Absolute Deposit Inflows Come in Higher Than Credit Offtake

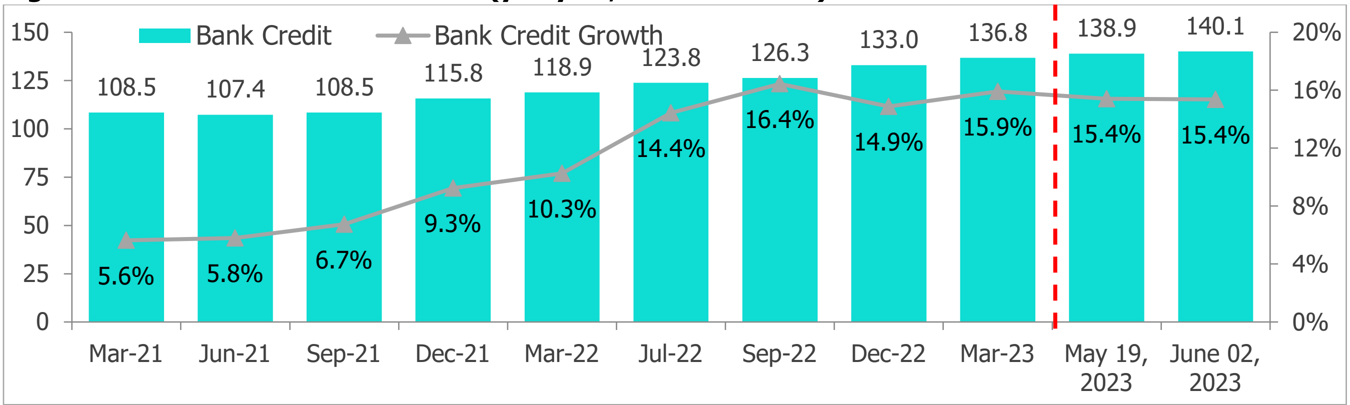
June 20, 2023 | BFSI Research

Synopsis

- Credit offtake rose by 15.4% year on year (y-o-y) to Rs.140.0 lakh crore for the fortnight ending June 02, 2023, driven by personal loans and lending to Non-Banking Financial Companies (NBFCs). Meanwhile, deposits also witnessed a healthy growth at 11.8% y-o-y in the fortnight partly supported by RBI's withdrawal of Rs.2,000 denominated currency notes. In absolute terms, deposits expanded by Rs.19.7 lakh crore y-o-y while incremental credit expanded by Rs.18.7 lakh crore. Deposits surpassed credit by Rs.1.0 lakh crore for the trailing twelve months over the last year. Additionally, credit offtake is expected to moderate in FY24 compared to FY23, due to moderation in GDP growth, lower working capital requirement on account of an anticipated drop in inflation, and a higher base.
- RBI maintained the repo rate in its last monetary policy (held on June 08, 2023). The short-term Weighted Average Call Rate (WACR) stood at 6.1% as of June 02, 2023, as compared with 4.08% as of June 02, 2022. This increase can be attributed to elevated policy rates and as credit grew faster than deposits which resulted in banks using their excess SLR investments and certificate of deposits to fund credit growth. Although, WACR has reduced from 6.69% as of May 04, 2023, due to a liquidity surplus available in the banking system over the last couple of months.
- The outstanding liquidity stood at Rs.2.37 lakh crore as of June 02, 2023, as compared with Rs.3.40 lakh crore as of May 20, 2022. The liquidity in the banking system has improved compared with a deficit in the second half of FY23.

