Credit Offtake Nearly Touches 18%, and Reaches a Decadal High

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Synopsis

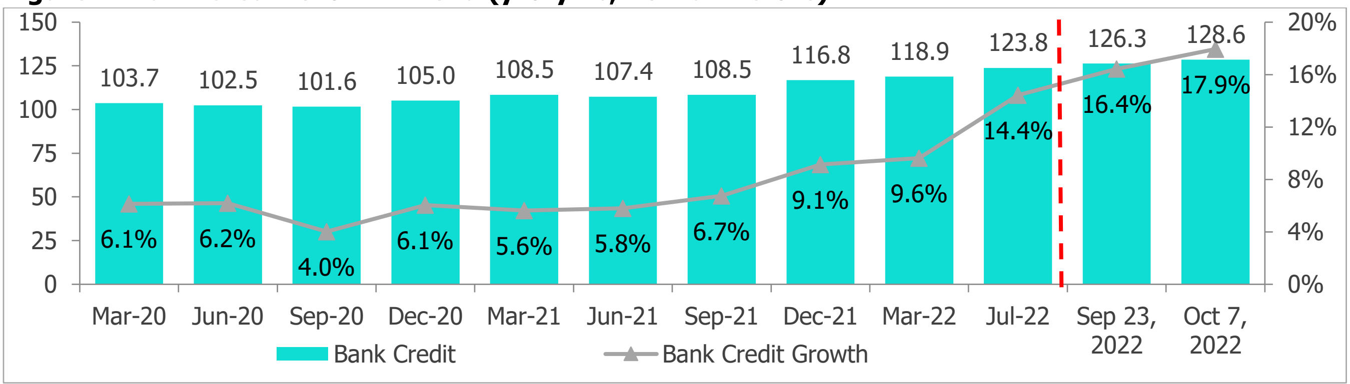
- Credit offtake accelerated at 17.9% y-o-y reaching a decadal high mark, reporting robust growth for the fortnight ended October 07, 2022. The growth is driven by retail credit, higher working capital demand amidst high inflation, and lower funds raised in the capital market and is expected to remain elevated in the short term due to the ongoing festival season.

- Deposits saw a slower growth at 9.6% y-o-y. For the short-term rates, the Weighted Average Call Rate (WACR) too has increased to 6.1% as of October 14, 2022, from 3.25% as of October 15, 2021. Deposits rates are expected to go up even further due to rising credit demand, widening credit deposit gap, ongoing festival season, lower liquidity in the market, and elevated 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 25.2% to almost catch up with deposit growth of 27.3% over the period.

