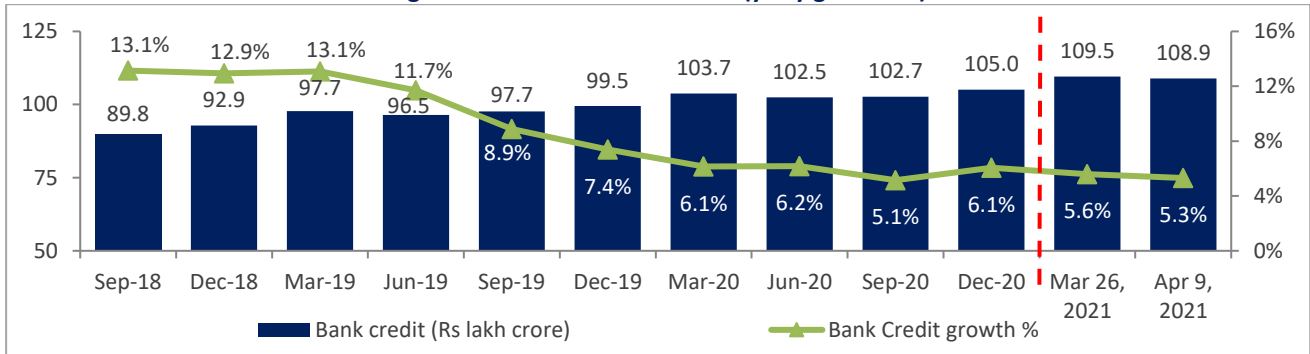


**Bank credit and deposits growth witness a modest start in FY22**

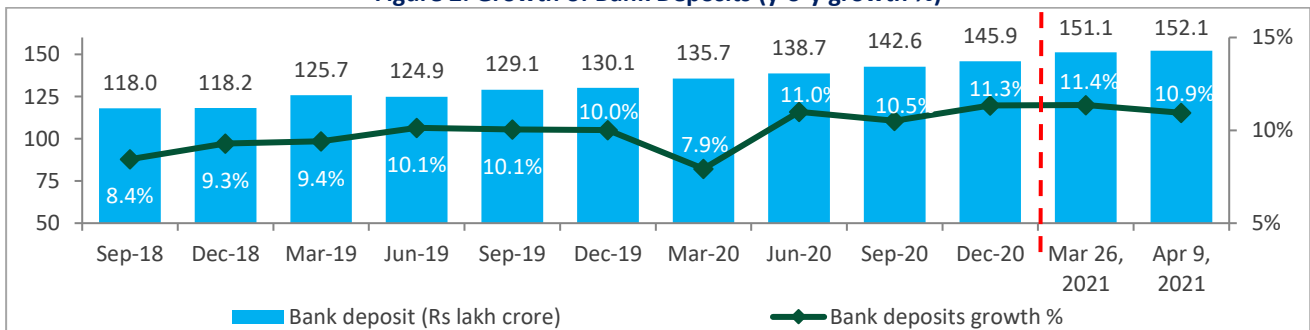
**Figure 1: Growth of Bank Credit (y-o-y growth %)**



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

- The bank credit growth rate continues to decline, however in absolute terms bank credit increased by Rs 5.5 lakh crore as compared with fortnight ended April 10, 2020 but declined by Rs 0.62 lakh crore as compared with the previous fortnight. In absolute terms, bank credit usually declines in first month of the new financial year, as it is a lean period (this trend can be observed for the last five years). However, the y-o-y growth rate has fallen in first month of new financial year (i.e., April 2021) for the first time in last five years, reflecting subdued credit demand amidst the rising second wave of the pandemic.
- The bank credit growth stood at 5.3% and 5.6% on y-o-y basis during the last two fortnights as compared with last year’s level of 7.2% and 6.1%. The risk aversion from both lenders and borrowers failed to report a pick-up in bank credit growth, despite of low base of previous year (initial period of lockdowns).
- Though the interest rates (monthly fresh loans WALR) of SCBs have reduced by 107 bps from February 2020 to February 2021, the overall credit growth continued to moderate due to risk aversion and continued parking of excess liquidity with RBI. In addition, de growth in large industries and slower growth in Housing (Housing loan segment constitutes around 52% share in retail segment has also slowed down in recent past) and NBFCs segments (as compared with previous year) has also restricted the overall bank credit growth.
- Bank credit growth is likely to increase in FY22, given the growth in the economy and the base effect coming into play. The downside risks include lockdowns in key states, which may impact the industrial, as well as the service segments. Another risk includes the ending of the ECLGS scheme in June 2021, which had propped up the MSME credit. However, the extension of the TLTRO operations and on lending norms could support growth.