Bank Credit Growth Remains Robust

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



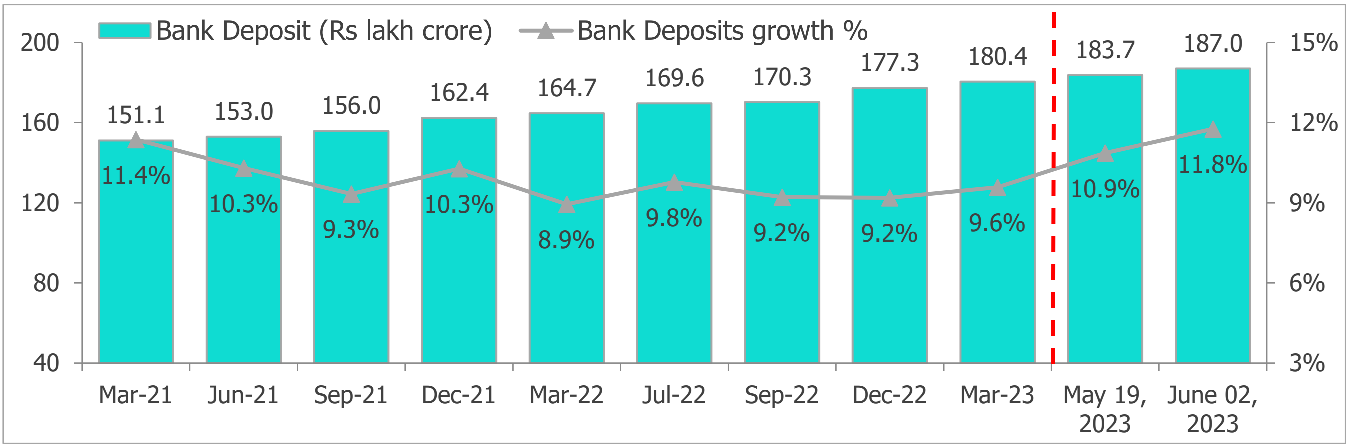
Note: Bank credit growth and related variations for all fortnights since December 3, 2021, are adjusted for past reporting errors by select scheduled commercial banks (SCBs). However, RBI has not yet updated these numbers in its database except for fortnightly documents. The quarter-end data reflect, the last fortnight's data of that particular quarter; Source: RBI, CareEdge

- Credit offtake rose by 15.4% y-o-y for the fortnight ended June 02, 2023, compared to 13.1% from the same period in the last year (reported June 03, 2022). In absolute terms, credit offtake expanded by Rs.18.7 lakh crore from June 03, 2022, vs Rs.14.0 lakh crore in the same period from the last year. The credit growth has continued to be driven by higher lending to NBFCs, growth in personal loans, MSME and Agri & Allied activities.

- Credit growth remained robust since H2FY22 even amid the significant rise in interest rates (FY23), and global uncertainties related to conflicts and geopolitical and supply chain issues. Personal Loans and NBFCs have been the key growth drivers and are expected to continue to drive growth. Though the Indian financial system is on a more robust footing, vis-a-vis its global peers. A slowdown in global growth due to elevated interest rates, and geopolitical issues could impact credit growth.

Deposits Expand Higher than Credit Offtake in Absolute Terms

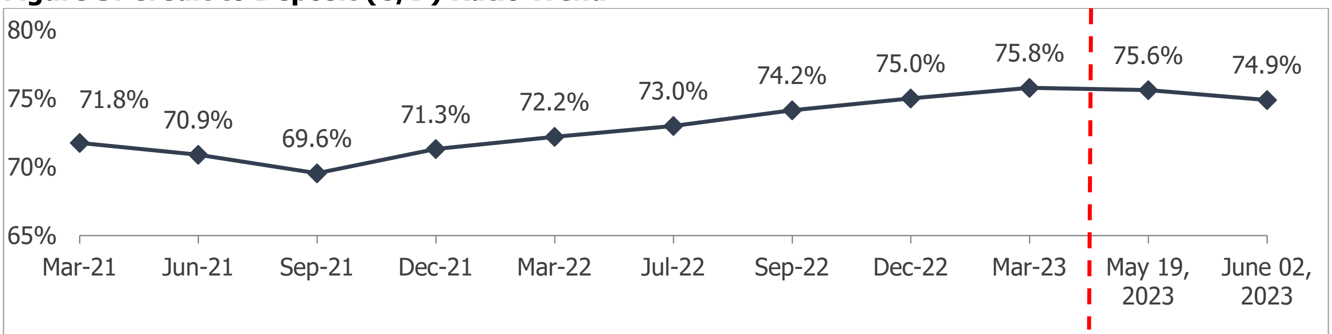
Figure 2: Bank Deposit Growth (y-o-y %)



