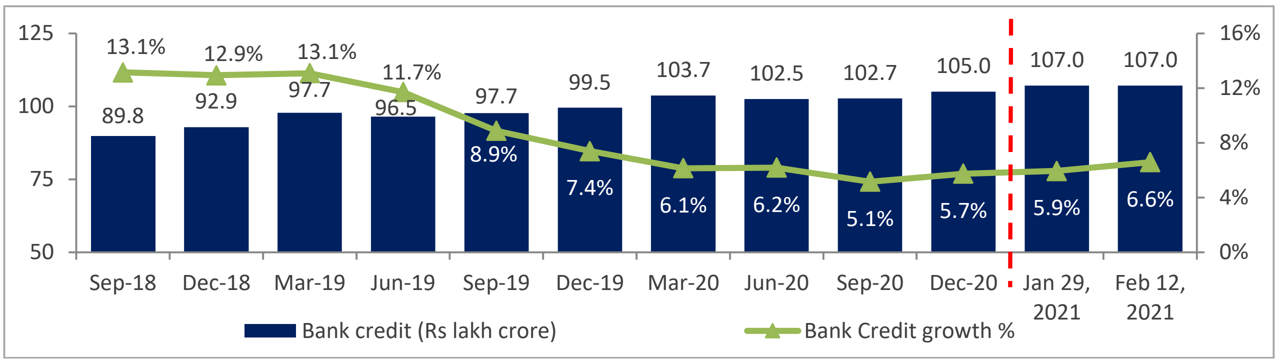
Care Ratings
Professional Risk Opinion

Update – Growth in Deposits and Credit

February 27, 2021

Growth rate in deposits and credit increased over last fortnight

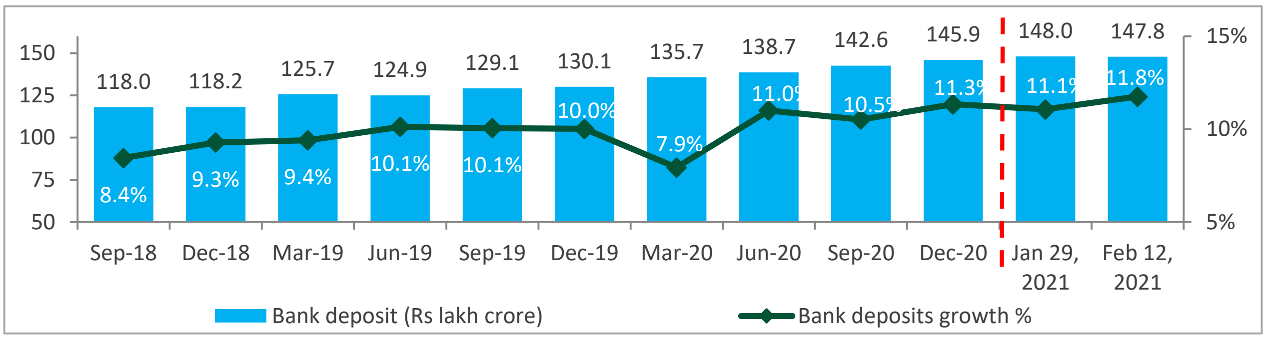
Figure 1: Growth of Bank Credit (y-o-y growth %)



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

- The bank credit growth has increased and returned to the levels observed in the early months of the pandemic (the bank credit growth ranged between 6.5% to 7.2% during April 2020). The bank credit growth rose as compared with previous fortnight ended January 29, 2021 which can be ascribed to an increase in retail loans further led by falling weighted average lending rates (8.2% in January 2021 vs. 9.5% in January 2020). Moreover, on y-o-y basis, the credit growth remained marginally higher in comparison to the same period last year (6.4% growth during fortnight ended February 14, 2020). However, slower to declining growth in large industries, housing sector and NBFCs which accounts for around 27.0%, 14.0% and 7.0% respectively, of the gross bank credit restricted the increase in bank credit growth during the period under review.

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

- Deposit growth increased during the fortnight ended February 12, 2021 compared with 11.1% growth registered during the fortnight ended January 29, 2021 and also as compared with previous year (9.1% growth during fortnight ended February 14, 2020). Additionally, the outflows in debt mutual fund and equity mutual fund (refer report "Mutual Funds Monthly Monitor: January 2021") primarily due to profit booking by investors could support the rise in bank deposits.

- Moreover, as on February 12, 2021 the liquidity surplus in the banking system stood at Rs.6.2 lakh crores. The liquidity surplus can be ascribed to deposit growth outpacing credit growth persistently. However, government borrowings (Central: Rs.26,000 crores and States: Rs.37,827 crores) limited the banking system liquidity surplus during the fortnight. Furthermore, 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. It is to be noted that, the banking system liquidity surplus could witness moderation during the fortnight ending February 26, 2021; on account of month-end fund requirements for the business entities coupled with scheduled government market borrowings (refer report "Weekly Liquidity Report: February 15-18, 2021".