**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 at 10.9% declined during the fortnight ended April 9, 2021 as compared with fortnight ended March 26, 2021 but increased as compared with previous year (9.5% growth during fortnight ended April 10, 2020). In absolute terms, the bank deposits have increased by around Rs 14.0 lakh crore in FY21, which is partly attributed to a net outflow in equity mutual fund during the year.
- Moreover, as on April 9, 2021, the liquidity surplus in the banking system stood at Rs .6.2 lakh crores. The liquidity surplus can be primarily attributed to deposit growth outpacing credit growth persistently. The bank CDs have reduced by over 54.0% on y-o-y basis, due to surplus liquidity in the system. However, government borrowings (Central: Rs.37,853 crore and State: Rs.4,000 crore) has limited the banking system liquidity surplus.
- As given in figure 3, time deposits account for 88.5% of aggregate deposits (89.2% share as on April 10, 2020) grew at a slower pace compared to demand deposits, which accounted for the balance 11.5% (10.8% share as on April 10, 2020). In absolute terms, demand deposits have declined during the fortnight ended April 9, 2021 and this trend can be observed since last 4-5 years.

**Figure 3: Demand Deposits and Time Deposits growth trend**

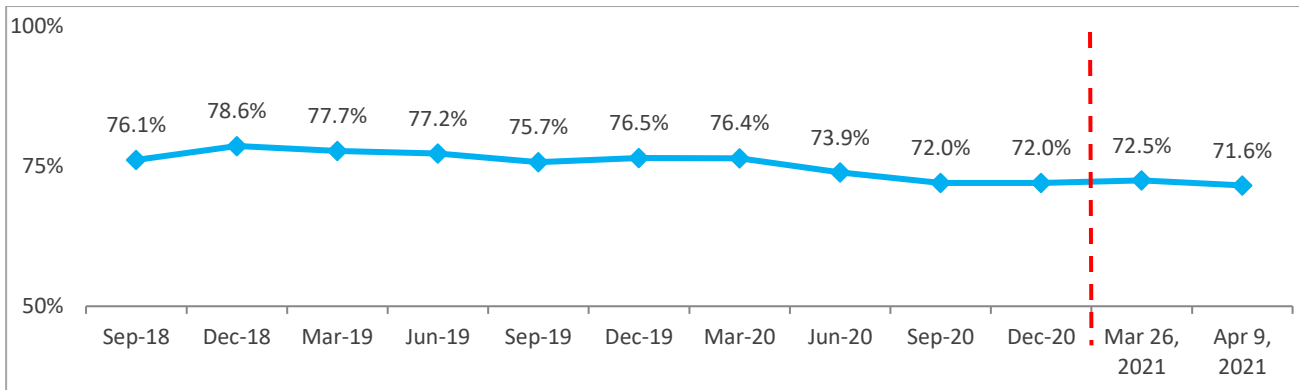
Rs in lakh crore	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar 26, 2021	Apr 9, 2021
Demand Deposits	13.1	11.9	15.1	12.9	14.1	13.5	16.2	14.5	15.8	15.7	18.6	17.4
% growth y-o-y	5.9%	4.9%	10.3%	9.6%	7.6%	13.8%	7.0%	12.7%	11.9%	15.7%	15.1%	17.7%
Time Deposits	104.9	106.3	110.6	112.0	115.0	116.5	119.5	124.1	126.9	129.2	132.5	134.7
% 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%	10.1%

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

- The Credit to Deposit (CD) ratio of 71.6% declined as compared to last fortnight and remained lowest in last four years, owing to a faster rise in deposits and slower growth in credit. On the other hand, if we assume credit investments to

be at Rs.8.3 lakh crores (As on January 29, 2021 level as per latest data released by RBI) for the fortnight ended April 9, 2021, then the CD ratio would be around 77%.

