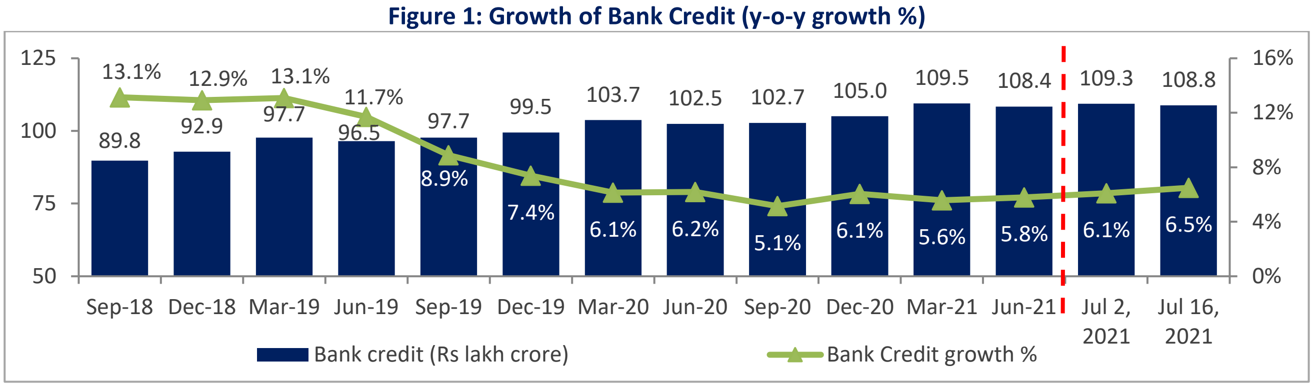
CARE Ratings
Professional Risk Opinion

# Update – Growth in Deposits and Credit

July 31, 2021

## Credit and Deposit growth picked up.

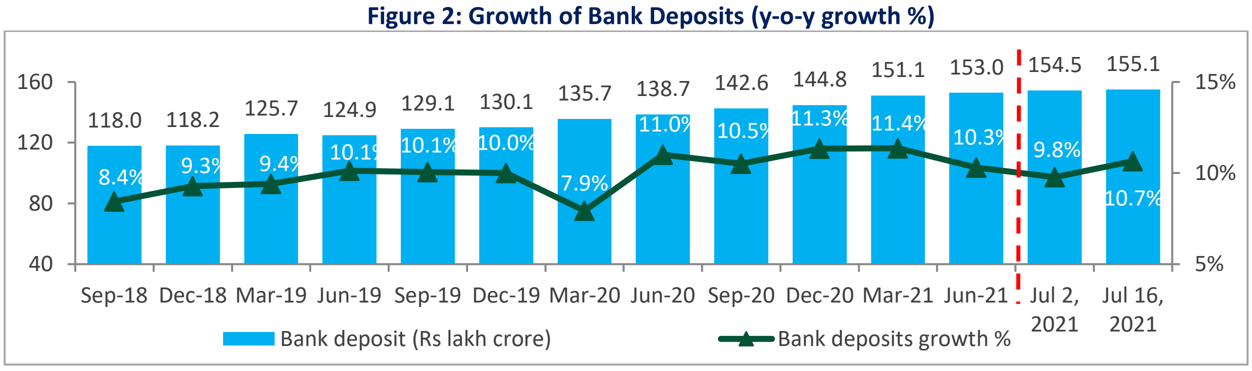
**Figure 1: Growth of Bank Credit (y-o-y growth %)**




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 when compared with the y-o-y credit growth rate in the previous fortnight due to the base effect and as restrictions eased gradually across select regions in India. If compared with previous year, credit growth rate improved to 6.5% (5.8% for fortnight ended July 17, 2020).
- In absolute terms, credit offtake increased by Rs.6.6 lakh crore over the last twelve months but declined by Rs.0.5 lakh crore as compared with the previous fortnight. The bank credit growth continues to remain subdued as compared with the period prior to pandemic, which can be ascribed to risk aversion (both lenders and borrowers) which has resulted in continued parking of excess liquidity with RBI.
- The retail and agriculture sectors have continued to drive the overall credit growth (double-digit y-o-y growth in the month of June 2021). Whereas negative growth in industry and slower growth in services segments (excl. the MSME segment) restricted the overall credit growth. The lower credit offtake by industry and the service sector can be attributed to lower borrowing by businesses as good quality borrowers have shifted to capital markets (corporate bond issuance was higher by 27% in June 2021 as compared with issuances in May 2021 as per provisional data from prime database), consequent to restrictions under the pandemic's second wave.
- The credit growth for FY22 is likely to remain in low double digit with growth largely expected in the H2FY22 led by gradual expansion in economic activities. The recent additional measures by Government (e.g., rate cuts, extension in TLTRO, additions to the ECLGS scheme, liquidity support along with special liquidity facility (announced on June 04, 2021) of Rs.16,000 crore to be provided to SIDBI for on-lending over and above Rs.15,000 crore which was provided in April 2021 would help support disbursements in MSME segment and ontap liquidity window of Rs 50,000 crore for health care infrastructure to boost provision of immediate liquidity for Covid-related health care infrastructure and services in the country) to mitigate pandemic related stress are expected to improve credit offtake. The downside risks include limited capex plans, partial restrictions in key states and concerns over the third wave, which may impact the industrial as well as 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 improved during the fortnight ended July 16, 2021, as compared with previous fortnight. The growth is largely stable as compared with 10.8% y-o-y growth registered in the previous year (fortnight ended July 17, 2020).
- In absolute terms, the bank deposits have increased by around Rs.15.0 lakh crore over the previous year and reached a new high since last 24 years. If we compare it with the previous fortnight, bank deposits grew by Rs.0.6 lakh crore. The marginal lower growth rate (y-o-y) in deposits can be partly attributed to the base effect and fall in deposits rate of banks (weighted average domestic term deposit rate of SCBs fell by 83 bps between June 2020 to June 2021).
- Moreover, as on July 16, 2021, the liquidity surplus in the banking system stood at around Rs.5.6 lakh crores. The liquidity surplus can be primarily attributed to deposit growth consistently outpacing credit growth.
- As given in figure 3, time deposits account for 88.1% of aggregate deposits (89.4% share as on July 17, 2020) grew at a slower pace compared to demand deposits, which accounted for the balance 11.9% (10.6% share as on July 17, 2020).