- As given in figure 3, time deposits account for 89.0% of aggregate deposits (89.7% share as on February 14, 2020) grew at a slower pace compared to demand deposits which account for the balance 11.0% (10.3% share as on February 14, 2020).

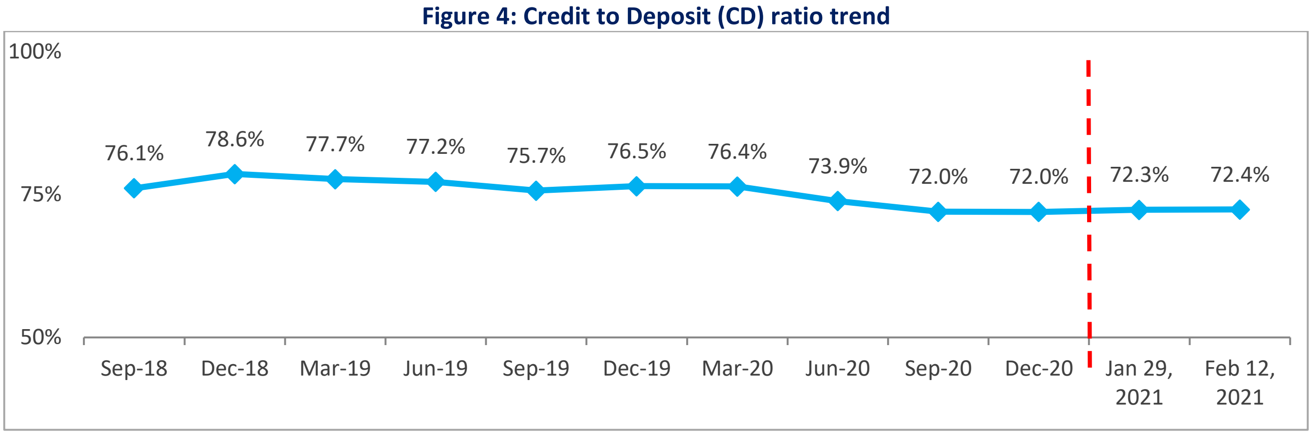
Figure 3: Demand Deposits and Time Deposits growth trend

Rs in lakh crore	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Jan 29, 2021	Feb 12, 2021
Demand Deposits	13.1	11.9	15.1	12.9	14.1	13.5	16.2	14.5	15.8	15.7	16.9	16.3
% growth y-o-y	5.9%	4.9%	10.3%	9.6%	7.6%	13.8%	7.0%	12.7%	11.9%	15.7%	18.3%	19.7%
Time Deposits	104.9	106.3	110.6	112.0	115.0	116.5	119.5	124.1	126.9	129.2	131.1	131.5
% growth y-o-y	8.4%	9.7%	10.0%	10.1%	9.6%	9.7%	8.1%	10.8%	10.3%	10.8%	10.2%	10.8%

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

- The Credit to Deposit (CD) ratio of 72.4%, largely stood at similar levels as compared to last fortnight but remained low compared to March 2020 as well as last year's level of ~76.0% as on February 14, 2020, owing to a faster rise in deposits and slower growth in credit. On the other hand, if we assume credit investments (includes regular credit investments and investments due to TLTROs, PCGS, etc.) to be at Rs.8.3 lakh crores (at November 2020 level as per latest data released by RBI) for the fortnight ended February 12, 2021, then the CD ratio would be ~78%. On the other hand, if we assume the CD ratio to be constant at 76.0% (which was last observed in Mar-20) for the fortnight ended February 12, 2021, the incremental lending (considering only bank credit) would have been higher by approximately Rs.5.3 lakh crores.

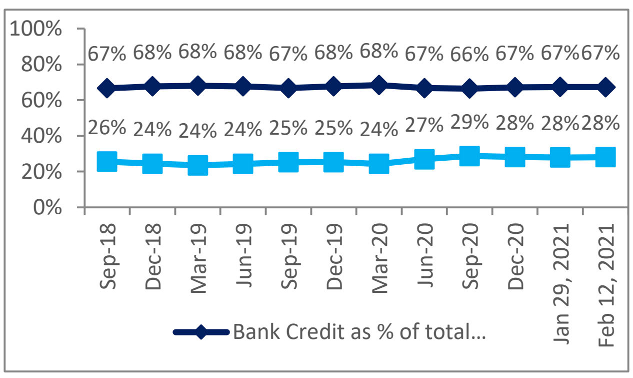
Figure 4: Credit to Deposit (CD) ratio trend



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 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 has stood stable at 67% for the last two fortnights but has declined (by 1%) as compared to Mar-20.

