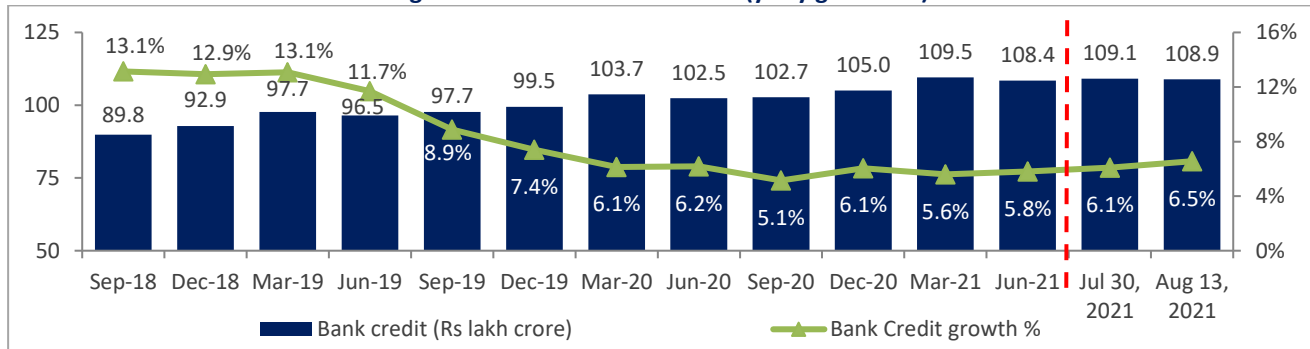


Bank credit and deposits growth rate improves vs. the last fortnight. The incremental credit growth continues to remain negative.

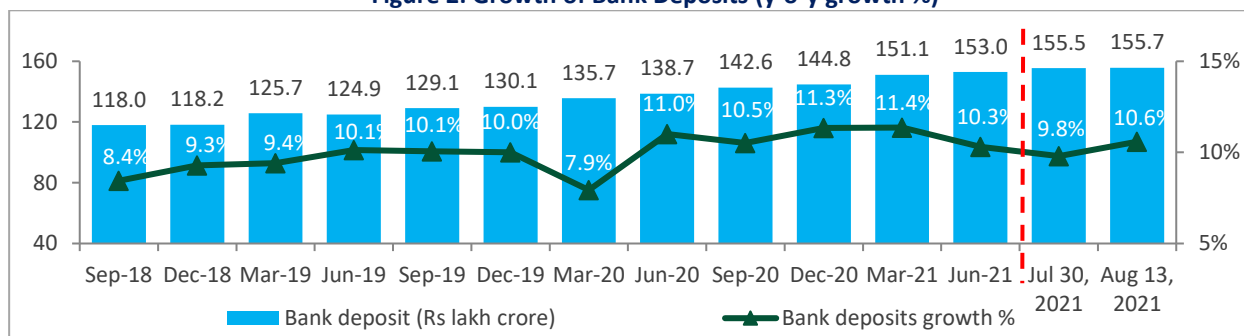
Figure 1: Growth of Bank Credit (y-o-y growth %)



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

- The y-o-y credit growth rate for the current fortnight increased as compared with the y-o-y credit growth rate in the previous fortnight due to the base effect and as restrictions have eased across select regions in India. If compared with previous year, credit growth rate improved by 100 bps to 6.5% (5.5% for fortnight ended August 14, 2020). In absolute terms, credit offtake increased by Rs.6.7 lakh crore over the last twelve months but reduced by Rs. 0.2 lakh crore as compared with the previous fortnight.
- The bank credit growth has been tepid, which can be ascribed to the risk aversion by both lenders and borrowers and regional lockdowns imposed by states this year to curb the spread of coronavirus amid the second wave of the pandemic. However, many states have declared relaxation in lockdown or imposed partial/local lockdown since June 2021, the result of this on bank credit would be known after reviewing the additions in bank credit by H1FY22 end.
- 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 June 2021. Contraction in the industry segment (especially in the large industries) and slower growth in services segment continue to restrict the overall credit growth.
- The outlook in terms of 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.

