Credit and Deposit Growth Gap Continues to Remain Elevated

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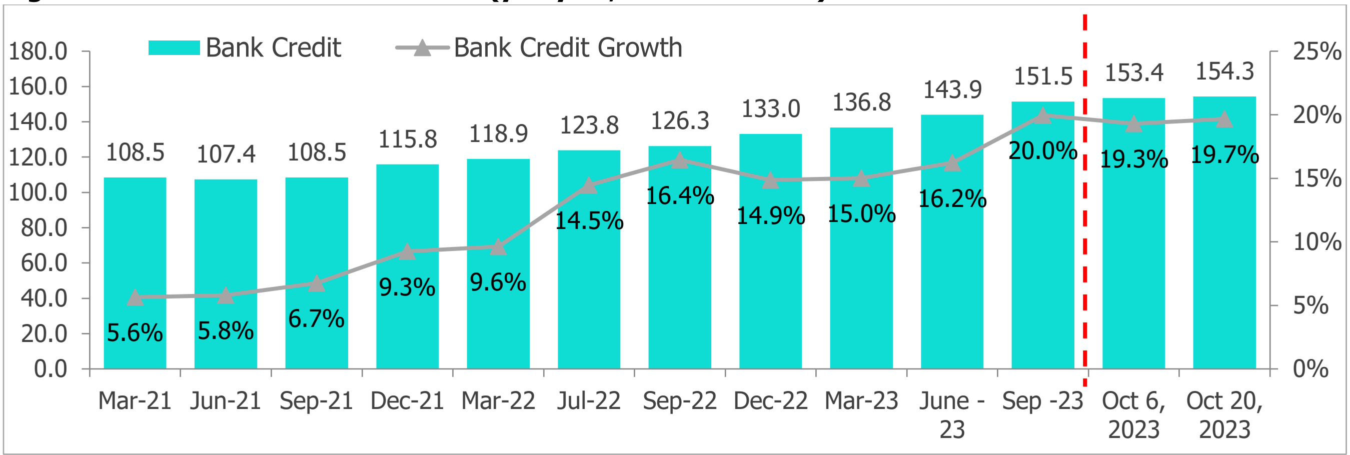
Synopsis

- Credit offtake continued to grow, increasing by 19.7% year on year (y-o-y) to reach Rs. 154.3 lakh crore for the fortnight ending October 20, 2023. This surge continues to be primarily driven by the impact of HDFC's merger with HDFC Bank and growth in personal loans. Meanwhile, if the impact of the merger is excluded, credit grew at a lower rate of 15.1% y-o-y fortnight compared to last year. The outlook for bank credit offtake remains positive, with a projected growth of 13-13.5% for FY24, excluding the merger's impact.
- Deposits too witnessed growth, increasing by 13.4% y-o-y for the fortnight (including the merger impact). Excluding merger impact growth stood at 12.6%. Sequentially we saw a drop of 0.5%. Deposit growth is expected to improve compared to current trends in FY24 as banks look to shore up their liability franchise and ensure that deposit growth does not constrain the credit offtake.
- The Short-term Weighted Average Call Rate (WACR) stood at 6.74% as of October 27, 2023, compared to 6.16% on October 28, 2022, due to pressure on short-term rates.