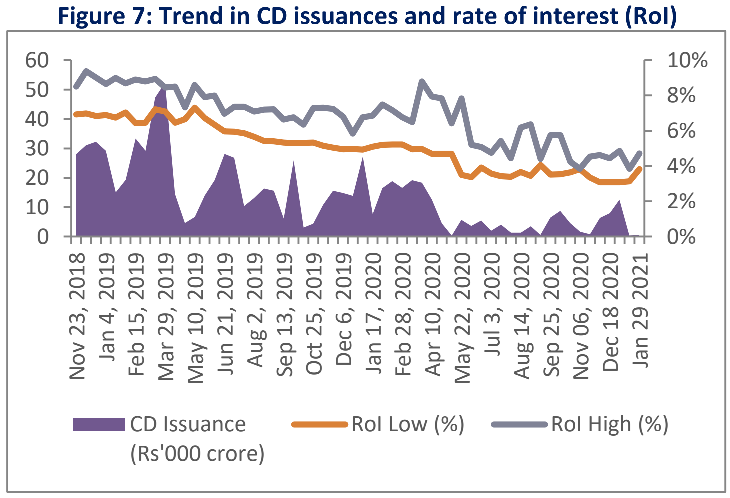
- Considering credit investments to be at Rs.8.3 lakh crore (November 2020 level), bank credit (including credit investments) to total assets would have been ~72% for the fortnight ended February 12, 2021.
- Proportion of SLR investment to total assets stood stable at 28% during last two fortnights. In absolute terms the growth of SLR investments moderated to 17.9% YoY as compared with a growth of 18.7% in the previous fortnight (13.0% YoY growth a year ago). 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.

O/s Level of CDs and CPs declined 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 25, 2020	75.6	-59.8%
Dec 18, 2020	68.8	-57.9%
Jan 15, 2021	68.0	-61.9%
Jan 29, 2021	64.1	-64.7%

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

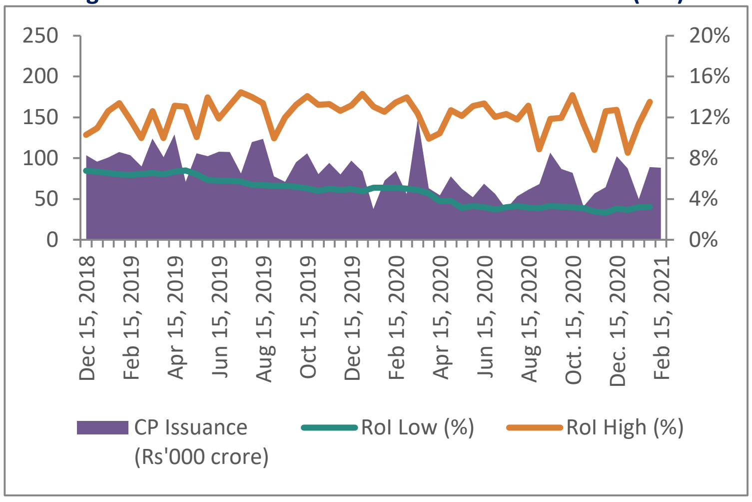


Note: The quarter end data reflects the last fortnight data of that particular quarter; Source: RBI

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%
Dec 31, 2020	365.2	-20.1%
Jan 29, 2021	410.7	-5.6%
Feb 15, 2021	399.4	-5.4%

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	Details
Constitution of an Expert Committee on Primary (Urban) Co-operative Banks	• The RBI has decided to set up an Expert Committee on Urban Co-operative Banks (UCBs) involving all stakeholders in order to provide a medium-term road map to strengthen the sector, enable faster rehabilitation/resolution of UCBs, as well as examine other critical aspects relating to these entities.
Master Direction – Non-Banking Financial Company – Housing Finance Company (Reserve Bank) Directions, 2021	• The RBI has compiled and released Master Directions for the better functioning of the financial system and HFCs. The current Master Directions also consolidates and repeals the directions issued by NHB (National Housing Board) and indicates the List of NBFC regulations applicable to HFCs. These directions have come into immediate effect (refer report "RBI Issues Master Directions for HFCs").
Investment by Foreign Portfolio Investors (FPI) in Defaulted Bonds - Relaxations	• Attention of Authorised Dealer Category-I (AD Category-I) banks is invited to Foreign Exchange Management (Debt Instruments) Regulations, 2019 as amended from time to time, and the relevant directions has also been issued by RBI.
Large Exposures Framework – Exemptions	• RBI has decided to exempt the foreign sovereigns or their central banks from Large Exposures Framework subject to a 0% risk weight.

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