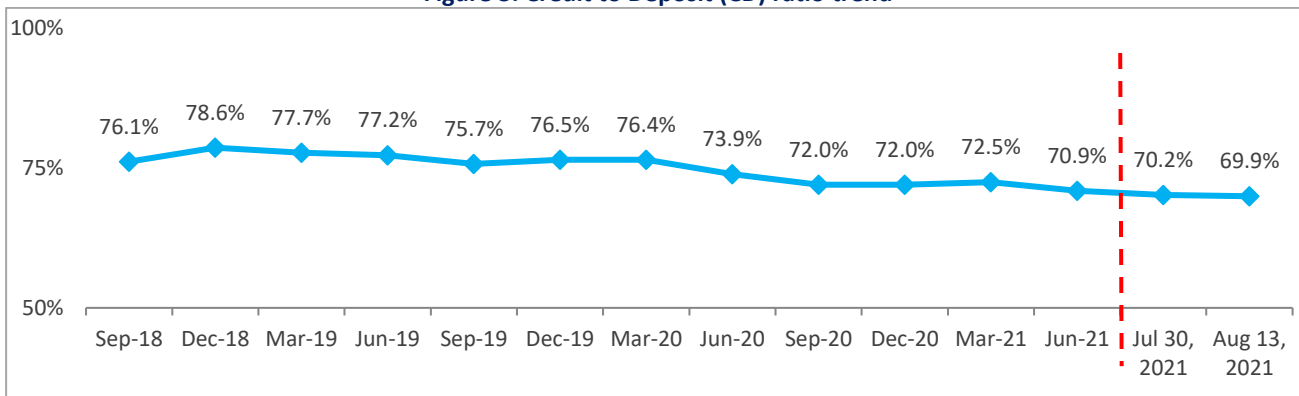
Figure 2: Growth of Bank Deposits (y-o-y growth %)



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

- Deposit growth at 10.6% deteriorated for the fortnight ended August 13, 2021, when compared with the same period last year (11.0% for the fortnight ended August 14, 2020) but increased marginally when compared with the previous fortnight (9.8%). In absolute terms, the bank deposits have increased by around Rs.15.0 lakh crore over the last twelve months. If we compare it with the previous fortnight, bank deposits grew by Rs.0.2 lakh crore. The marginal lower growth rate (y-o-y) in deposits can be partly attributed to the base effect and fall in deposit rate of banks (weighted average domestic term deposit rate of SCBs fell by 83 bps between June 2020 to June 2021).
- Moreover, as on August 13, 2021, the liquidity surplus in the banking system stood at around Rs.7.3 lakh crores. 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 69.9%, largely at similar level compared to the last fortnight, while it declined by around 3% as compared with previous year (72.6% as on August 14, 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 June 2021 level as per latest data released by RBI) for the fortnight ended August 13, 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.6.7 lakh crore and additions in credit investment to be at Rs.0.1 lakh crore over additions in deposits (Rs.15.0 lakh crore), the proportion would have been at around 46% as compared with around 47% in previous fortnight (addition in credit outstanding plus additions in credit investment over additions in deposits).

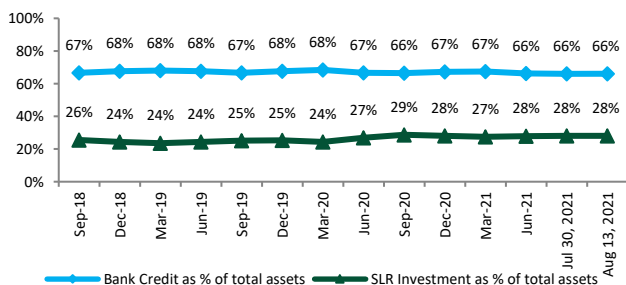
Figure 3: Credit to Deposit (CD) ratio trend



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 August 13, 2021, as compared with the previous fortnight.

