLGS scheme, liquidity support along with special liquidity facility (announced on June 04, 2021) of Rs.16,000 crore to be provided to SIDBI for on-lending over and above Rs.15,000 crore which was provided in April 2021 would help support disbursements in MSME segment and on-tap liquidity window of Rs 50,000 crore for health care infrastructure to boost provision of immediate liquidity for Covid-related health care infrastructure and services in the country). The credit growth for FY22 is likely to remain in low double digit on the back of muted economic activity which could further delay the anticipated pick-up in credit growth, apart from the likely impact on asset quality. Also, sector’s medium-term prospects however look promising with diminished corporate stress and increased provisioning levels across banks. .

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 remained at similar level witnessed in the previous fortnight i.e., 9.7% y-o-y growth for the fortnight ended May 21, 2021, and June 04, 2021 which is lower as compared with 11.3% y-o-y growth registered in the previous year (fortnight ended June 05, 2020). In absolute terms, the bank deposits have increased by around Rs.13.6 lakh crore over the previous year. If we compare it with previous fortnight, bank deposits increased by Rs.1.5 lakh crore. The lower growth rate (y-o-y) in deposits can be partly attributed to base effect and fall in deposits rate of banks (weighted average domestic term deposit rate of SCBs fell by 71 bps between April 2020 to April 2021).
- Moreover, as on June 04, 2021, the liquidity surplus in the banking system stood at Rs.4.7 lakh crores (Rs.3.7 lakh crore on May 21, 2021). The liquidity surplus can be primarily attributed to deposit growth consistently outpacing credit growth.

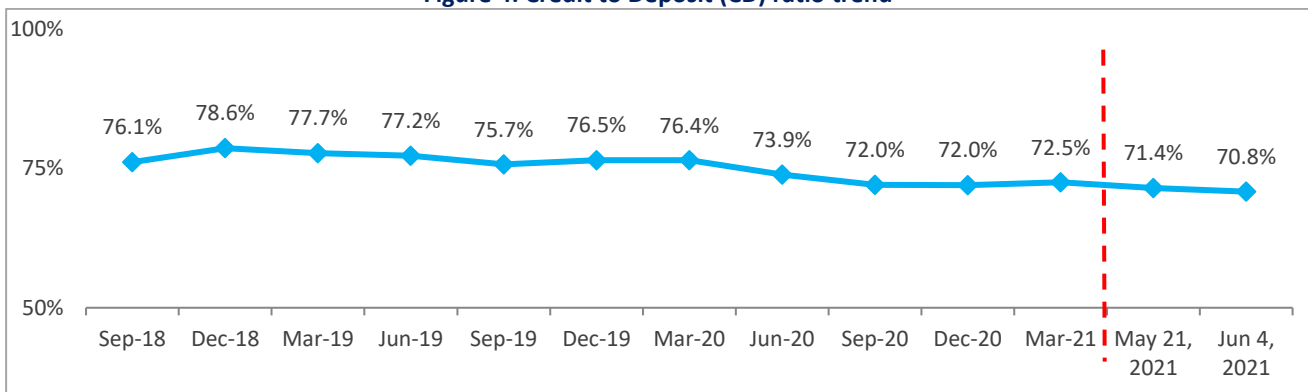
- As given in figure 3, time deposits account for 88.7% of aggregate deposits (89.4% share as on June 05, 2020) grew at a slower pace compared to demand deposits, which accounted for the balance 11.3% (10.6% share as on June 05, 2020).

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	May 21, 2021	Jun 4, 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	16.9	17.3
% 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%	17.1%	17.2%
Time Deposits	104.9	106.3	110.6	112.0	115.0	116.5	119.5	124.1	126.9	129.2	132.5	134.7	135.8
% 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%	8.8%	8.9%

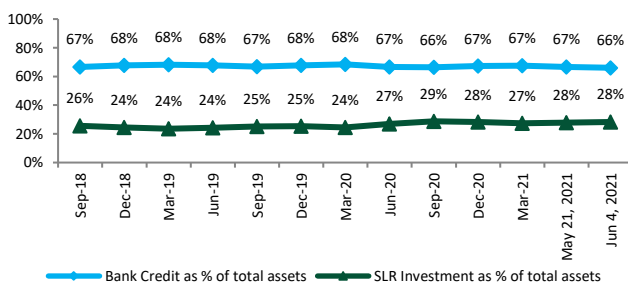
Note: The quarter-end data reflect the last fortnight data of that particular quarter; Source: RBI, CARE Ratings

