Moderating Credit Growth with Healthy Deposits Narrows Credit-Deposit Gap

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Synopsis

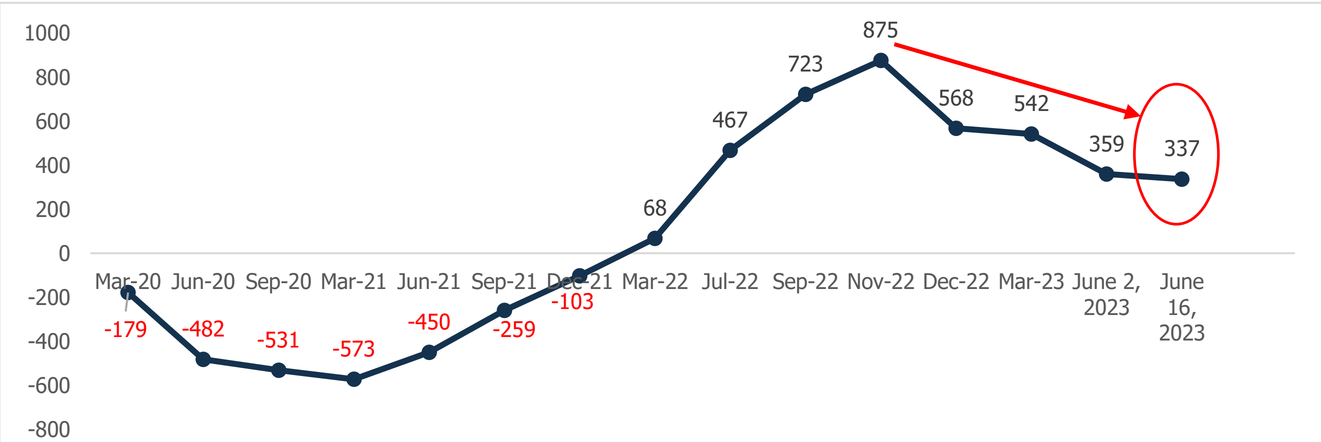
- Credit offtake witnessed a sustained growth at 15.4% year on year (y-o-y) to Rs.140.2 lakh crore for the fortnight ending June 16, 2023, driven by personal loans and lending to Non-Banking Financial Companies (NBFCs). Meanwhile, deposits also witnessed a healthy growth at 12.1% y-o-y in the fortnight partly supported by RBI's withdrawal of Rs. 2,000 denominated currency notes. The spread between credit and deposits growth dropped to 337 basis points (bps) in the fortnight as against 875 bps (largest) in November 2022. This can be attributed to moderation in credit growth over the last six months and a rise in deposit growth in the last two fortnights. In absolute terms, for the trailing twelve months, deposits expanded by Rs.20.0 lakh crore y-o-y while incremental credit expanded by Rs.18.7 lakh crore. The outlook for bank credit offtake continued to be positive due to economic expansion, rise in capital expenditure, implementation of the PLI scheme, and retail credit push. However, it is expected to moderate from 15.0% in FY23 to 13.0-13.5% in FY24.

- Short-term Weighted Average Call Rate (WACR) stood at 6.1% as of June 16, 2023, as compared with 4.51% as of June 17, 2022. This increase can be attributed to elevated policy rates. 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. 0.85 lakh crore as of June 16, 2023, as compared with Rs.2.4 lakh crore as of June 2, 2023 and Rs. 2.3 lakh crore as of June 17, 2022. The liquidity in the banking system has improved compared with a deficit in the second half of FY23.