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

- Deposits stood at Rs.187.0 lakh crore for the fortnight ended June 02, 2023, registering a growth of 11.8% y-o-y. Time deposits grew by 12.0% y-o-y, while demand deposits rose by 10.0% in the reporting fortnight vs. 8.6% and 14.7% y-o-y, respectively, reported in the fortnight ended June 03, 2022. Time deposits grew higher than demand deposits due to a faster increase in deposit rates. Meanwhile, in absolute terms, bank deposits have increased by Rs.19.7 lakh crore in the fortnight over a year ago period. It also increased by Rs.3.3 Lakh crore from the immediate fortnight (reported May 19, 2023).

Figure 3: Credit to Deposit (C/D) Ratio Trend



Note: The quarter-end data reflect the last fortnight's data of that quarter; Source: RBI, CareEdge

- The C/D ratio has been generally trending upward since the later part of FY22. It stood at 74.9% in the fortnight, expanding by ~230 bps y-o-y from June 03, 2022, due to faster growth in credit compared to deposits. However, on a sequential basis, it dropped by 70 bps from the immediate fortnight (reported May 19, 2023, due to higher deposit growth. The CD ratio has been hovering near the pre-pandemic level of 75.8% in Feb 2020 and 75.7% in March 2020.

Figure 4: Trend in Credit and Deposit Movement (Rs Lakh crore)

	Last 12 Mths	Last Six Mths	Last Three Mths	Last Month	Last Fortnight
Credit	18.7	10.6	4.6	1.2	1.1
Deposit	19.7	11.8	7.4	2.7	3.3

Source: RBI, CareEdge

In absolute terms, deposits surpassed credit by Rs.1.0 lakh crore for the trailing twelve months over the last year. It was the first time in the last year.

Figure 5: Trend in y-o-y Movement (%)

	June 05, 2020	June 04, 2021	June 03, 2022	June 02, 2023
Credit	5.2	5.8	13.1	15.4
Deposit	11.3	9.7	9.3	11.8

Source: RBI, CareEdge

Figure 6: Growth in Credit Overcomes Covid-induced Lag Relative to Deposit Growth (Rs. Lakh Crore)

	Deposit	Credit
March 27, 2020	135.7	102.7
May 19, 2023	187.0	140.1
Growth over the period (in abs. terms)	37.8%	36.4%

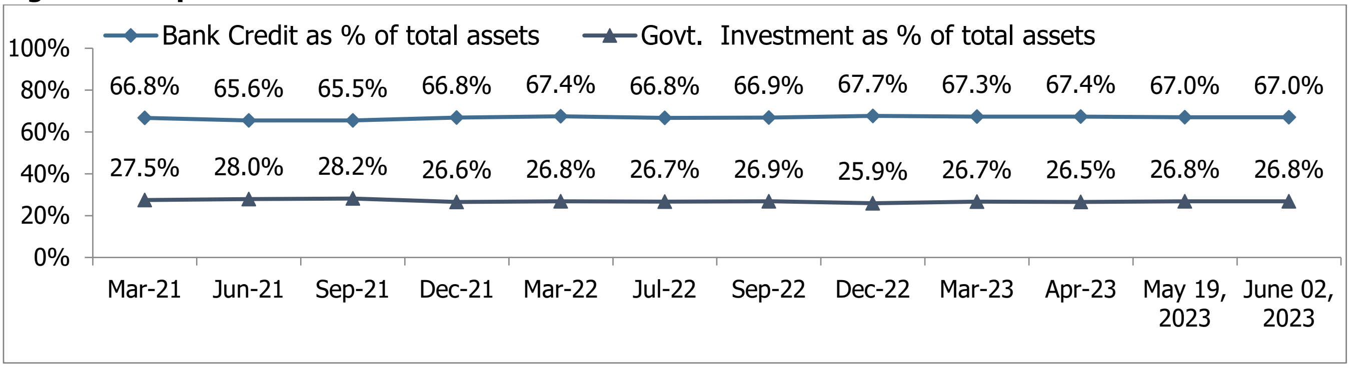
Source: RBI, CareEdge

- Credit growth generally began picking up in Q3FY22FY22 and surpassed deposit growth in Q4FY22, since then it has continued its growth momentum. A part of the funding gap has been met via Certificates of Deposits (CDs) as well as avenues like refinance from financial institutions like SIDBI, NABARD, NHB, etc.

