The Credit Offtake and Deposit Growth Gap Continues to Narrow

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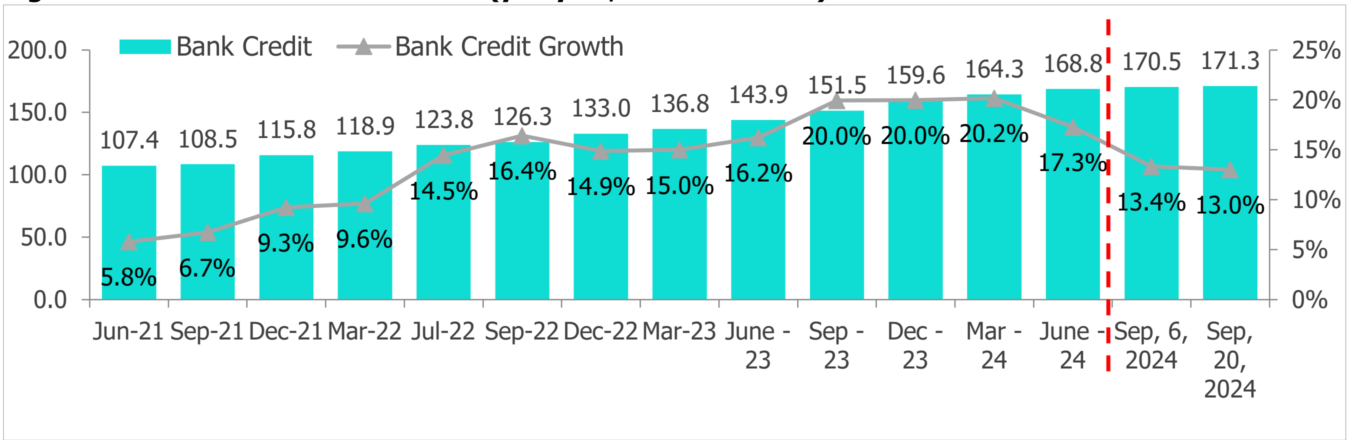
Synopsis

- Credit growth is trending down and continues to converge with deposit growth on an annual basis. Further, if growth rate is compared with December 2023, deposit and credit growth are generally in line with each other.
    - Credit offtake increased by 7.3% compared to December 2023 and touched Rs. 171.2 lakh crore as of September 20, 2024. Personal loans and MSMEs account for the bulk of this increase, with corporate credit also contributing to the same. This slowdown compared to last year can be attributed a higher base effect and RBI measures such as higher risk weights and the proposed LCR norms.
    - Deposits rose at 7.1% compared to December 2023 and reached Rs. 215.1 lakhs crore as of September 20, 2024, driven by growth in time deposits.
- The Short-term Weighted Average Call Rate (WACR) has dropped to 6.61% as of September 27, 2024, compared to 6.75% as of September 29, 2023.

Bank Credit Growth Continues to Remain Muted for the Fortnight

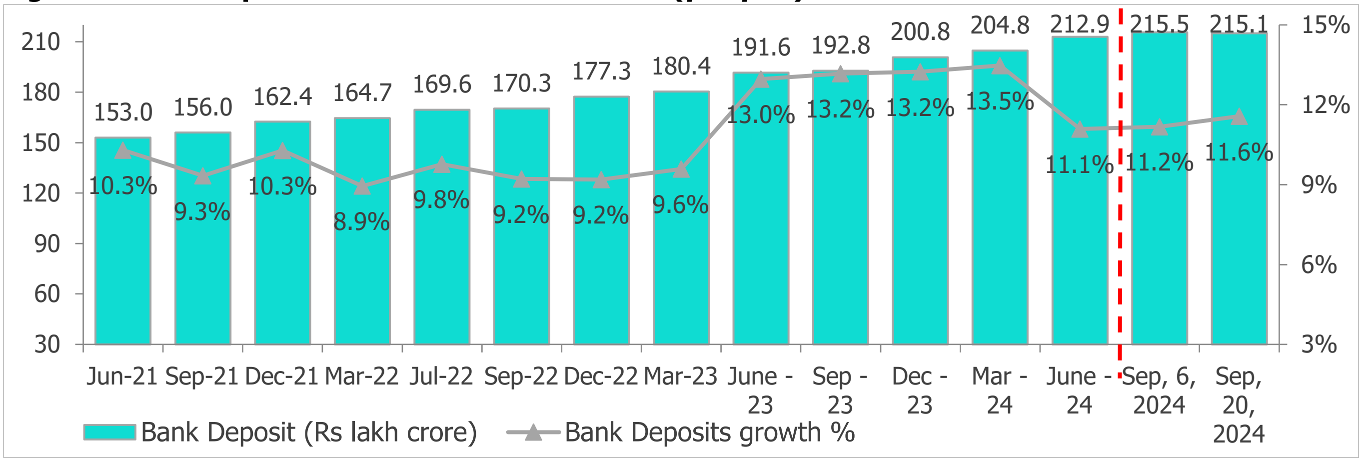
Figure 1: Bank Credit Growth Trend (y-o-y %, Rs. Lakh crore)