Spread Between Credit and Deposits Growth Declines Significantly Since November 2022

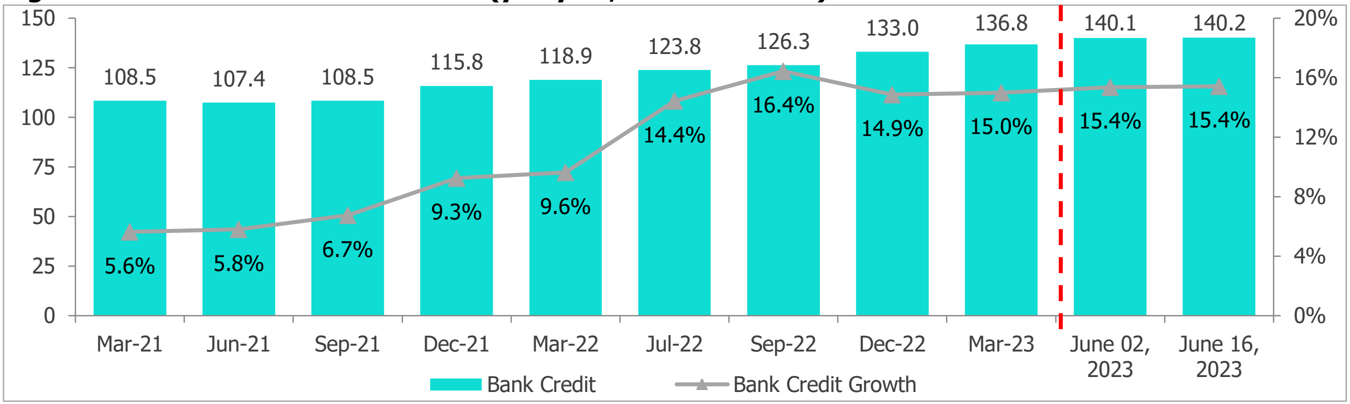
Figure 1: Trend in Spread Between Credit and Deposit Growth (bps – y-o-y, basis)



Source: RBI, CareEdge

Bank Credit Growth Remains Robust

Figure 2: Bank Credit Growth Trend (y-o-y %, Rs. Lakh crore)



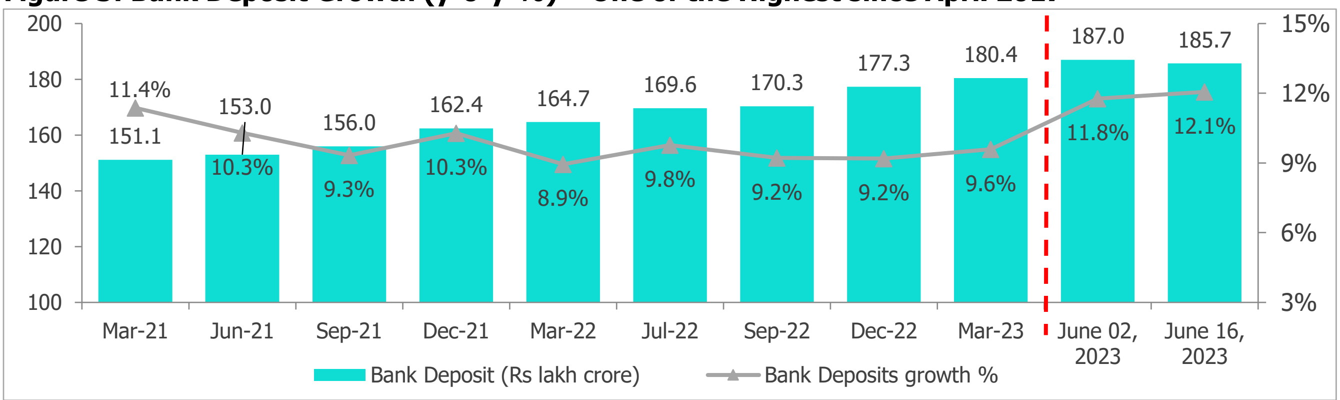
Note: Bank credit growth and related variations for all fortnights since December 3, 2021, are adjusted for past reporting errors by select scheduled commercial banks (SCBs). However, RBI has not yet updated these numbers in its database except for fortnightly documents. The quarter-end data reflect, 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 16, 2023, compared to 13.2% from the same period in the last year. In absolute terms, credit offtake expanded by Rs.18.7 lakh crore from June 17, 2022, vs Rs.14.1 lakh crore in the same period from the last year. It was even amid the significant rise in interest rates in the previous fiscal and global uncertainties related to geopolitical issues. The credit growth has continued to be driven by higher lending to NBFCs, growth in personal loans, and Agri & Allied activities.

