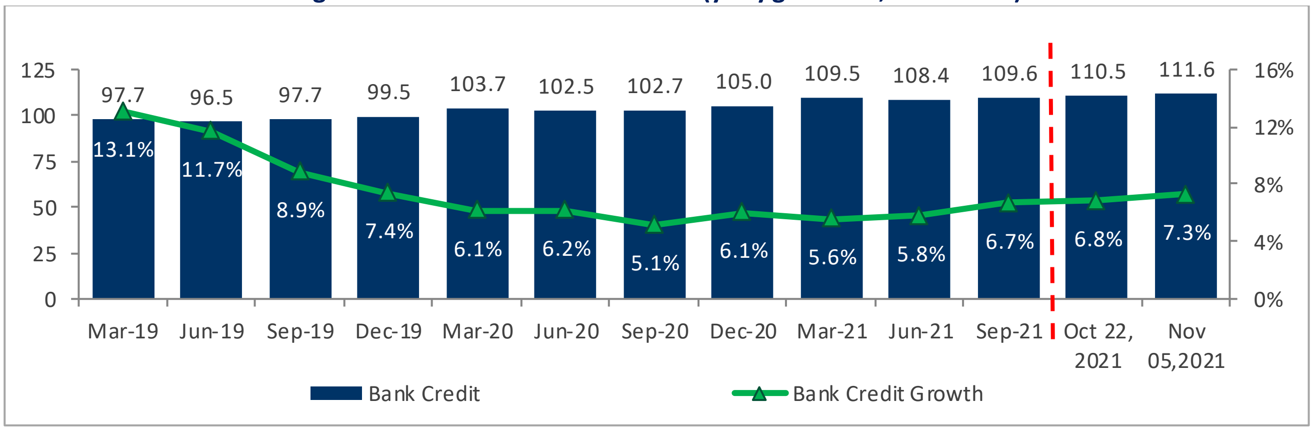
Credit Growth shows consistent improvement, while Deposits crosses the Rs.160 lakh crore milestone

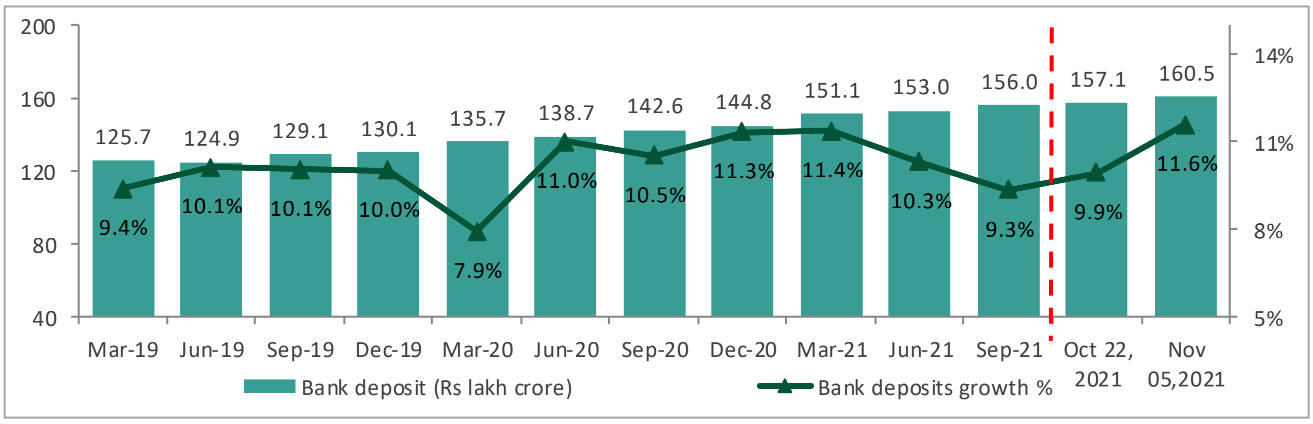
Figure 1: Bank Credit Growth Trend (y-o-y growth %, Lakh-crore)