Bank Credit Growth Continues on Upward Trajectory

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



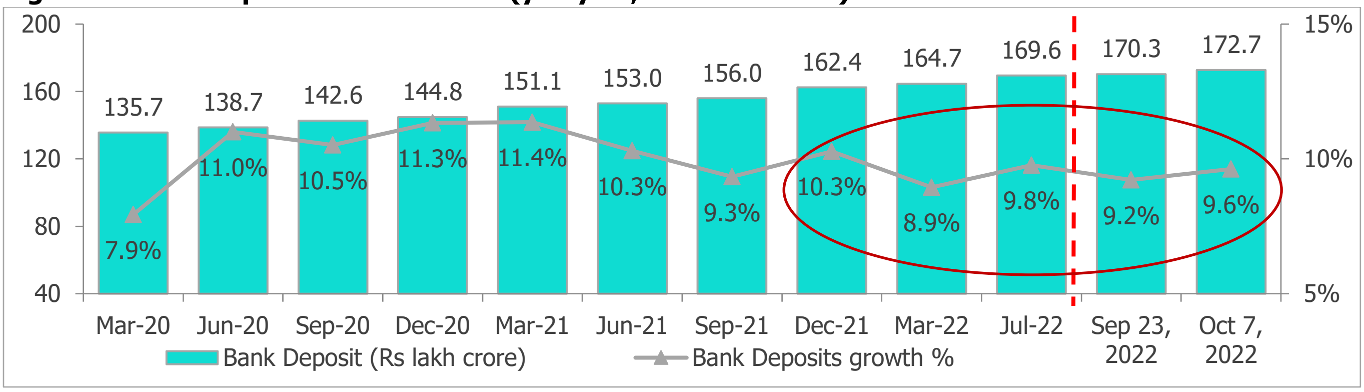
Note: Bank credit growth and related variations for all fortnights since December 3, 2021, are adjusted for past reporting errors by select scheduled commercial banks (SCBs). However, RBI has not yet updated these numbers in its database except for fortnightly documents. The quarter-end data reflect, 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 ~1,100 bps, for the fortnight ended October 07, 2022, due to a low base, retail credit, higher demand for working capital requirement amidst high inflation, and low funds raised in the capital market. It also increased sequentially by 1.8% from the immediate fortnight (ended September 23, 2022). In absolute terms, credit outstanding stood at Rs.128.6 lakh crore as of October 07, 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. Retail credit growth has been strong due to underlying demand, as credit outstanding saw a robust growth at 19.5% y-o-y in August 2022 driven by the miniaturisation of credit, housing, and vehicle loans. Driven by ECLGS, MSME growth too has remained strong. Corporate loans indicate a shift from the capital market to bank borrowings as hardening bond yields have prompted companies to optimize their borrowing cost. The credit outstanding of the industry segment registered a growth of 11.4% y-o-y in August 2022 from 1.5% in the year-ago period due to inflation-induced higher working capital demand. Credit for the services sector also accelerated by 17.2% y-o-y in August 2022 from a growth of 2.1% in the year-ago period primarily due to a rise in NBFCs and trade segments.

- The credit growth is likely to remain elevated in the short term due to the ongoing festival season and inflation. Global inflation has remained high despite hawkish policies. This may lead to demand issues globally causing second-order effects in India. Credit offtake is expected to remain high, however rate hikes could dampen credit growth.

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. 172.7 lakh crore for the fortnight ended October 07, 2022, registering a growth of 9.6% y-o-y and 1.4% sequentially from the immediately preceding fortnight (reported on September 23, 2022). Meanwhile, in absolute terms, bank deposits have increased by Rs.15.2 lakh crore over the last twelve months. The time deposits grew by 9% y-o-y, while demand deposits rose by 14.5% in the reporting fortnight when compared with 8.9% and 21.5% y-o-y, respectively, reported in the fortnight ended October 08, 2021.

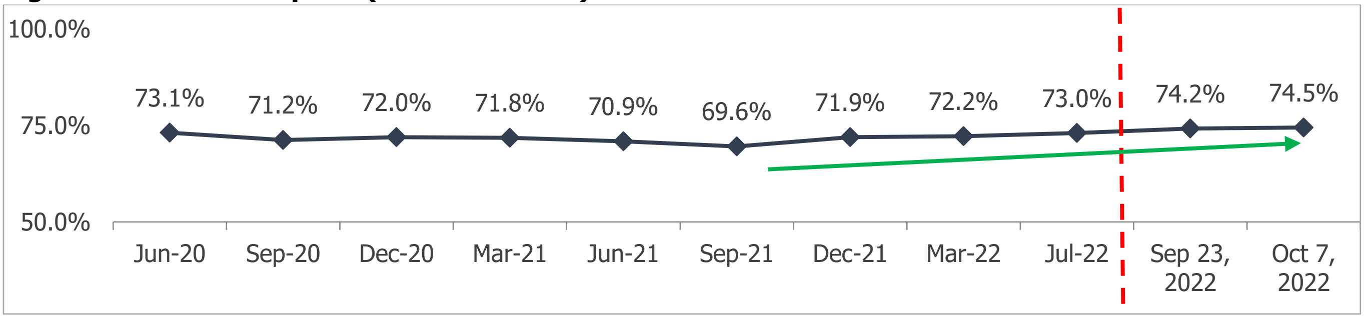
- Liquidity has generally been trending down with RBI seeking to reduce excess liquidity from the system to manage inflation. The banking system liquidity surplus has narrowed to Rs 0.1 lakh crore (as on October 19, 2022) from Rs 6.3 lakh crore at the start of FY23.