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

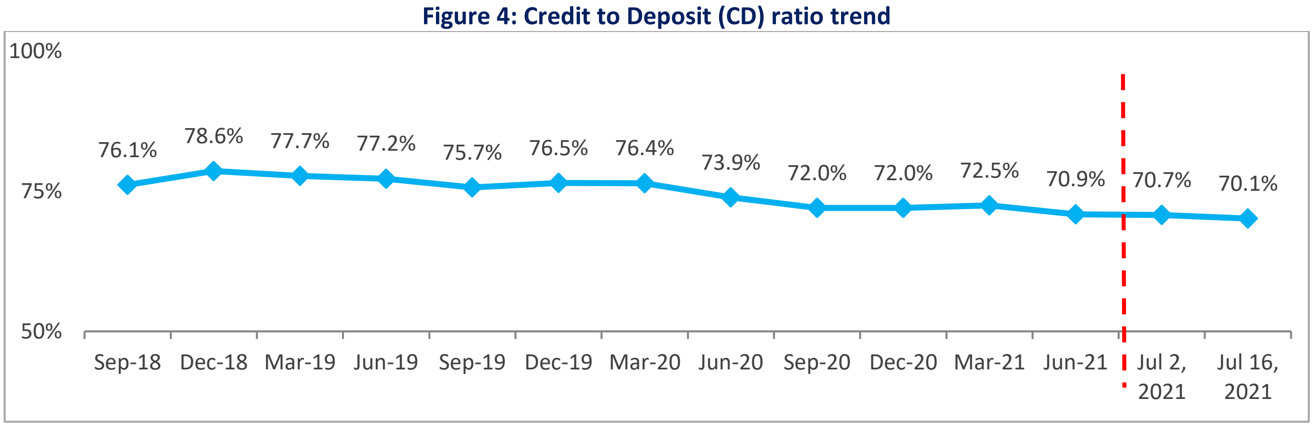
| Rs in lakh crore | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Mar-21 | Jun-21 | Jul 2, 2021 | Jul 16, 2021 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Demand Deposits | 13.1 | 11.9 | 15.1 | 12.9 | 14.1 | 13.5 | 16.2 | 14.5 | 15.8 | 15.7 | 18.6 | 17.5 | 17.5 | 18.5 |
| % 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% | 20.8% | 15.9% | 23.9% |
| Time Deposits | 104.9 | 106.3 | 110.6 | 112.0 | 115.0 | 116.5 | 119.5 | 124.1 | 126.9 | 129.2 | 132.5 | 135.4 | 137.0 | 136.6 |
| % 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% | 9.1% | 9.0% | 9.1% |

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

- Bank deposits have continuously grown faster than bank credit in every fortnight since late September 2019 pushing down 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%, largely at similar level in last fortnight, while declined by around 3% as compared with previous year (72.9% as on July 17, 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 May 2021 level as per latest data released by RBI) for the fortnight ended July 2, 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.6.6 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 around 45% which is lower as compared with around 47% in previous fortnight (addition in credit outstanding plus additions in credit investment over additions in deposits).

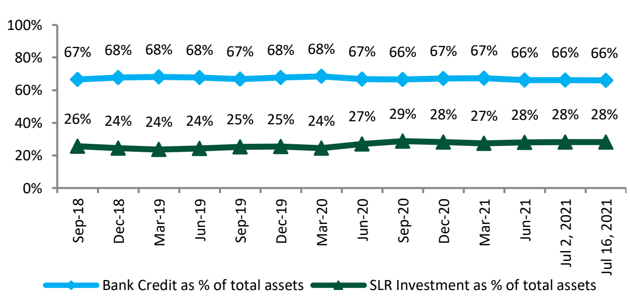
**Figure 4: Credit to Deposit (CD) ratio trend**




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 largely remained stable

**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 stood stable in the fortnight ended July 16, 2021, as compared with previous fortnight.