Bank Credit Growth Remains Elevated

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

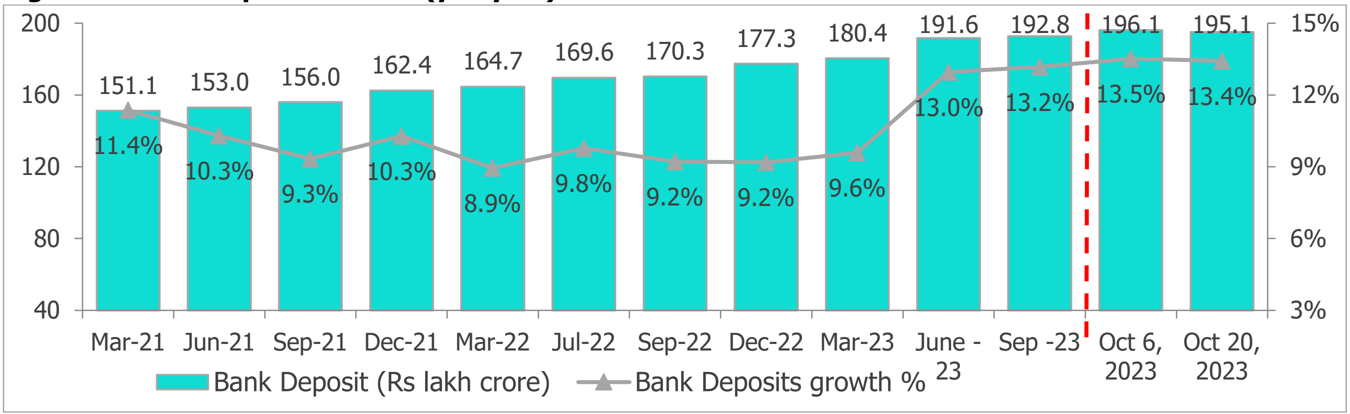


Note: Bank credit growth and related variations for all fortnights since December 3, 2021, are adjusted for past reporting errors by select scheduled commercial banks (SCBs). The quarter-end data reflect, the last fortnight's data of that particular quarter; Source: RBI, CareEdge

- Credit offtake increased by 19.7% year on year (y-o-y) and a sequential improvement of 0.5% for the fortnight ended October 20, 2023. It is important to note that the y-o-y figures are not directly comparable, as the data reported by the RBI as of October 20, 2023, includes the impact of the merger of HDFC with HDFC Bank. In absolute terms, over the last twelve months, credit offtake expanded by Rs. 25.4 lakh crore to reach Rs. 151.5 lakh crore as of October 6, 2023. Excluding the impact of the merger, growth stood at 15.1% y-o-y for the fortnight. This growth continues to be primarily driven by continued demand for personal loans.
- The outlook for credit offtake continues to remain positive for FY24, supported by factors such as economic expansion and a continued push for retail credit which has been supported by improving digitalisation. CareEdge estimates that credit growth is likely to be in the range of 13.0%-13.5% for FY24, excluding the impact of the merger of HDFC with HDFC Bank. The personal loan segment is expected to perform well compared to the industry and service segments in FY24. Furthermore, as the Credit to Deposit (CD) ratio

remains elevated, growth in the liability franchise would play a significant role in sustaining loan growth. However, inflation, elevated interest rates and global uncertainties could potentially impinge on the credit growth in India.

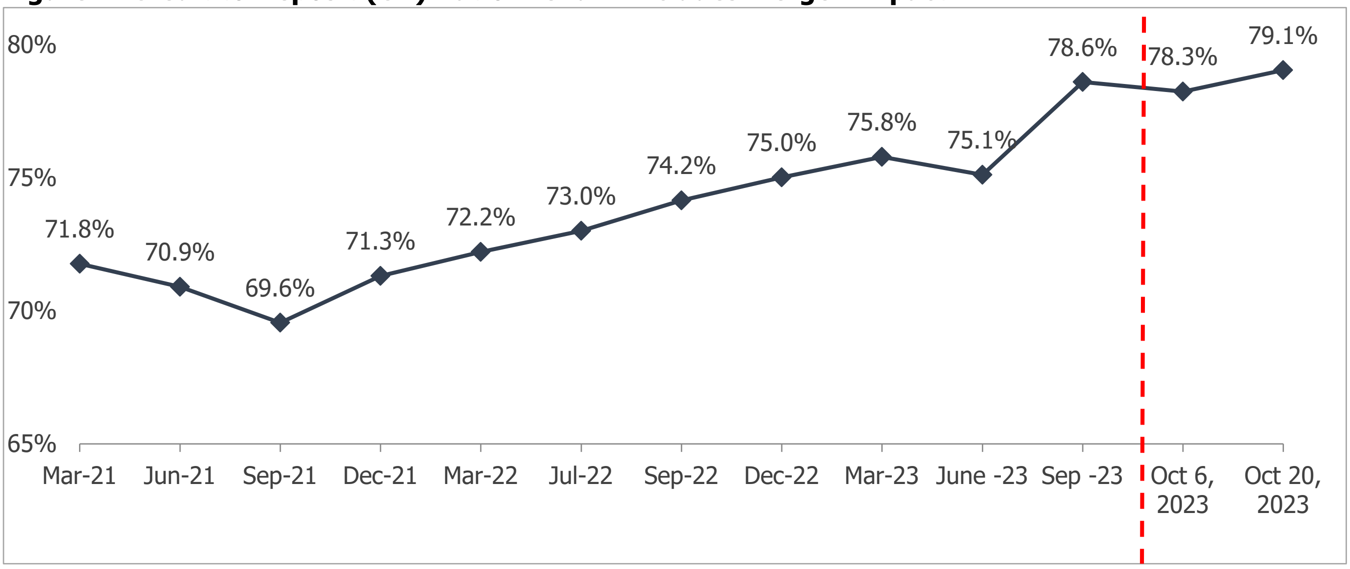
Figure 2: Bank Deposit Growth (y-o-y %)