- The outlook for bank credit offtake continued to be positive due to the economic expansion, rise in capital expenditure, implementation of the PLI scheme, and retail credit push. This growth would be coming off a high base in FY23 which would impinge marginally on the growth rate. CareEdge forecast GDP growth at 6.5% in FY24 (revised upwards from 6.1% earlier) from 7.2% in FY23. Hence, based on GDP forecasts and sectoral credit growth expectations, CareEdge estimates the credit growth to be in the range of 13.0%-13.5% for FY24 excluding the impact of the merger of HDFC with HDFC Bank. If we include the merger, the growth is likely to be higher by around 3.0%. The personal loan segment is expected to continue doing well compared with the industry and service segments in FY24. The medium-term prospects look promising with diminished corporate stress and a substantial buffer for provisions. However, elevated interest rates and global uncertainties could impact credit growth in India. Further ebbing inflation could also reduce the working capital demand.

Deposits Expand Higher than Credit Offtake in Absolute Terms

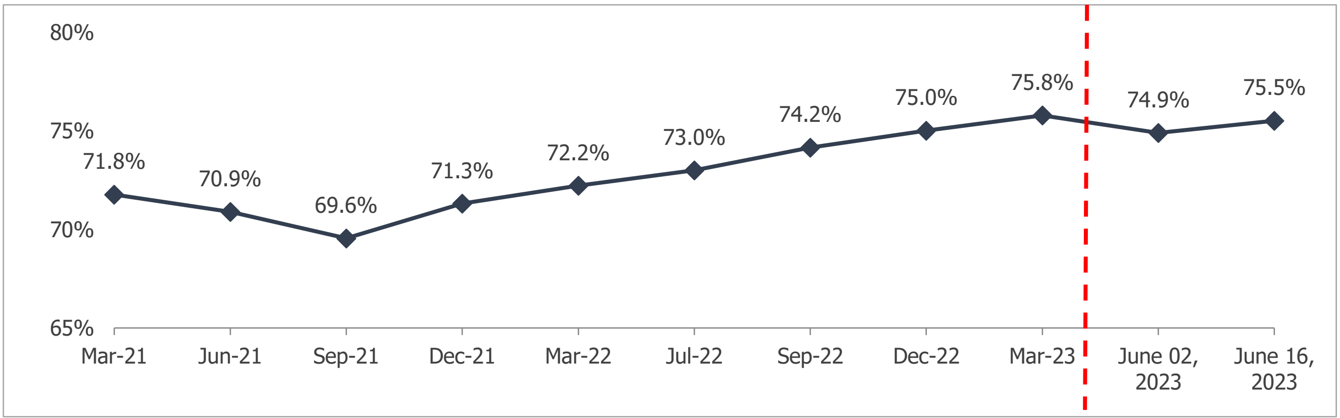
Figure 3: Bank Deposit Growth (y-o-y %) – One of the Highest since April 2017



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

- Deposits rose at 12.1% y-o-y the fortnight (reported June 16, 2023) due to higher inflows on account of RBI's withdrawal of Rs. 2000 denomination notes. However, it dropped sequentially by 0.7% on account of advance tax payments (due date: June 15, 2023). Meanwhile, in absolute terms, bank deposits have increased by Rs. 20.0 lakh crore in the trailing twelve-month period from the fortnight over a year ago period.

Figure 4: 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 75.5% in the fortnight, expanding by ~220 bps y-o-y from June 17, 2022, due to faster y-oy growth in credit compared to deposits. However, on a sequential basis, it increased by 60 bps from the immediate fortnight (reported June 2, 2023, due to lower deposit growth than credit 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 5: 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	8.7	3.5	1.3	0.1
Deposit	20.0	12.1	5.2	1.9	-1.3

Source: RBI, CareEdge

Figure 6: Trend in y-o-y Movement (%)

	Jun 19, 2020	Jun 18, 2021	June 17, 2022	June 16, 2023
Credit	5.1	5.9	13.2	15.4
Deposit	11.0	10.3	8.3	12.1

Source: RBI, CareEdge

Figure 7: Growth in Credit Overcomes Covid-induced Lag Relative to Deposit Growth (Rs. Lakh Crore)