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

- The bank credit grew by 7.3% y-o-y for the fortnight ended November 05, 2021) from 5.7% in the year ago period (fortnight ending November 06, 2020). The credit growth expanded by 162 bps y-o-y and 45 bps sequentially from the fortnight ended on October 22, 2021. The growth was spurred by the retail credit, driven by the festival season spending coupled with a low base, and pick up of the business activities post the easing of lockdown restrictions across regions in India. According to the Confederation of All India Traders, consumers spent (retail) Rs 1.25 lakh crores this Diwali. In absolute terms, credit offtake expanded to Rs.111.6 lakh crore, increasing by Rs.7.6 lakh crore over the last twelve months and by Rs.1.2 lakh crore as compared with the previous fortnight (October 22, 2021).
- Amid the second wave of the pandemic, the bank credit growth has remained tepid owing to the risk aversion by both lenders and borrowers and regional lockdowns imposed by states in the earlier part of this year to curb the spread of coronavirus. It was also impacted by the deleveraging of select large corporates. However, following the relaxation in lockdown since June 2021, bank credit growth has improved gradually from 5.7% (fortnight, June 04, 2021) to 7.3% (fortnight, November 05, 2021). The overall non-food credit growth continues to be driven by retail, agriculture & allied activities, MSME and services segments
- The rise in retail credit has also been supported with rate cuts by banks to push retail credit as several banks are offering home loans at record low-interest rate ahead of the festive season. E.g. in October and November 2021, banks like PNB has cut down its benchmark lending rate by 5 basis points to 6.50 per cent and Union Bank of India (UBI) has slashed the interest rate on home loans by 40 basis points in November 2021.
- 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, extended ECLGS support (sanctions permitted till March 2022 and disbursements till June 2022), 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 %, Lakh Crore)

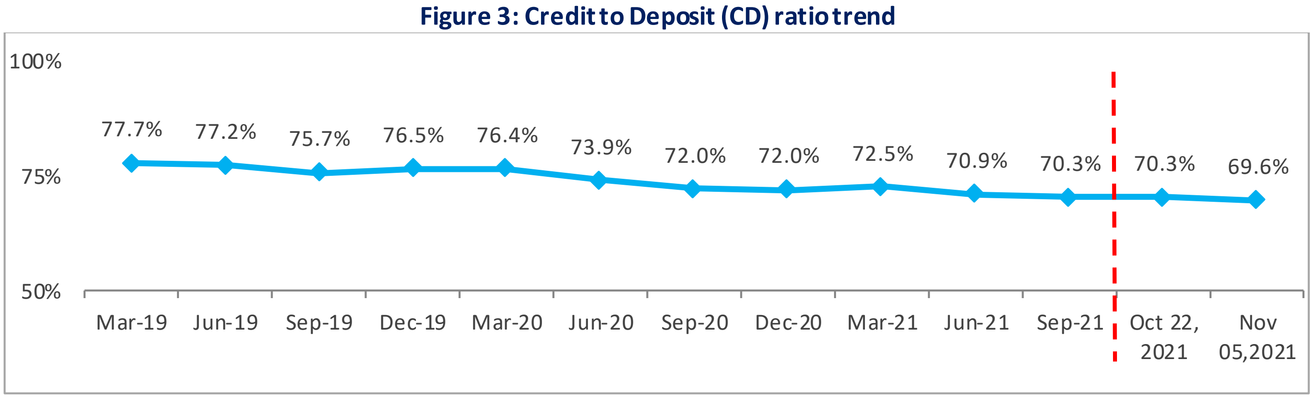


Note: The quarter-end data reflect the last fortnight data of that particular quarter; Source: RBI, CARE Ratings