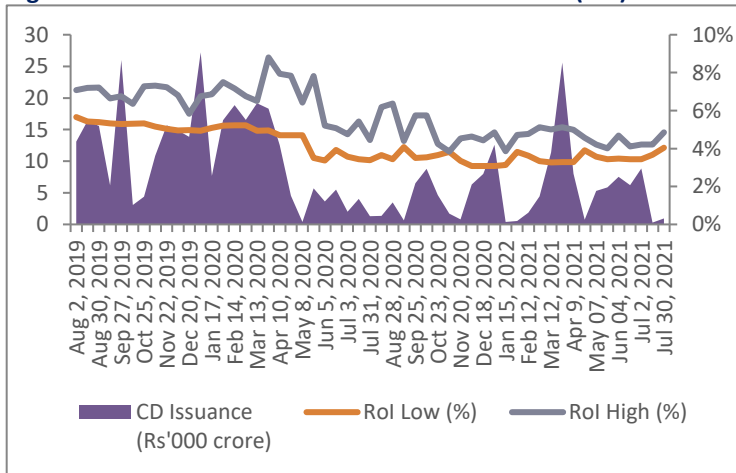
- Considering credit investments to be at Rs.8.6 lakh crore (as on Jun 21, 2021), bank credit (including credit investments) to total assets would have been around 71% for the fortnight ended August 13, 2021.
- Proportion of SLR investment to total assets stood at similar levels during the last two fortnights. In absolute terms, SLR investments grew by 6.9% y-o-y (slow growth which can be partly ascribed to base effect) as compared with a growth of 21.2% a year ago and 8.6% 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.

Compared to the previous fortnight, o/s level of CDs stood at similar levels while CPs increased.

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%
Dec 18, 2020	68.8	-57.9%
Mar 26, 2021	80.1	-53.7%
Jul 16, 2021	64.6	-42.6%
Jul 30, 2021	64.3	-38.6%

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

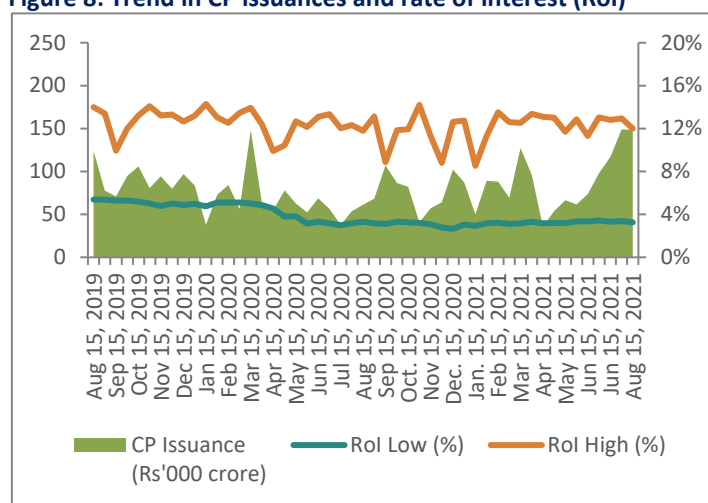


Note: The quarter-end data reflect the last fortnight data of that particular quarter; Source: RBI

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%
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%
Jul 31, 2021	415.0	10.7%
Aug 15, 2021	419.7	10.3%

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
RBI announces Open Market Purchase of Government of India Securities under G-sec Acquisition Programme (G-SAP 2.0)	<ul style="list-style-type: none"> As announced in Governor's statement of August 06, 2021, the Reserve Bank will conduct open market purchase of government securities of Rs.25,000 crore on August 26, 2021, under the G-sec Acquisition Programme (G-SAP 2.0).
Master Direction - Classification, Valuation and Operation of Investment Portfolio of Commercial Banks (Directions), 2021	<ul style="list-style-type: none"> To enable banks to have current instructions at one place, a Master Direction incorporating all the existing guidelines / instructions / directives on the subject has been prepared for reference of the banks.

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