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

- Deposits dropped by 0.5% sequentially and rose at 13.4% y-o-y for the fortnight (reported October 20, 2023), Without considering the merger, deposits rose by 12.6% y-o-y. Additionally, incremental growth stood at 8.1%. Meanwhile, in absolute terms, deposits expanded by Rs. 22.3 lakh crore and reached Rs. 195.1 lakh crore as of October 20, 2023, compared to October 21, 2022.
- According to CareEdge Economics in The Economic Pathway, liquidity conditions remained tight over the last month, with some pressure easing as the last phase of I-CRR reversal took place on October 7. Given that the threat of inflationary risks continues to linger, RBI is expected to ensure enough liquidity to meet credit demand.

Figure 4: Credit to Deposit (CD) Ratio Trend – Includes Merger Impact



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

- The CD ratio has broadly been on an uptrend, hovering above 75% since December 2022. The CD ratio saw an uptick of 80 bps, compared to the previous fortnight, and stood at 79.1% in the fortnight (October 20, 2023), reaching a two-year high.

- As the Credit to Deposit ratio remains elevated, growth in the liability franchise would play a significant role in sustaining loan growth. The competition for deposits is likely to intensify even further, resulting in a rise in funding costs in the coming periods as rates remain elevated and CASA share reduces.

Figure 5: Trend in Credit and Deposit Movement (y-o-y, %)

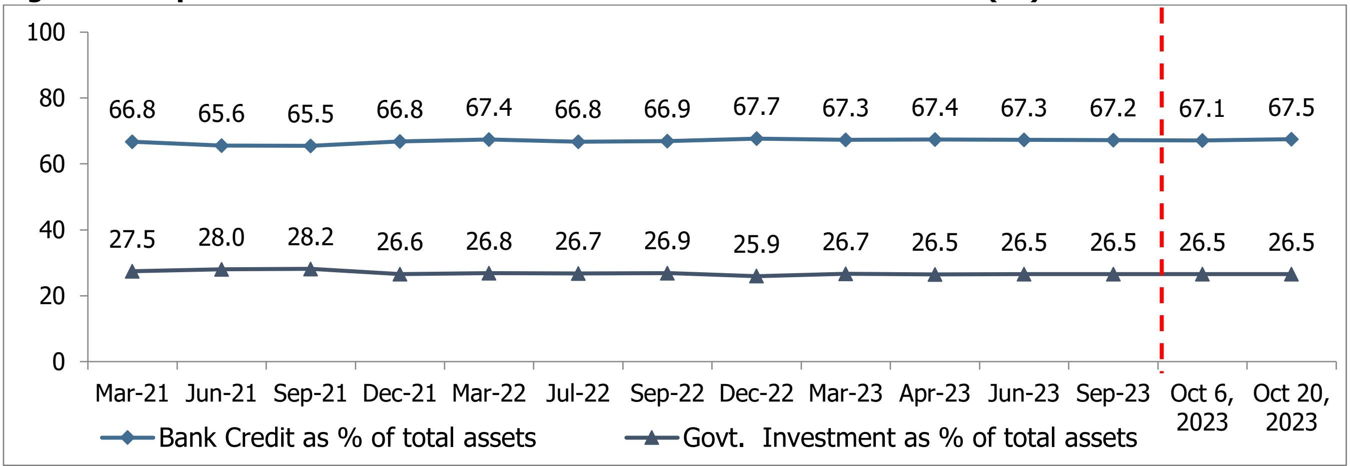
	Oct 23, 2020	Oct 22, 2021	Oct 21, 2022	Oct 20, 2023
Credit	3.9%	6.9%	17.9%	19.7%
Deposit	10.1%	9.9%	9.5%	13.4%

Source: RBI, CareEdge, compares post-merger figures

Deposits have seen robust performance since post-Covid times, however, in recent times, credit growth has been significantly outperforming deposit growth, this can be mainly attributed to lower base effect in credit and merger impact.