- Deposits crossed the milestone of Rs.160 lakh crore for the first time in November 2021 by recording a healthy growth of 11.6% y-o-y for the fortnight ended November 05, 2021, expanding by 96 bps, and also reported a growth of 167 bps when compared with the previous fortnight (October 22, 2021). The growth was driven by an increase of Rs.1.45 lakh crore in demand deposits (from the last fortnight) while, time deposit also increased by Rs.1.9 lakh crore. In absolute terms, the bank deposits have increased by Rs.16.8 lakh crore over the last twelve months. If we compare it with the previous fortnight (October 22, 2021), deposits increased by Rs.3.36 lakh crore.
- The banking system liquidity surplus as on November 03, 2021, stood at Rs.7.52 lakh crore (Rs.6.85 lakh crores as on October 22, 2021). The liquidity surplus can be primarily attributed to deposit growth consistently outpacing credit growth. However, the liquidity surplus has narrowed (from over Rs.8 lakh crore at the start of October 2021) which can be partly attributed to the excess liquidity of banks being tied up in VRRR auctions (variable reverse rate repo auctions carrying tenure of 8 to 14 days).

- Bank deposits have continuously grown faster than bank credit in every fortnight since late September 2019. 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 69.6% and declined by 70 bps as compared to last fortnight, while it declined by 284 bps as compared with previous year (72.4% as on November 06, 2020). On the other hand, if we assume credit investments to be at Rs.8.5 lakh crores (As on September 24, 2021, as per latest data released by RBI), for the fortnight ended November 05, 2021, then the CD ratio would be around 74.9%. Considering the addition in credit outstanding over the last 12 months to be at Rs.7.6 lakh crore over additions in deposits (Rs.16.68 lakh crore), the proportion would have been at around 46.2% which is lower than previous fortnight of 48.9% (addition in credit outstanding plus additions in credit investment over additions in deposits).

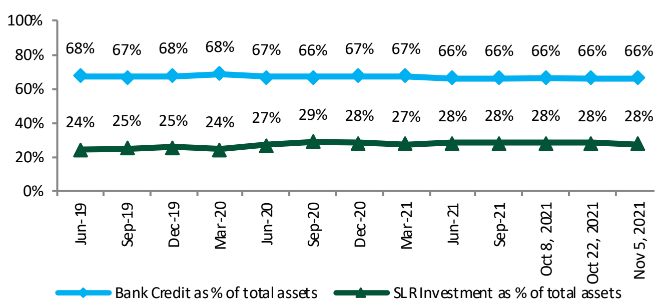
Figure 3: Credit to Deposit (CD) ratio trend



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

Proportion of SLR investment and bank credit to total assets continues to remain 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

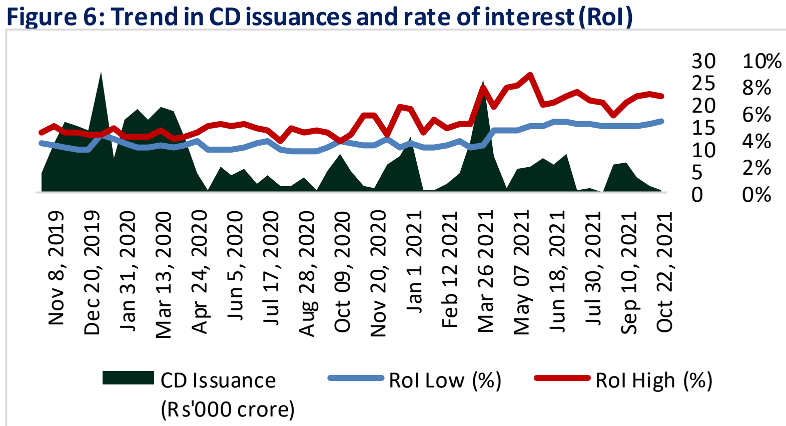
- The share of bank credit to total assets stood stable in the fortnight ended November 05, 2021, as compared with the previous fortnight.
- Considering credit investments to be at Rs.8.5 lakh crore (as on September 24, 2021), bank credit (including credit investments) to total assets would have been around 70.6% for the fortnight ended November 05, 2021.
- Proportion of SLR investment to total assets has remained at similar levels compared to the previous fortnight. In absolute terms, SLR investments grew by 4.7% y-o-y (slower growth which can be partly ascribed to base effect) as compared with a growth of 19.1% a year ago (remained at similar level (4.4%) in the previous fortnight, October 22, 2021). 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 hasbeen 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.

