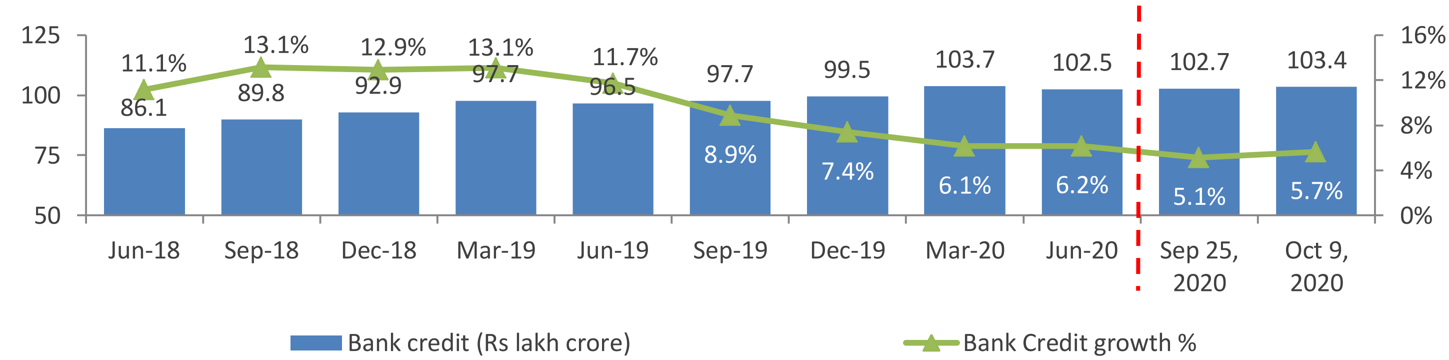
Update – Growth in Deposits and Credit

October 24, 2020

Credit growth increased marginally over last fortnight while deposit growth remained stable

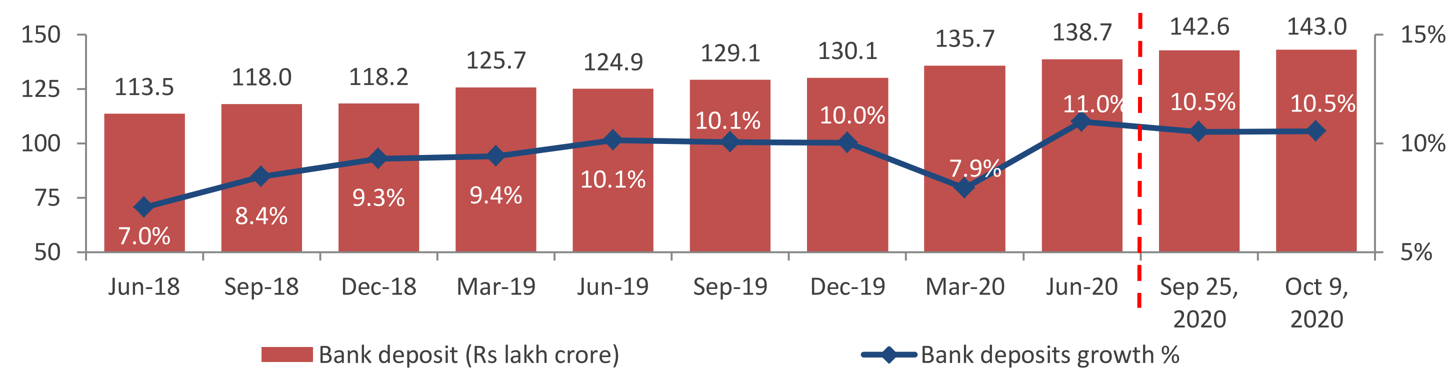
Figure 1: Growth of Bank Credit (y-o-y growth %)



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

- As can be seen in Figure 1, the overall credit growth in the banking sector increased marginally compared to last fortnight, which indicates that consumers have started purchasing with the arrival of festive season. Also, banks are coming up with various festival offers to push retail credit. However, the credit growth decelerated to 5.1% and 5.7% during the last two fortnights, compared to last year's level of 8.8% and 8.9% respectively (as of September 27, 2019 and October 11, 2019) reflecting weak demand (compared to a year-ago period) and risk aversion in the banking system due to COVID-19 pandemic. Also, SCBs are being very selective with their credit portfolios due to asset quality concerns.
- Despite the overall slow growth in incremental bank credit, disbursements to MSMEs continued to be strong under the Emergency Credit Line Guarantee Scheme ("ECLGS scheme"). Under Rs.3.0 lakh crore of Emergency Credit Line Guarantee Scheme for MSMEs, banks have sanctioned Rs. 1.88 lakh crores out of which Rs. 1.36 lakh crore were disbursed to around 27 lakh business units till October 5, 2020 (refer report '[Weekly Liquidity Report: October 5 - 9, 2020]').