- Considering credit investments to be at Rs.8.6 lakh crore (as on May 21, 2021), bank credit (including credit investments) to total assets would have been around 71% for the fortnight ended July 16, 2021. Additionally, the growth in credit investments stood at 1.4% y-o-y in May 2021; while bank credit growth stood at 6.0% y-o-y in May 2021.

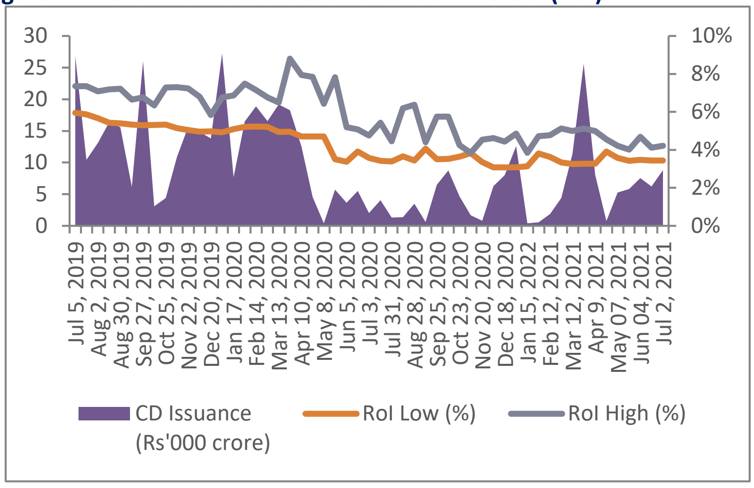
- Proportion of SLR investment to total assets stood at similar levels during the last two fortnights. In absolute terms, SLR investments grew by 11.2% y-o-y as compared with a growth of 19.9% a year ago, and stood flat as compared with the previous fortnight. Moreover, RBI had previously allowed banks 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.

## Compared to the previous year, o/s level of CDs declined, while o/s level of CPs increased. On the other hand, both the parameters increased vs. the 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 26, 2021** | 80.1 | -53.7% |
| **Jun 18, 2021** | 68.2 | -43.8% |
| **Jul 2, 2021** | 69.3 | -38.4% |

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

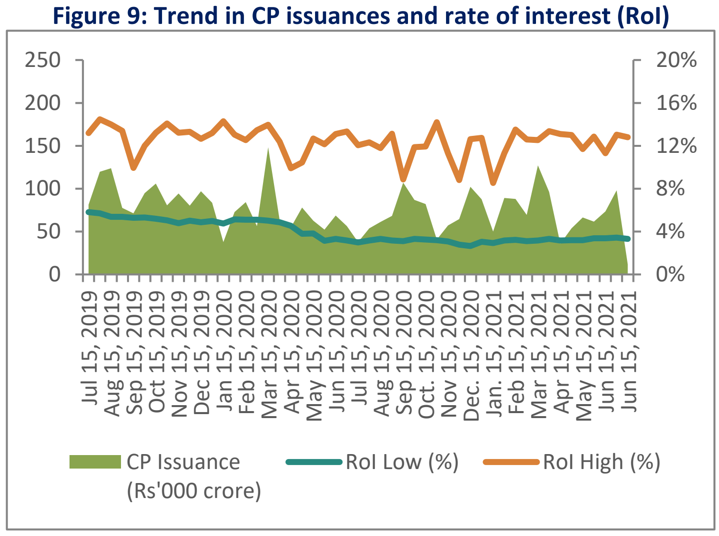



Note: The quarter-end data reflect the last fortnight data of that particular quarter; Source: RBI

**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% |
| **Jun 30, 2021** | 376.1 | -3.9% |
| **Jul 15, 2021** | 471.2 | 17.0% |

**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 |
|---|---|
| **Access for Non-banks to Centralised Payment Systems** | • RBI to encourage participation of non-banks in Reserve Bank of India-operated Centralised Payment Systems (CPS) viz. Real Time Gross Settlement (RTGS) and National Electronic Fund Transfer (NEFT) systems, in a phased manner |
| **Loans and Advances – Regulatory Restrictions** | • The Reserve Bank of India (RBI) has relaxed regulatory restrictions on loans and advances to bank directors and their relatives, six years after they were announced.<br>• As per the revised guidelines, the threshold limit for board approval for personal loans granted to directors of other banks has been raised to ₹5 crore, from Rs.25 lakh. |
| **Reserve Bank of India announces Digital Payments Index (RBI-DPI) for March 2021** | • The RBI-DPI index has demonstrated significant growth in the index representing the rapid adoption and deepening of digital payments across the country in recent years. |

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