	Deposit	Credit
March 27, 2020	135.7	102.7
June 16, 2023	185.7	140.2
Growth over the period (in abs. terms, %)	36.8	36.6

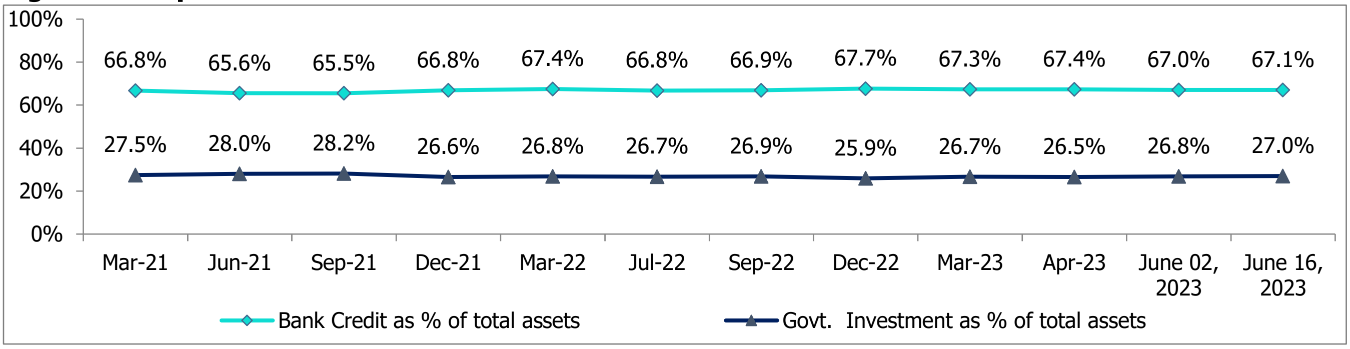
Source: RBI, CareEdge

- Credit growth generally began picking up in Q3FY22 and surpassed deposit growth and has continued its growth momentum. A part of the funding gap has been met via Certificates of Deposits (CDs).

- In terms of absolute growth, credit offtake rose by 36.6% from March 27, 2020, whereas deposit growth came in slightly higher at 36.8%.

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

Figure 8: 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 rose by 16 bps y-o-y to 67.1% in the fortnight (reported June 16, 2023) due to higher credit growth. It also expanded by 6 bps from the immediate fortnight. Investment to total assets increased by 52 bps y-o-y to 27.0% in the fortnight due to higher growth in investments. Meanwhile, it expanded by 17 bps from the immediate fortnight. The Govt. investments stood at Rs.56.4 lakh crore as of June 16, 2023, reporting a growth of 17.4% y-o-y and 0.6% over the previous fortnight.

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

Certificate of Deposit (CD) issuance stood at 1.25 lakh crore from April 7, 2023, to June 16, 2023, as compared to 0.79 lakh crore over a year ago period. The outstanding CDs stood at Rs 2.9 lakh crore as of June 16, 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 9: 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%
June 02, 2023	312.4	64.4%
June 02, 2023	287.3	47.8%