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 7.3% compared to December 2023 and sequentially increased by 0.5% for the fortnight ended September 20, 2024. In absolute terms, over the last 9 months, credit offtake expanded by Rs. 10.9 lakh crore to reach Rs. 171.3 lakh crore as of September 20, 2024. Personal loans along with Commercial Real estate has driven credit growth with the Industry segment too supporting aggregate growth. This slowdown compared to last year can be attributed a higher base effect and RBI measures such as higher risk weights and the proposed LCR norms.

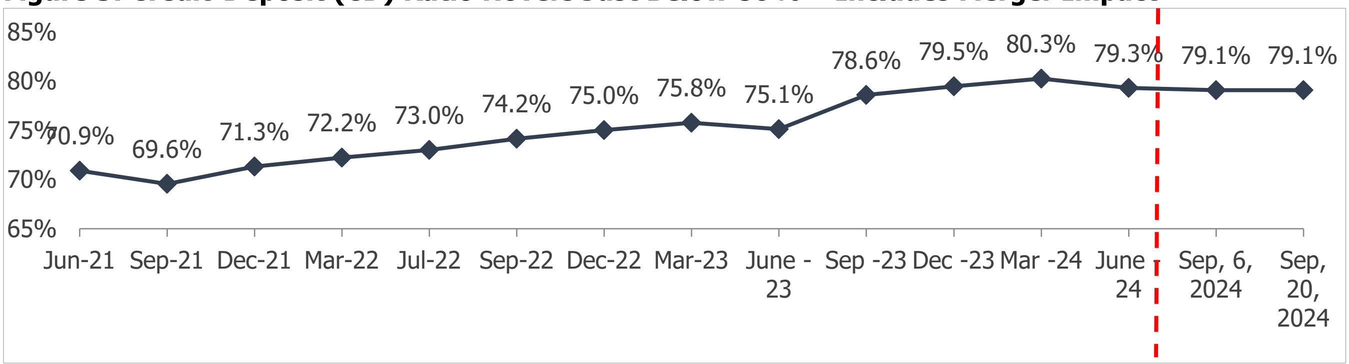
Figure 2: Bank Deposit Growth Remains Subdued (y-o-y %)



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

- Deposits rose at 7.1% compared to December 2023 and reached Rs 215.1 lakhs crore as of September 20, 2024, and sequentially witnessed a marginal downtick of 0.2%. Meanwhile, in absolute terms, deposits have expanded by Rs. 14.2 lakh crore over the last 9 months. Deposits have remained prominent in FY25 as banks have intensified efforts to strengthen their liability franchise. The banks are also sourcing funds via the certificates of deposits (at a relatively higher cost) which have shown significant traction.

Figure 3: Credit-Deposit (CD) Ratio Hovers Just Below 80% – Includes Merger Impact



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

- The CD ratio has been generally hovering around 80% since September 2023. The CD ratio remained flat, compared to the previous fortnight, and stood at 79.1% for the fortnight (September 20, 2024), compared to 77.6% on September 9, 2023.

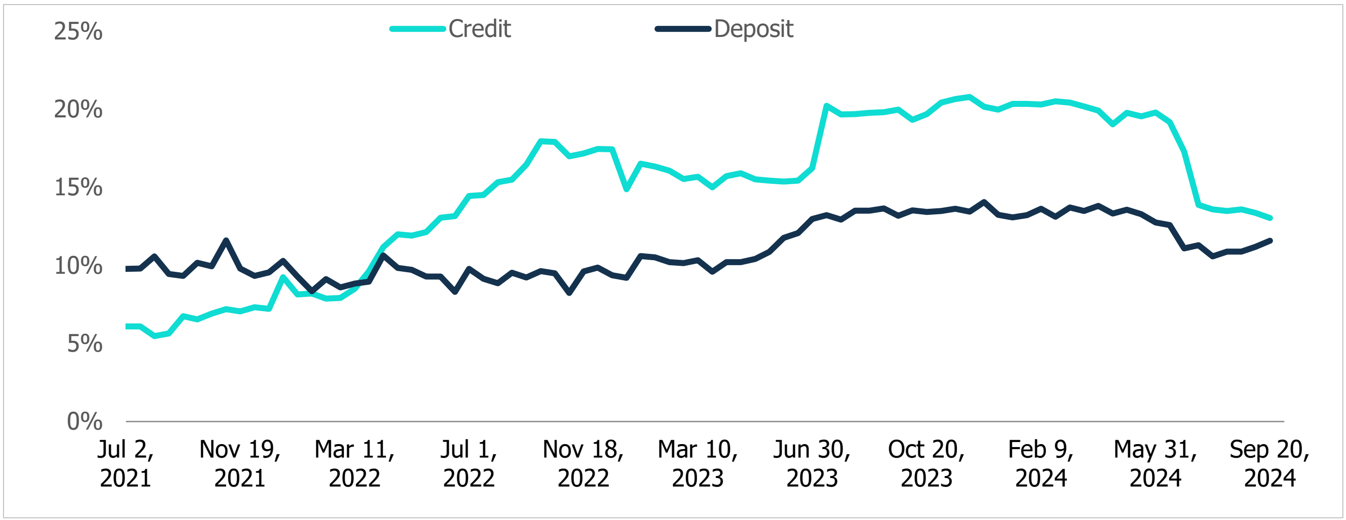
Figure 4: Trend in Bank Credit and Deposit Movement