Proportion of Credit to Total Assets remains flat, whereas Investment to Assets Rises

Figure 6: 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

- Credit to total assets ratio remained flat compared to the previous fortnight and stood at 67.5% in the fortnight (October 20, 2023). Meanwhile, the y-o-y growth was approx. 36 bps. On the other hand, Govt. Investments stood at 60.6 lakh crore as on October 20, 2023, reporting a robust growth of 19.9% y-o-y (2 year high) but the share remained flat sequentially.

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

Figure 7: Certificate of Deposit 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
Jul 28, 2023	307.0	23.3
Oct 20, 2023	313.1	30.0

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

Figure 8: Trend in CD Issuances (Rs'000, Cr.) and RoI

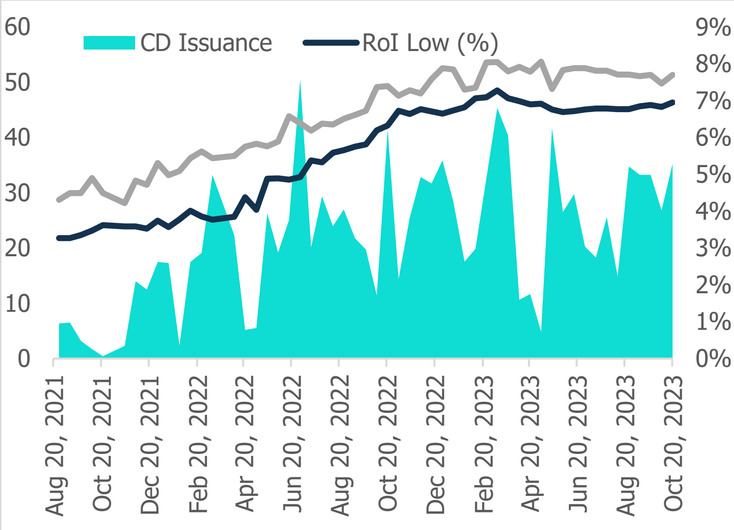
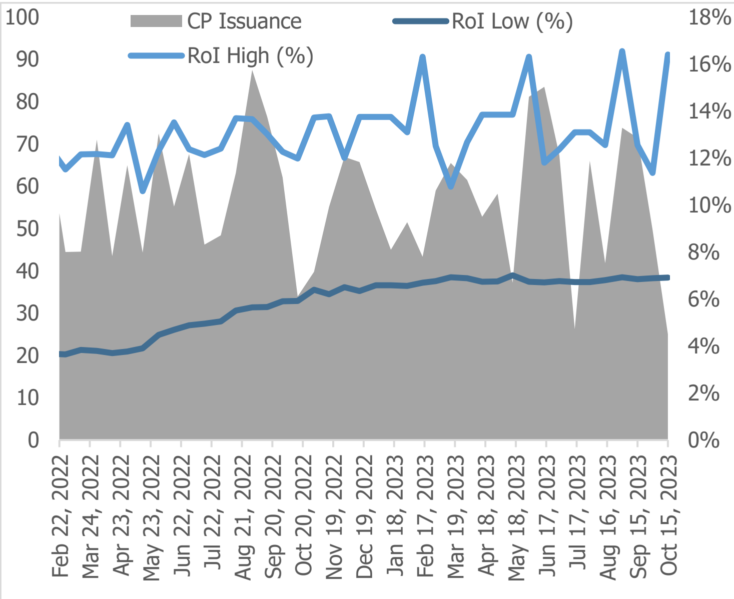


Figure 9: Commercial Paper Outstanding

Fortnight ended	Amount Outstanding (Rs'000 cr.)	Y-o-Y growth %
Mar 31, 2022	352.2	-3.3
May 15, 2022	384.4	-5.0
Jun 30, 2022	372.5	-1.0
Aug 31, 2022	410.0	4.7
Oct 31, 2022	373.3	-1.6
Dec 15, 2022	363.7	-18.6
Jan 31, 2023	363.9	-8.1
Mar 15, 2023	371.3	0.9
Apr 30, 2023	421.7	15.5
May 31, 2023	433.5	12.7
Jun 30, 2023	433.2	16.3
Sep 30, 2023	412.2	2.8
Oct 15, 2023	418.8	0.7

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

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



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