- In terms of absolute growth, credit offtake rose by 36.4% from March 27, 2020, whereas deposit growth came in slightly higher at 37.8%.

Proportion of Credit to Total Assets and Govt. Investment to Total Assets Rises Marginally (y-o-y)

Figure 7: Proportion of Govt. Investment and Bank Credit to Total Assets



Note: The quarter-end data reflect the last fortnight's data of that particular quarter; 2) Total assets = Cash in hand + Assets with the Banking System + Investments + Bank Credit; Source: RBI, CareEdge

The share of bank credit to total assets and government investment to total assets stood at 67.0% and 26.8%, which were flattish for the fortnight. On a y-o-y basis, the proportion of credit to total assets rose by 14 bps in the fortnight (reported June 02, 2023) meanwhile, government investment to total assets increased by 14 bps, compared to a similar fortnight in the last year (reported June 03, 2022) as bank credit and investments growth were faster than the growth in assets. The Govt. investments stood at Rs.56.1 lakh crore as of June 02, 2023, reporting a growth of 15.8% y-o-y and 1.0% over the previous fortnight.

O/s CDs and O/s CPs Continue to Remain at Elevated Levels

- Certificate of Deposit (CD) issuance stood at 0.95 lakh crore from March 24, 2023, to June 02, 2023, as compared to 0.79 lakh crore over a year ago period. The outstanding CDs stood at Rs 3.1 lakh crore as of June 02, 2023, compared to Rs. 1.9 lakh crore a year ago, banks anticipating interest rate reversal have issued CDs so they don't lock in long-term deposits at a higher cost.

Figure 8: CD Outstanding

Fortnight ended	Amount Outstanding (Rs'000 cr.)	Y-o-Y growth %
Mar 11, 2022	154.4	168.9%
May 20, 2022	193.0	113.7%
July 1, 2022	223.8	222.9%
Sep 23, 2022	252.2	318.7%
Dec 30, 2022	294.0	247.1%
Jan 27, 2023	279.8	180.6%
Feb 10, 2023	269.7	139.6%
Feb 24, 2023	280.4	120.4%
Mar 24, 2023	304.5	50.4%
Apr 07, 2023	301.4	49.6%
May 19, 2023	302.1	56.5%
June 02, 2023	312.4	64.4%

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

Figure 9: Trend in CD Issuances (Rs'000, Cr.) and RoI

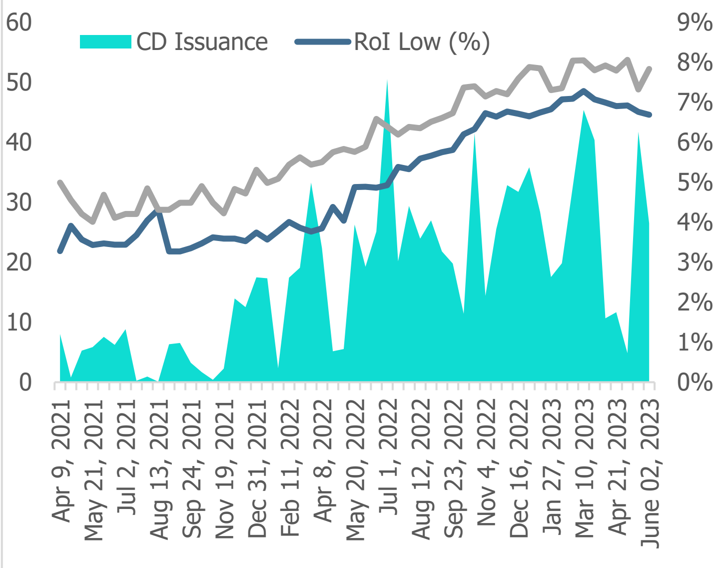
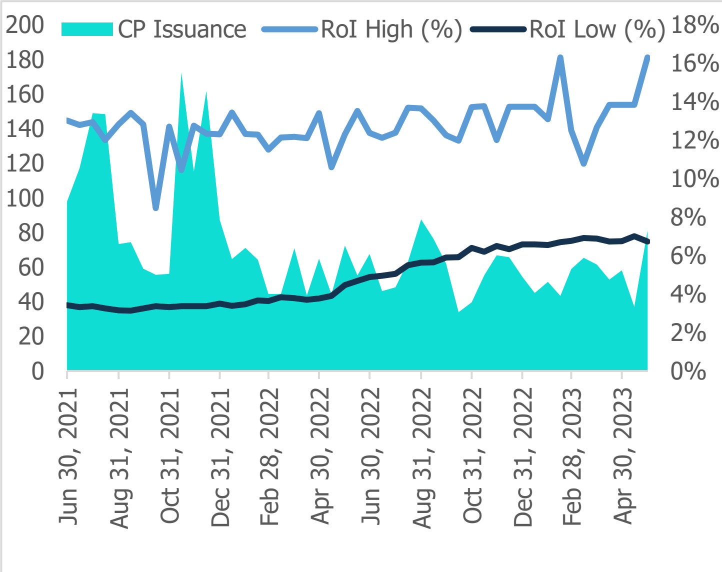