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



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

- Deposits increased by 10.5% (as of October 09, 2020) compared with 9.8% in the year ago period (October 11, 2019) and remained stable as compared with the previous fortnight (September 25, 2020).
- Moreover, the liquidity surplus in the banking system for the fortnight ended October 09, 2020 stood at Rs.3.86 lakh crores. The liquidity surplus can be ascribed to deposit growth outpacing credit growth persistently. However, government borrowings (Central: Rs 28,000 crores and states: Rs 49,287 crores) along with statutory dues (eg. advance tax payments) limited the banking system liquidity surplus during the fortnight.
- Additionally, the banking system liquidity is expected to remain in a surplus position aided by sustained growth in bank deposits as against slower growth in the bank credit growth. However, the liquidity surplus will continue to be weighed down by upcoming government borrowings (Central: Rs 28,000 crores and states: Rs 34,135 crores).
- As given in Figure 3, time deposits account for 89.7% of aggregate deposits (89.6% share as on October 11, 2019) grew at a similar pace compared to demand deposits which account for the balance 10.3% (10.4% share as on October 11, 2019).

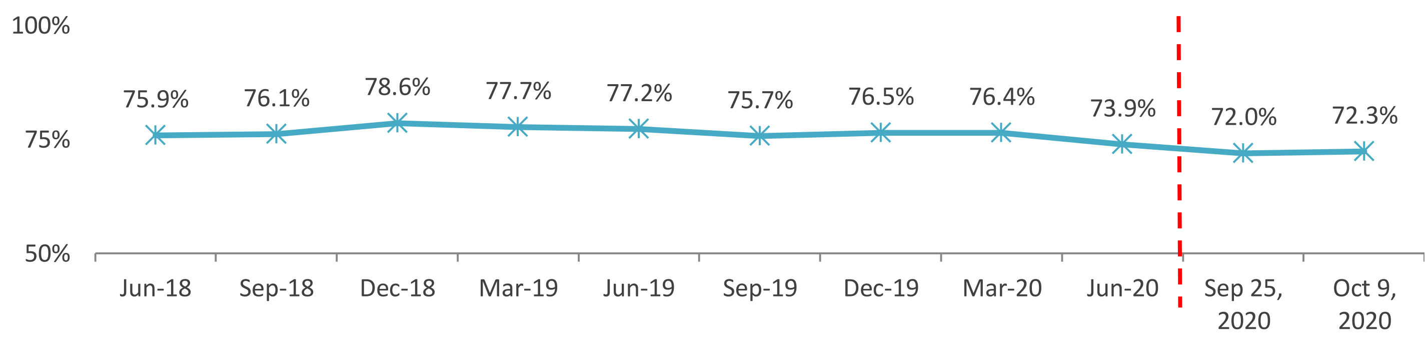
Figure 3: Demand Deposits and Time Deposits growth trend

Rs in lakh crore	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep 25, 2020	Oct 9, 2020
Demand Deposits	11.8	13.1	11.9	15.1	12.9	14.1	13.5	16.2	14.5	15.8	14.7
% growth y-o-y	5.5%	5.9%	4.9%	10.3%	9.6%	7.6%	13.8%	7.0%	12.7%	11.9%	9.6%
Time Deposits	101.8	104.9	106.3	110.6	112.0	115.0	116.5	119.5	124.1	126.9	128.3
% growth y-o-y	7.8%	8.4%	9.7%	10.0%	10.1%	9.6%	9.7%	8.1%	10.8%	10.3%	10.7%

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

- The Credit to Deposit (CD) ratio stood at similar level during the last two fortnights ended September 25, 2020 and October 09, 2020 (75.7% in the year-ago period) due to slower growth in credit. On the other hand, if we assume credit investments to be at Rs.8.5 lakh crore for the fortnight ended October 09, 2020 (At August 2020 level as per latest data released by RBI), then the CD ratio would have been ~78%. Furthermore, if we assume the CD ratio to be constant at 76.0% (which was last observed in Mar-20) for the fortnight ended October 09, 2020, the incremental lending (considering only bank credit) would have been higher by approximately Rs.5.5 lakh crores. However, due to the COVID-19 outbreak and risk aversion, the available liquidity has largely been invested in SLR securities.