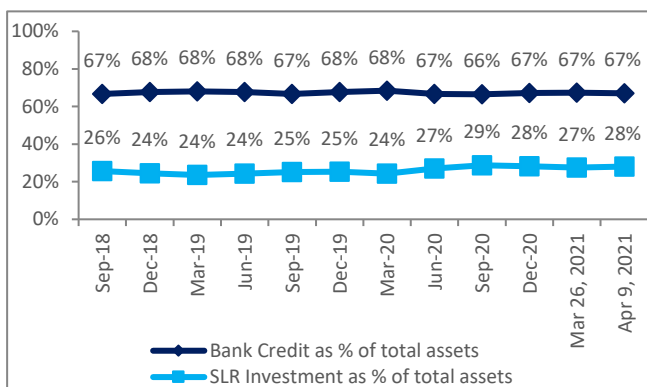
Figure 4: Credit to Deposit (CD) ratio trend



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 remained largely at similar levels

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 has stood stable at 67% but declined (by 1%) as compared to Mar-20.

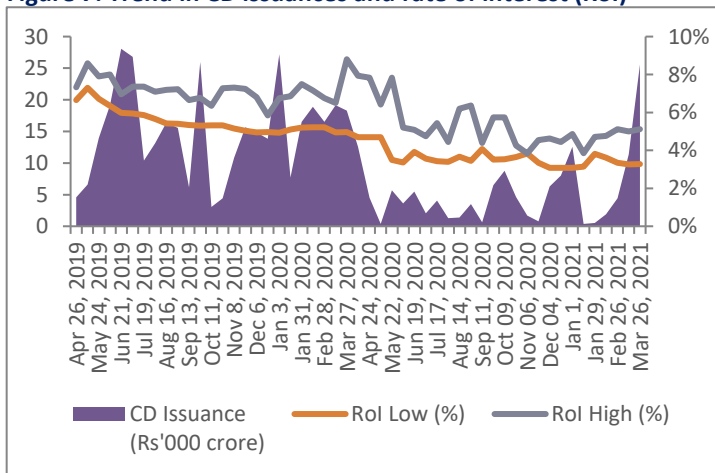
- Considering credit investments to be at Rs.8.3 lakh crore (As on January 29, 2021), bank credit (including credit investments) to total assets would have been around 72% for the fortnight ended April 9, 2021.
- Proportion of SLR investment to total assets increased (by 1%) as compared with last fortnight. In absolute terms, SLR investments grew by 15.9% YoY as compared with a growth of 20.8% in the previous fortnight and 14.1% YoY 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.

### O/s Level of CDs and CPs increased over 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 12, 2021	57.4	-67.0%
Mar 26, 2021	80.1	-53.7%

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

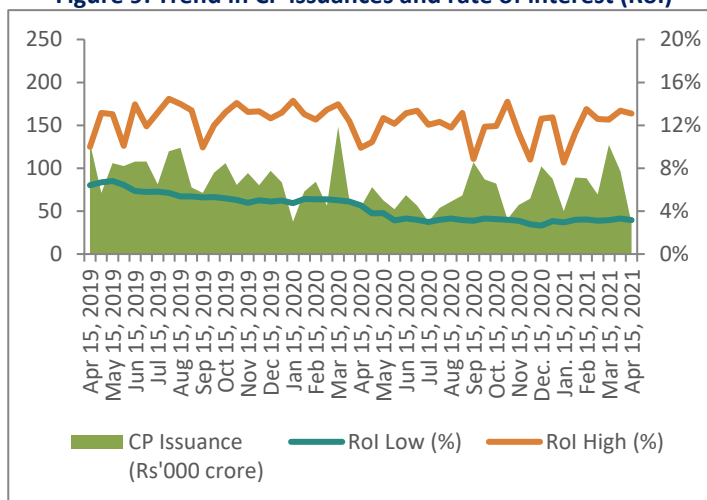


Note: The quarter-end data reflect the last fortnight data of that particular quarter; Source: RBI

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%
Apr. 15, 2021	382.8	0.4%

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
Review of Requirement of Counter-Cyclical Capital Buffer	<ul style="list-style-type: none"> <li>The framework envisages the credit-to-GDP gap as the main indicator, which may be used in conjunction with other supplementary indicators.</li> <li>Based on the review and empirical testing of CCyB indicators, it has been decided that it is not necessary to activate CCyB now.</li> </ul>
Interest Equalization Scheme on Pre and Post Shipment Rupee Export Credit- Extension	<ul style="list-style-type: none"> <li>Government of India has approved the extension of Interest Equalization Scheme for pre and post shipment Rupee export credit, with same scope and coverage, for three more months i.e., upto June 30, 2021.</li> </ul>

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