Figure 10: Commercial Paper Outstanding

Fortnight ended	Amount Outstanding (Rs'000 cr.)	Y-o-Y growth %
Mar 31, 2022	352.3	-3.3%
Jun 30, 2022	372.5	-1.0%
Aug 31, 2022	410.1	4.7%
Sep 30, 2022	400.9	8.1%
Oct 31, 2022	373.3	-1.6%
Dec 31, 2022	359.7	2.7%
Jan 31, 2023	363.9	-8.1%
Feb 28, 2023	364.5	-0.03%
Mar 31, 2023	353.7	0.4%
Apr 15, 2023	391.4	11.3%
May 15, 2023	421.5	9.6%
May 31, 2023	433.5	12.7%

Figure 11: Trend in CP Issuances (Rs'000, Cr.) and RoI



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

Select RBI Announcements

Announcement	Details
RBI – No change in Repo Rate	RBI has kept the repo rate steady in its last meeting on June 08, 2023. • Policy stance maintained at 'withdrawal of accommodation'. • FY24 growth projection retained at 6.5%. • FY24 inflation projection revised lower to 5.1% (from earlier 5.2%). • Abating growth concerns and CPI inflation likely to stay above the 4% target support a status quo on policy rates in 2023.
Recommendations on Digital Lending - Implementation	RBI issued guidelines on digital lending which covers customer protection & conduct issues, technology & data requirements, and regulatory framework. **Key Notes** • All loan disbursals and repayments are required to be executed only between the borrower and the regulated entities (RE) without any pass-through/ pool account of the lending service provider (LSP). • Data collected by direct loan accounts (DLAs) should be need-based, should have clear audit trails, and should be only done with the prior explicit consent of the borrower. • Any lending sourced through DLAs is required to be reported to Credit Information Companies (CICs) by REs irrespective of its nature or tenor. • The instruction shall be applicable with immediate effect.
Framework for Compromise Settlements and Technical Write-offs	RBI has issued a comprehensive regulatory framework governing compromise settlements and technical write-offs. • The provisions of this framework shall be applicable to all REs and shall be without prejudice to the provisions of the Prudential Framework. • The central bank has also directed banks to fix a minimum cooling period of at least 12 months before making fresh exposures to borrowers who had undergone compromise settlements. • These regulations shall come into force with immediate effect and REs shall take necessary steps to ensure compliance with these instructions.
RBI (Call, Notice and Term Money Markets) Directions, 2021-Review	With immediate effect, all SCBs (excluding small finance banks and payment banks) may set their own limits for borrowing in Call and Notice Money Markets. As in the case of Term Money Market borrowing, SCBs shall put in place internal board-approved limits for borrowing through Call and Notice Money Markets within the prudential limits for inter-bank liabilities prescribed by the Department of Regulation.

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