- RBI has already increased the repo rate by 190 bps to 5.9% (four hikes) in FY23, so far, with additional hikes in the offing. 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. The hardening bond yields have been driving a shift in the borrowings from the capital market to the banking system.

- The Credit to Deposit (CD) ratio has been increasing since October 2021 and touched 74.5%, expanding by ~525 bps y-o-y from the similar fortnight last year (reported October 08, 2021) and by ~30 bps as compared to the immediate fortnight (reported September 23, 2022) due to significantly faster growth in credit as compared to deposits.

- 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 79.2% for the fortnight ended October 07, 2022, which was marginally higher by ~23 bps to the previous fortnight (reported September 23, 2022) and by ~300 bps from the fortnight ended October 08, 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 3: Credit to Deposit (CD Ratio Trend)



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

Figure 4: Trend in y-o-y movement

	Oct 09, 2020	Oct 08, 2021	Oct 07, 2022
Credit	4.6%	6.5%	17.9%
Deposit	10.5%	10.2%	9.6%

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)

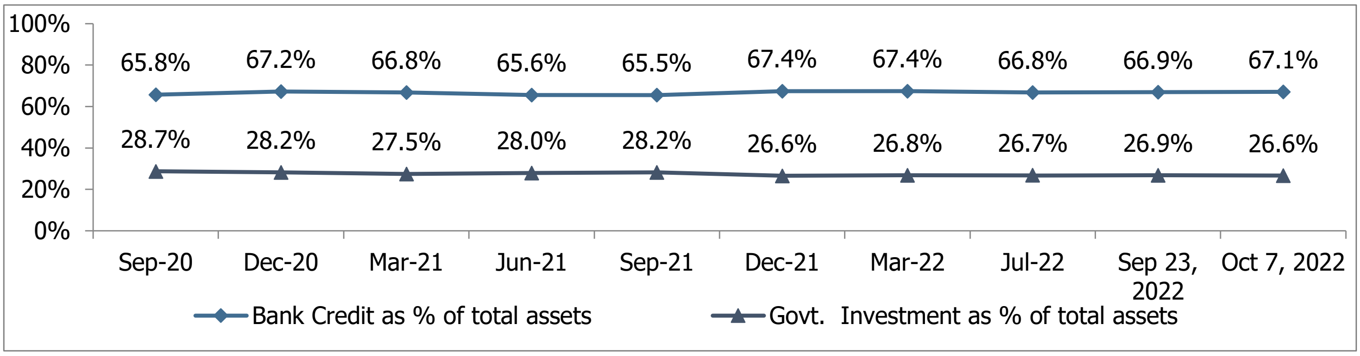
	Deposit	Credit
March 27, 2020	135.7	102.7
October 07, 2022	172.7	128.6
Growth over the period	27.3%	25.2%

- With a growth of 25.2% 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 2.26 lakh crores as of October 07, 2022, as compared to just Rs 0.59 lakh crore a year ago. Further, the banks are expected to keep their CD issuance elevated to meet their short-term need amid the lower liquidity. Banks would also focus on deposits (bulk as well as retail) to meet the rising 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 ongoing festival season, elevated inflation, and 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 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 67.1%, increasing marginally by 18 bps compared to the fortnight ended September 23, 2022, and increased by ~162 bps when compared with the same fortnight last year (reported October 08, 2021) due to higher credit growth.
- Proportion of Govt. investment to total assets continued to reduce, dropping by 26 bps for the fortnight ended October 07, 2022, compared to the previous fortnight (reported September 23, 2022). The Govt. investments stood at Rs.51.0 lakh crore as of October 07, 2022, reporting an 8.9% y-o-y growth, and a sequential growth of 0.6% from the immediate fortnight ended on September 23, 2022.