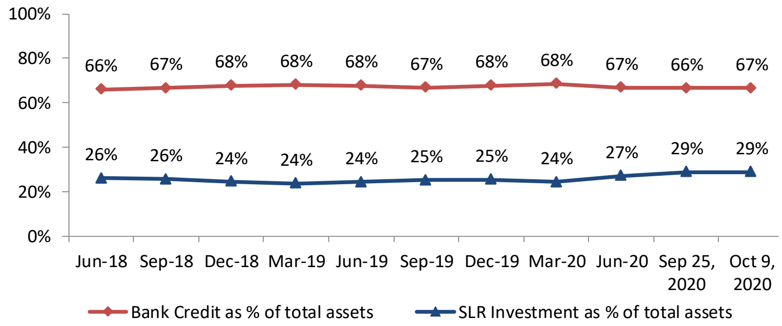
Figure 4: Credit to Deposit (CD) ratio trend



Note: The quarter end data reflects 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 reflects 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

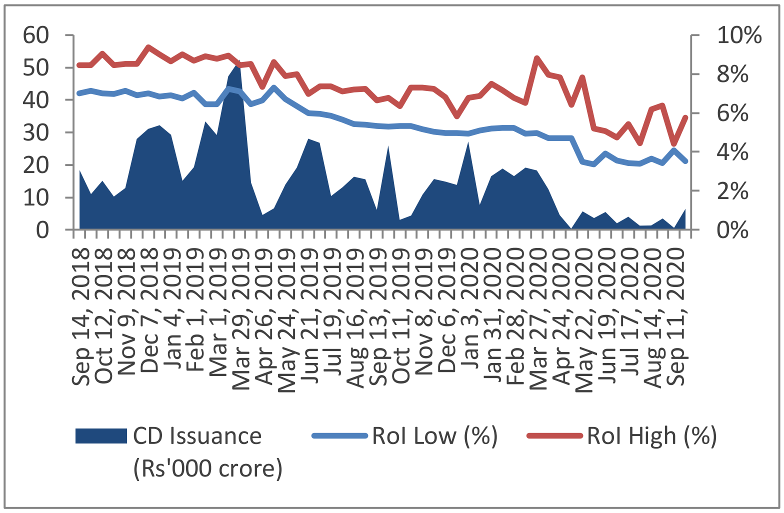
- The share of bank credit to total assets increased by 1% compared with previous fortnight but has declined (by 1%) as compared to Mar-20.
- Considering credit investment to be at ~Rs.8.5 lakh crore (August 2020 level), the bank credit to total assets (including credit investments) would be ~72% in the fortnight ended October 09, 2020.
- Proportion of SLR investment to total assets has increased from Mar-20 and stood at 29% for the fortnight ended October 09, 2020. The SLR investments grew at 20.5% YoY compared with 6.0% in the previous year due to banks increased preference for government securities and as RBI has 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. This additional 2.5% would create extra demand for government bonds.

O/s Level of CDs declined while CPs increased over last fortnight

Figure 6: Certificates of Deposit Outstanding

Fortnight ended	Amount Outstanding (Rs'000 crore)	Y-o-Y growth %
Jun 22, 2018	174.5	57.0%
Sep 28, 2018	151.0	31.9%
Dec 21, 2018	180.7	42.3%
Mar 29, 2019	272.3	46.6%
Jun 21, 2019	215.9	23.8%
Sep 27, 2019	188.1	24.6%
Dec 20, 2019	160.7	-11.1%
Mar 27, 2020	173.0	-36.5%
Jun 19, 2020	121.5	-43.8%
Sep 11, 2020	87.7	-48.0%
Sep 25, 2020	75.6	-59.8%