Consistent decline in o/s CDs, however o/s CPs recorded a strong growth

Figure 5: Certificates of Deposit 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%
Jun 18, 2021	68.2	-43.8%
Aug. 27, 2021	64.2	-29.0%
Sep 10, 2021	67.1	-23.4%
Sep 24, 2021	60.2	-20.3%
Oct 08, 2021	59.2	-20.9%
Oct 22, 2021	57.4	-24.8%

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



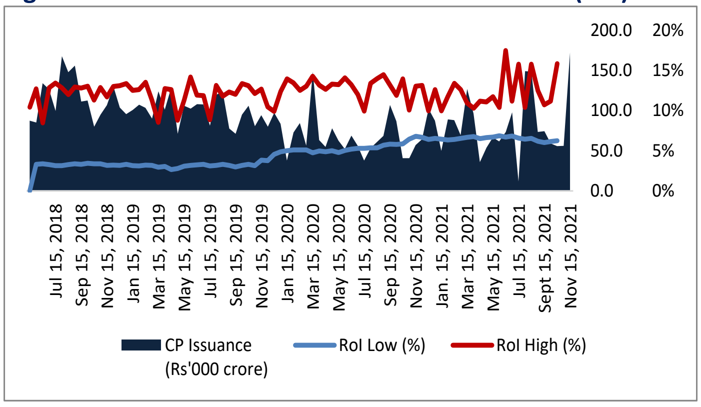
Note: The quarter-end data reflect the last fortnight data of that particular quarter; Source: RBI

Figure 7: Commercial Paper Outstanding

Fortnight ended	Amount Outstanding (Rs'000 crore)	Y-o-Y growth %
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%
Sep. 30, 2021	371.0	2.4%
Oct. 31, 2021	379.3	-2.6%
Nov. 15, 2021	450.9	20.8%

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

Figure 8: Trend in CP issuances and rate of interest (RoI)



Select RBI Announcements

Announcement	Details
RBI has accepted recommendation for raising cap for promoters' stake in private banks	The Reserve Bank of India (RBI) has accepted 21 out of 33 recommendations of the internal working group that was set up to review extant ownership guidelines and corporate structure for Indian private sector banks. The RBI is also working for the remaining 12 recommendation. **Key recommendations accepted** • The RBI has accepted recommendation of raising cap on promoters' stake from the current levels of 15% to 26% of the paid-up voting equity share capital of the bank. • No change may be required in the extant instructions related to initial lock-in requirements, which may continue as a minimum of 40% of the paid-up voting equity share capital of the bank for the first five years • There is no need to fix any cap on the promoters' holding in the initial five years. • No intermediate sub-targets between 5-15 years may be required. • The non-promoter shareholding will be capped at 10% of the paid-up voting equity share capital in case of natural persons and non-financial institutions or entities, and at 15% of the paid-up capital of the bank in case of all categories of financial institutions or entities. • Minimum requirement on track record of experience of promoting entity, including for a converting NBFC, may continue at 10 years for Universal Banks and 5 years for Small finance banks. • The IWG is of the view that pledge of shares by promoters during the lock-in period, which amounts to bringing the unencumbered promoters' shares below the prescribed minimum threshold, should be disallowed. • For a Payments Bank (PB) intending to convert into an SFB, track record of 3 years of experience as PB may be sufficient. • Banks currently under NOFHC (non-operative financial holding company) structure may be allowed to exit from such a structure if they do not have other group entities in their fold.
RBI panel pitches for strict regulation of digital loan apps	• The working group set up by the Reserve Bank of India (RBI) to review the working of digital lending has made a case for stronger regulation of loan apps in its report. • The recommendations range from subjecting digital lending apps (DLAs) to a verification process by a nodal agency to separate legislation to prevent illegal digital lending activities. • The report said there were approximately 1,100 lending apps available for Indian Android users across over 80 application stores, of which 600 were illegal.

Source: RBI

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