- Bank deposits have grown faster than bank credit in every fortnight since late September 2019 pushing down CD ratio by ~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 declined to 70.8% as compared to last fortnight as well as previous year (73.5% as on June 05, 2020 and 72.5% as on March 26, 2021), owing to slower growth in credit. On the other hand, if we assume credit investments to be at Rs.8.7 lakh crores (at April 2021 level as per latest data released by RBI) for the fortnight ended June 04, 2021, then the CD ratio would be around 76% (which was last observed in March 2020).
- The addition in deposits (Rs.13.6 lakh crore over last 12 months ended June 04, 2021) was more than twice the addition in credit outstanding (Rs.5.9 lakh crore over last 12 months ended June 04, 2021). Since June 2019, it has been observed that the additions in deposits have always exceeded the addition in credit outstanding. As mentioned above, this 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. It is this negative spread that was expected to spur credit growth. However, weak demand and risk aversion has limited growth so far.
- Considering the addition in credit outstanding over the last 12 months to be at Rs.5.9 lakh crore and additions in credit investment to be at Rs.0.64 lakh crore over additions in deposits (Rs.13.6 lakh crore), the proportion would have been 48% (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 declined by 1% in the fortnight ended June 04, 2021, as compared with previous fortnight.
- Considering credit investments to be at Rs.8.7 lakh crore (as on April 23, 2021), bank credit (including credit investments) to total assets would have

been around 71% for the fortnight ended June 04, 2021. Additionally, since the start of the pandemic the growth in credit investments has increased from 1.3% y-o-y in April 2020 to 7.9% y-o-y in April 2021; in contrary to slowdown in bank credit growth of 6.7% y-o-y in April 2020 to 5.8% in April 2021.

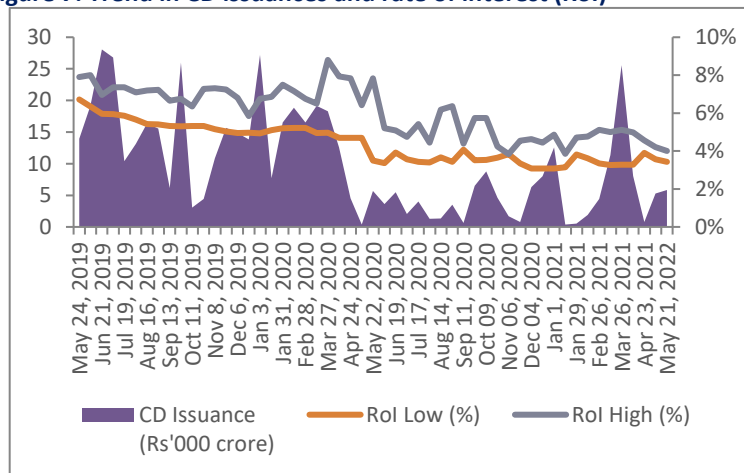
- Proportion of SLR investment to total assets stood at similar levels during the last two fortnights. In absolute terms, SLR investments grew by 11.5% y-o-y as compared with a growth of 11.9% in the previous fortnight and 18.9% y-o-y growth a year ago. Moreover, RBI had previously allowed banks to hold 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.

Over last fortnight, o/s Level of CDs increased while CPs declined

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%
May 07, 2021	87.2	-49.1%
May 21, 2021	90.3	-43.7%

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

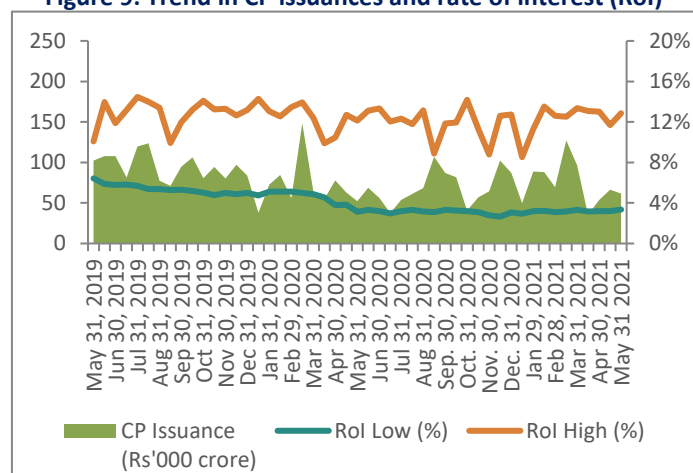


Note: The quarter-end data reflect the last fortnight data of that particular quarter; Source: RBI

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%
May 15, 2021	404.4	-6.7%
May 31, 2021	388.7	-8.7%

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
Consultative Document on Regulation of Microfinance	<ul style="list-style-type: none"> The RBI released a consultative document for harmonising the regulatory frameworks for various regulated lenders in the microfinance space. The suggested framework in the consultative document is intended to be made applicable to the microfinance loans provided by all entities regulated by the RBI and is aimed at protecting the microfinance borrowers from over-indebtedness as well as enabling competitive forces to bring down the interest rates by empowering the borrowers to make an informed decision. The RBI has invited comments, suggestions and feedback on the proposed regulation by July 31, 2021 from all stakeholders.

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