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 09, 2022	243.6	262.8%
Sep 23, 2022	252.2	318.7%
Oct 07, 2022	226.3	282.3%

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

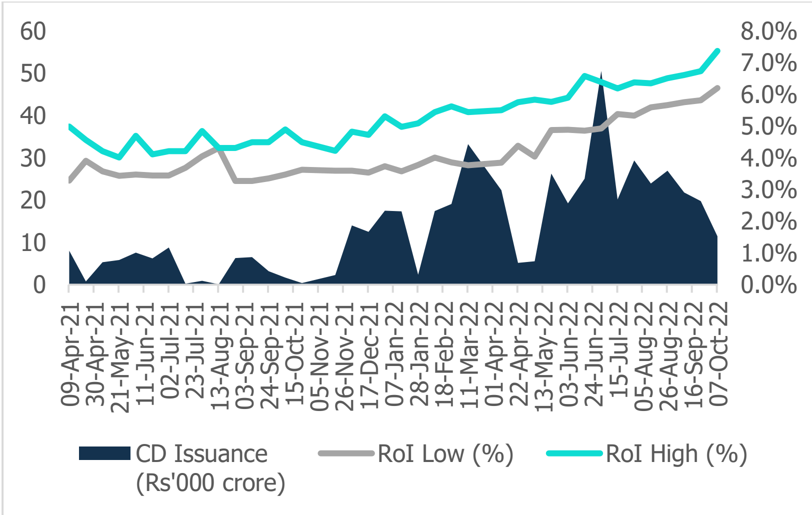
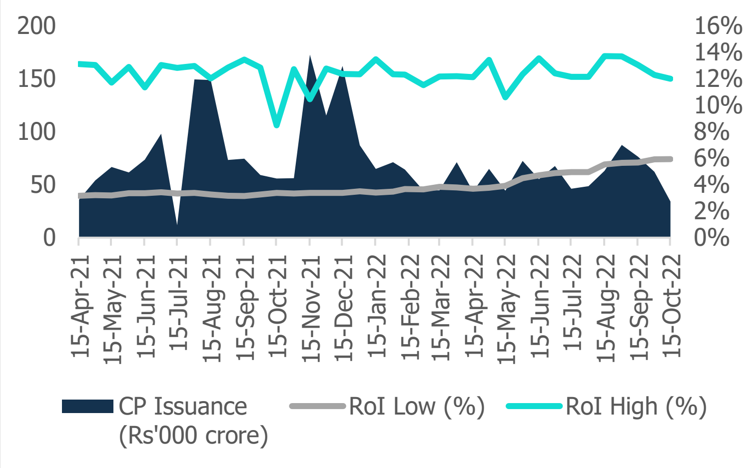


Figure 9: Commercial Paper Outstanding

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%

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

Select RBI Announcements

Announcement	Details
Claims Received from the NCGTC - Classification for the Purpose of Maintenance of CRR/SLR	• The amounts received by a bank from the National Credit Guarantee Trustee Company Ltd (NCGTC) towards claims in respect of guarantees invoked and held by them pending adjustment of the same towards the relative advances, would not be treated as outside liabilities for the purpose of computation of NDTL for CRR and SLR.
RBI (Financial Statements - Presentation and Disclosures) Directions, 2021 - Disclosure of Divergence in Asset Classification and Provisioning	• Along with other commercial banks, for the financial statements for the year ending March 31, 2023, Primary (Urban) Co-operative Banks (UCBs) too would have to make the following disclosures: ○ The additional provisioning for non-performing assets (NPAs) assessed by the RBI exceeds 10% of the reported profit before provisions and contingencies1 for the reference period; and ○ the additional Gross NPAs identified by the RBI exceed 10% of the reported incremental Gross NPAs for the reference period. The threshold for reported incremental Gross NPAs would be 15%, which shall be reduced progressively in a phased manner, after review.

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