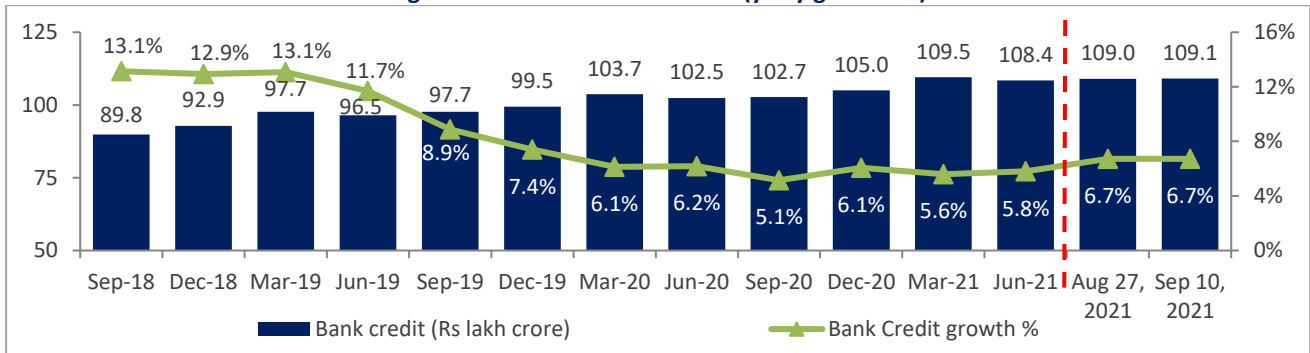


Bank credit growth on upswing

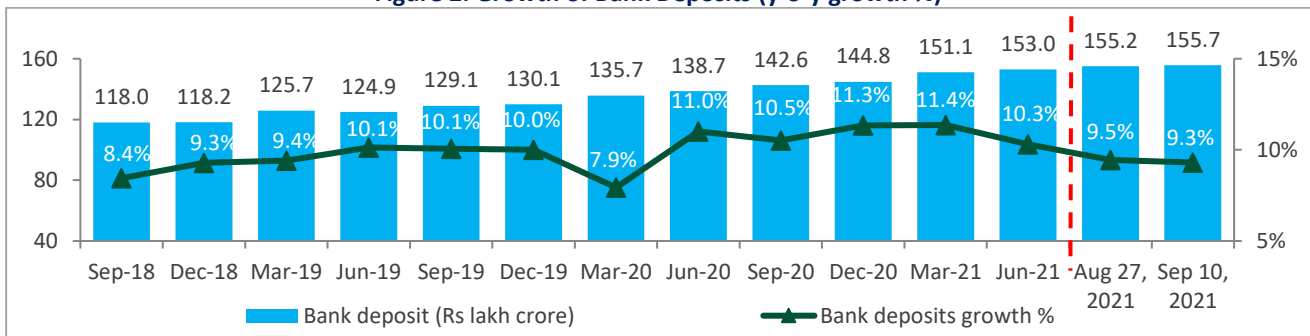
Figure 1: Growth of Bank Credit (y-o-y growth %)



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

- The y-o-y bank credit growth rate increased by 100 bps from the year ago level of 5.7% (fortnight ended September 11, 2020) and remained stable as compared with previous fortnight. The y-o-y increase reflects the low base effect and the easing of lockdown restrictions across regions in India. In absolute terms, credit offtake increased by Rs.6.9 lakh crore over the last twelve months and by Rs. 0.1 lakh crore as compared with the previous fortnight.
- The bank credit growth has remained tepid owing to the risk aversion by both lenders and borrowers and regional lockdowns imposed by states earlier this year to curb the spread of coronavirus. However, following the relaxation in lockdown since June 2021 the bank credit growth has been improving gradually. This is expected to be supported with rate cuts by banks to push credit as several banks are offering loans at record low-interest rate ahead of the festive season. E.g.: In August 2021, banks like Karur Vyas Bank cut 1-year MCLR rate (on m-o-m basis) by 53 bps to 8.23%, IndusInd Bank by 10 bps, and Bank of India, RBL Bank, & South Indian Bank by 5 bps each, respectively. Also, to attract borrowers, State Bank of India, Bank of Baroda and Kotak Mahindra Bank have reduced their home loan rates by 45bps, 25bps, and 15bps, respectively.
- With the arrival of the festive season, bank credit is expected to improve further in the coming fortnights led by growth in the retail segment. The overall non-food credit growth continues to be driven by retail and agriculture & allied activities segments (double-digit y-o-y growth) during the month of July 2021. However, slower growth in industry and services segment continues to restrict the overall credit growth.
- The outlook for bank credit growth is expected to be in the range of 7.5% to 8.0% for FY22 with a low base effect, economic expansion, ECLGS support, and retail credit push. The medium-term prospects look promising with diminished corporate stress and increased provisioning levels across banks. Retail loan segment is expected to do well as compared with industry and service segments.