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

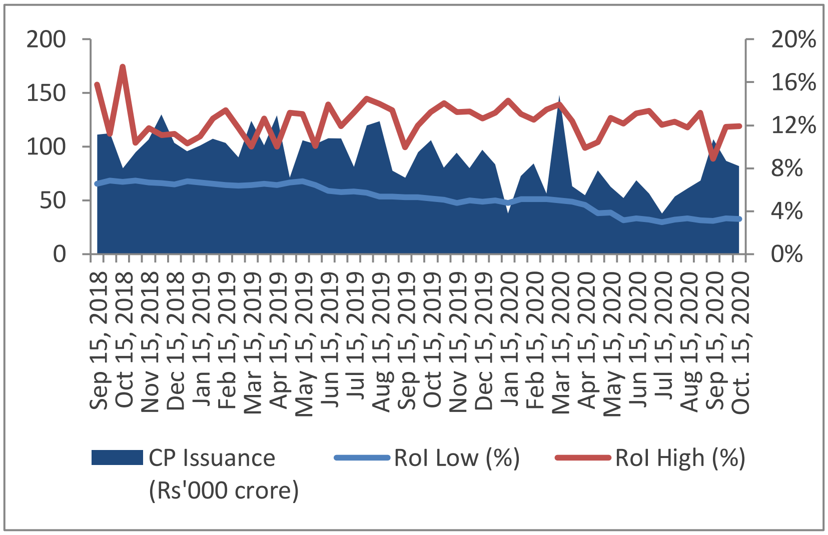


Note: The quarter end data reflects the last fortnight data of that particular quarter; Source: RBI

Figure 8: Commercial Paper Outstanding

Fortnight ended	Amount Outstanding (Rs'000 crore)	Y-o-Y growth %
Jun 30, 2018	491.8	49.3%
Sep 30, 2018	556.2	41.4%
Dec 31, 2018	498.7	21.9%
Mar 31, 2019	483.1	29.7%
Jun 30, 2019	503.9	2.5%
Sep 30, 2019	459.7	-17.3%
Dec 31, 2019	414.9	-16.8%
Mar 31, 2020	344.5	-28.7%
Jun 30, 2020	391.5	-22.3%
Sep. 30, 2020	362.3	-21.2%
Oct. 15, 2020	395.0	-18.7%

Figure 9: Trend in CP issuances and rate of interest (RoI)



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

Select RBI Announcements

Announcement	Explanation
Changes in the regulatory framework for Housing Finance Companies (HFCs)	• Issued final guidelines for HFCs in which it said all such NBFCs should have at least 60% of their net assets deployed in the business of providing housing finance, and those who currently have a lower ratio, must do so in a phased manner by March 31, 2024. Further out of the total net assets, at least 50% should be loans given to individuals by March 31, 2024. • Loans given for furnishing dwelling units, against mortgage of property for any purpose other than buying or construction of a new dwelling unit or renovation of the existing dwelling unit, will be treated as non-housing loans and will not be falling under the definition of housing finance. • RBI has increased the minimum NOF (Net Owned Fund) for HFCs from Rs 10 crore to Rs 20 crore. For existing HFCs, the time line would be Rs 15 crore by March 31, 2022 and Rs 20 crore by March 31, 2023. (Refer report 'RBI releases regulatory framework for HFCs').
SLR holdings in HTM category	• In order to provide certainty to banks, RBI extended the time period for statutory liquidity ratio (SLR) holdings in held to maturity (HTM) category by one year till March, 2022. Earlier in September, the central bank had increased the limits of SLR holdings under HTM category to 22% from previous 19.5% of the net demand and time liabilities (NDTL) till March, 2021. This dispensation is available to banks for securities acquired between September 1, 2020 and March 31, 2021.
Regulatory Retail Portfolio – Revised Limit for Risk Weight	• Raised banks' maximum aggregate retail exposure limit to entities with turnover up to Rs 50 crore to Rs 7.5 crore, up from Rs 5 crore. • The risk weight of 75% will apply to all fresh exposures and also to existing exposures where incremental exposure may be taken by the banks up to the revised limit of Rs 7.5 crore.

Individual Housing Loans – Rationalization of Risk Weights	• Retail housing loans will now attract a risk weight of 35% where LTV is less than or equal to 80% and a risk weight of 50% where LTV is more than 80% but less than or equal to 90%.

Source: RBI

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