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

Figure 10: Trend in CD Issuances (Rs'000, Cr.) and RoI

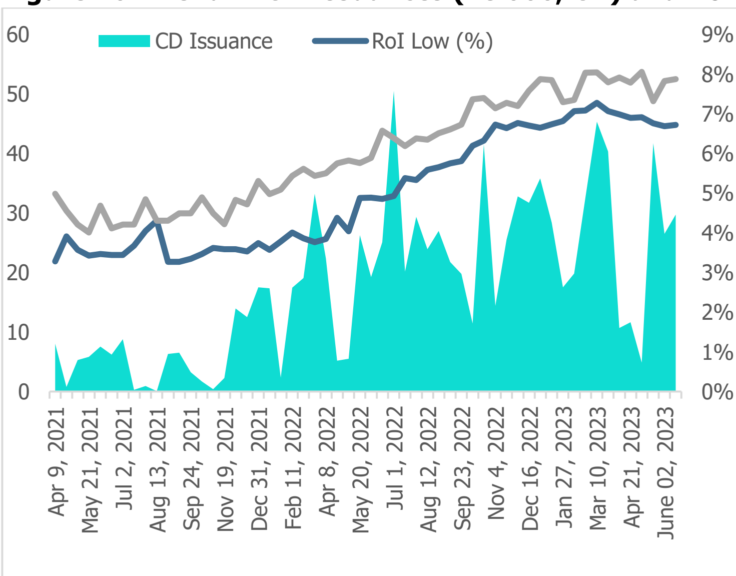
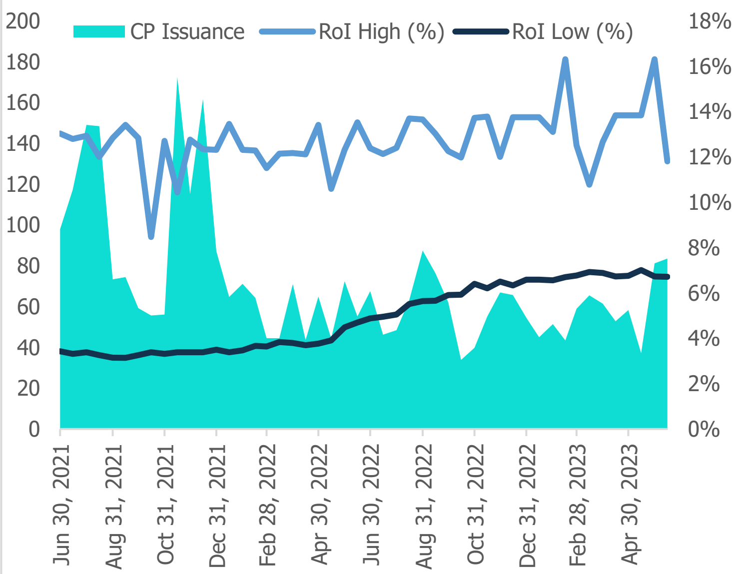


Figure 11: Commercial Paper Outstanding

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 31, 2023	433.5	12.7%
June 15, 2023	446.5	14.7%

Figure 12: 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 releases the Financial Stability Report	The Reserve Bank released the 27th issue of the Financial Stability Report (FSR) • The global economy is facing heightened uncertainty amidst banking system fragility in certain countries, persisting geopolitical tensions and moderating but elevated inflation. • Despite global headwinds, the Indian economy and the domestic financial system remain resilient, supported by strong macroeconomic fundamentals. • Continuing growth momentum, moderating inflation, narrowing current account deficit and rising foreign exchange reserves, ongoing fiscal consolidation and a robust financial system are setting the economy on a path of sustained growth. • Healthy balance sheets of banks and corporates are engendering a new credit and investment cycle. • The capital to risk-weighted assets ratio (CRAR) and the common equity tier 1 (CET1) ratio of scheduled commercial banks (SCBs) rose to historical highs of 17.1% and 13.9%, respectively, in March 2023. • SCBs' gross non-performing assets (GNPA) ratio continued its downtrend and fell to a 10-year low of 3.9% in March 2023 and the net non-performing assets (NNPA) ratio declined to 1.0% • Macro stress tests for credit risk reveal that SCBs would be able to comply with the minimum capital requirements even under severe stress scenarios. The system-level capital to risk-weighted assets ratio (CRAR) in March 2024, under baseline, medium and severe stress scenarios, is projected at 16.1%, 14.7% and 13.3%, respectively.

RBI releases 'Master Direction on Minimum Capital Requirements for Operational Risk'	The Reserve Bank of India has issued the Master Direction on Minimum Capital Requirements for Operational Risk. • The Directions require all specified Commercial Banks to hold sufficient regulatory capital against their operational risk exposures. • All existing approaches for measuring minimum operational risk capital (ORC) requirements shall be replaced by the new Standardised Approach with the coming into effect of these Directions. • Until then, the minimum operational risk regulatory capital requirements shall be computed in accordance with the instructions contained in paragraph 9 of 'Master Circular – Basel III Capital Regulations'. • The provisions of these Directions shall apply to all Commercial Banks (excluding Local Area Banks, Payments Banks, Regional Rural Banks, and Small Finance Banks). • The effective date of implementation of these Directions shall be communicated separately.

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