Figure 2: Growth of Bank Deposits (y-o-y growth %)

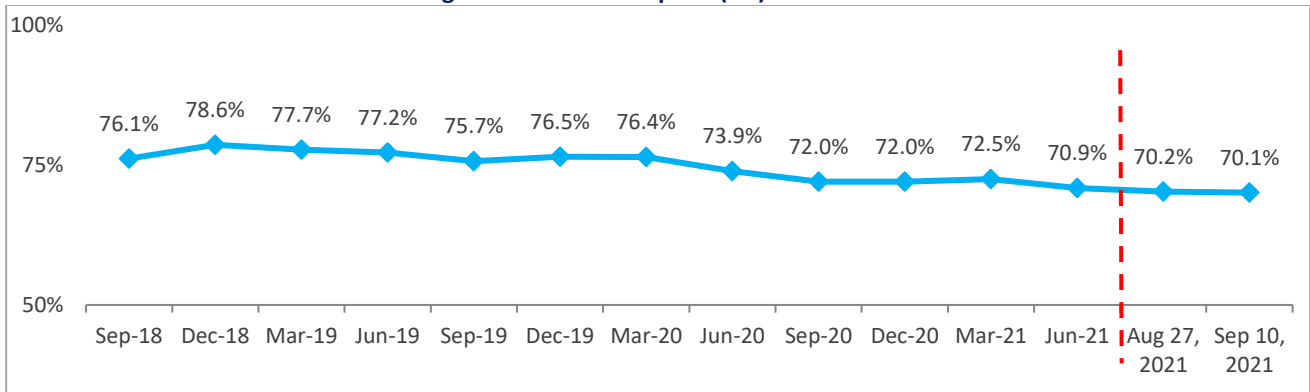


Note: The quarter-end data reflect the last fortnight data of that particular quarter; Source: RBI, CARE Ratings

- Deposit growth, on the other hand, decelerated further by 20 bps to 9.3% in the fortnight ended September 10, 2021, when compared with previous fortnight and by 270 bps compared to the last year (12.0% in the fortnight ended September 11, 2020). In absolute terms, the bank deposits have increased by Rs.13.3 lakh crore over the last twelve months. If we compare it with the previous fortnight, bank deposits increased by Rs.0.5 lakh crore. The lower growth rate (y-o-y) in deposits can be partly attributed to the base effect and fall in deposit rates of banks (weighted average domestic term deposit rate of SCBs fell by 78 bps between July 2020 to July 2021). Furthermore, banks like Canara Bank and Punjab National Bank have cut deposit rates during end-Aug 2021.
- Moreover, as on September 10, 2021, the liquidity surplus in the banking system stood at around Rs.7.8 lakh crores (Rs.7.5 lakh crores as on August 27, 2021). The liquidity surplus can be primarily attributed to deposit growth consistently outpacing credit growth.
- Bank deposits have continuously grown faster than bank credit in every fortnight since late September 2019 pushing down the 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 70.1%, at similar level compared to last fortnight, while it declined by 1.7% as compared with previous year (71.8% as on September 11, 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 July 2021 level as per latest data released by RBI) for the fortnight ended September 10, 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.6.9 lakh crore and additions in credit investment to be at Rs.0.1 lakh crore over additions in deposits (Rs.13.3 lakh crore), the proportion would have

been at around 53% which is almost similar level (52%) as compared with previous fortnight (addition in credit outstanding plus additions in credit investment over additions in deposits).

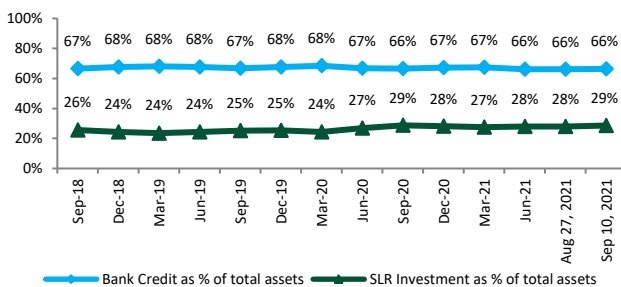
Figure 3: Credit to Deposit (CD) ratio trend



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 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, CARE Ratings

- The share of bank credit to total assets stood stable in the fortnight ended September 10, 2021, as compared with the previous fortnight.

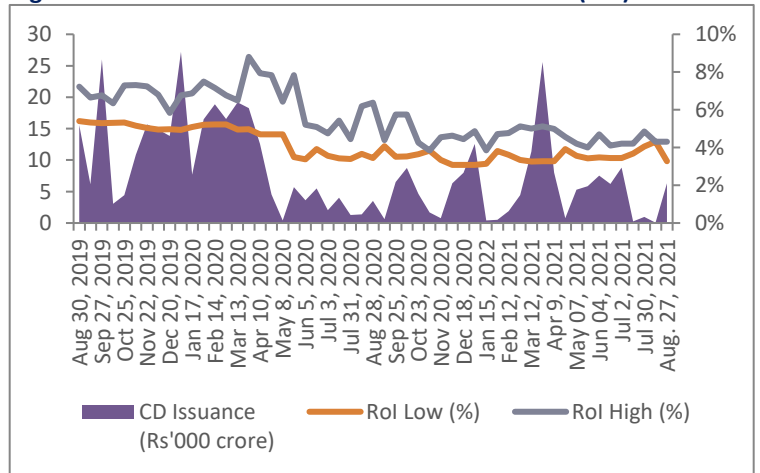
- Considering credit investments to be at Rs.8.6 lakh crore (as on July 30, 2021), bank credit (including credit investments) to total assets would have been around 72% for the fortnight ended September 10, 2021.
- Proportion of SLR investment to total assets increased marginally (by 1%) as compared with last fortnight. In absolute terms, SLR investments grew by 6.8% y-o-y (slow growth which can be partly ascribed to base effect) as compared with a growth of 22.1% a year ago and 5.4% in the previous fortnight. 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 increased while CPs declined over last fortnight

Figure 5: 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%
Mar 26, 2021	80.1	-53.7%
Jun 18, 2021	68.2	-43.8%
Aug. 13, 2021	63.5	-36.4%
Aug. 27, 2021	64.2	-29.0%

Figure 6: Trend in CD issuances and rate of interest (RoI)

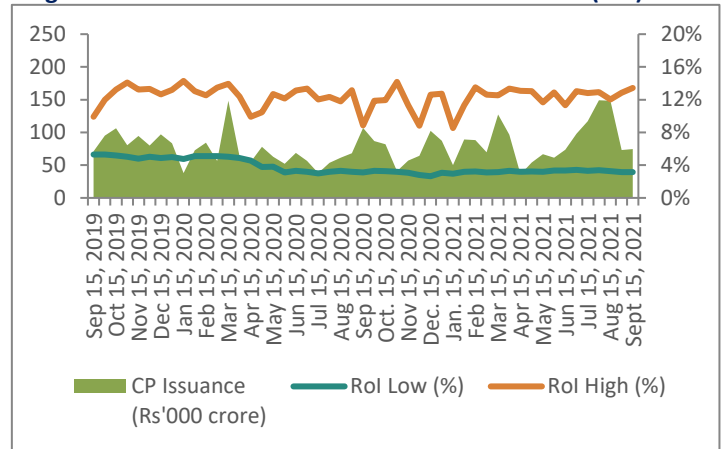


Note: The quarter-end data reflect the last fortnight data of that particular quarter; Source: RBI

Figure 7: 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%
Sep. 30, 2020	362.3	-25.5%
Mar 31, 2021	364.4	5.8%
Jun 30, 2021	376.1	-3.9%
Aug. 31, 2021	391.5	5.1%
Sept 15, 2021	401.2	-4.1%

Figure 8: 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
Master Direction – Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021	<ul style="list-style-type: none"> RBI issued Master Direction on loan transfer, requiring banks and other lending institutions to have a comprehensive board-approved policy for such transactions. These directions came into immediate effect from 24/09/2021 replacing the existing instructions on the matter of sale / transfer of loan exposures. All lending institutions are advised to take necessary steps to ensure compliance with these directions.
Master Circular on Investments by Primary (Urban) Co-operative Banks	<ul style="list-style-type: none"> RBI has issued master circular on investments which includes several guidelines/instructions for Primary (Urban) Co-operative Banks.
Master Direction – Reserve Bank of India (Securitisation of Standard Assets) Directions, 2021	<ul style="list-style-type: none"> RBI released Master Directions (2021) in the matter of 'Securitisation of Standard Assets', applicable for all lending Institutions w.e.f. 24/09/2021.

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