	Outstanding as on			Abs. Growth (Rs lakh cr)		Abs. Growth (In %)	
	Dec 29, 23	May 3, 24	Sep 20, 24	Since Dec	Since May	Since Dec	Since May
Credit	159.6	164.3	171.2	11.6	4.2	7.3%	2.5%
Deposit	200.8	210.0	215.1	14.2	6.1	7.1%	2.9%

Source: RBI, CareEdge

As per the above table, we can observe that in absolute terms, deposit growth has outpaced credit growth, especially after RBI's circular on risk weights and comments on reducing the CD Ratio. Additionally, we can also see that the CD Ratio on these flows from January would be 81.8%. This also indicates that the credit offtake could face challenges and be tepid for the year.

Figure 5: Credit Offtake vs Deposit Growth

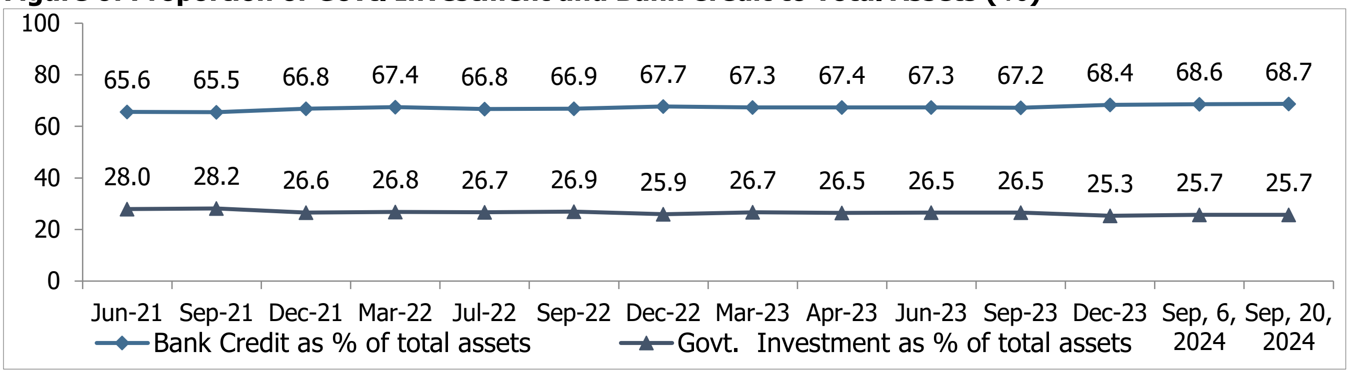


Source: RBI, CareEdge

On y-o-y performance, credit saw a growth of 13.0%, which was relatively slow compared to last year which saw a growth of 20.0%, on the other hand, deposits saw a growth of 11.6%. Deposit growth, though showing improvement, has continued to lag credit growth in the past year, however the growth has considerably narrowed over the past year.

Proportion of Credit to Total Assets Increased, However Govt. Invest. to Total Assets Remained Flat

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

- The credit to total assets ratio marginally increased by 10 bps compared to the previous fortnight and stood at 68.7% for the fortnight (September 20, 2024). Also, the Government Investment to Total Assets Ratio remained flat and stood at 25.7%. Meanwhile, overall government investments stood at Rs 64.0 lakh crore as of September 20, 2024, reporting a growth of 7.0% y-o-y, and a growth of 0.3% sequentially.

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

Figure 7: Certificate of Deposit O/s

Fortnight ended	Amount Outstanding (Rs'000 cr.)	Y-o-Y growth %
Jan 12, 2024	351.1	20.1
Apr 5, 2024	361.6	20.0
Apr 19, 2024	372.8	24.1
May 3, 2024	380.0	31.6
May 17, 2024	367.5	21.6
May 31, 2024	369.2	18.2
Jun 14, 2024	352.3	22.6
Jun 28, 2024	409.6	42.6
Sep 6, 2024	463.0	55.5

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

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

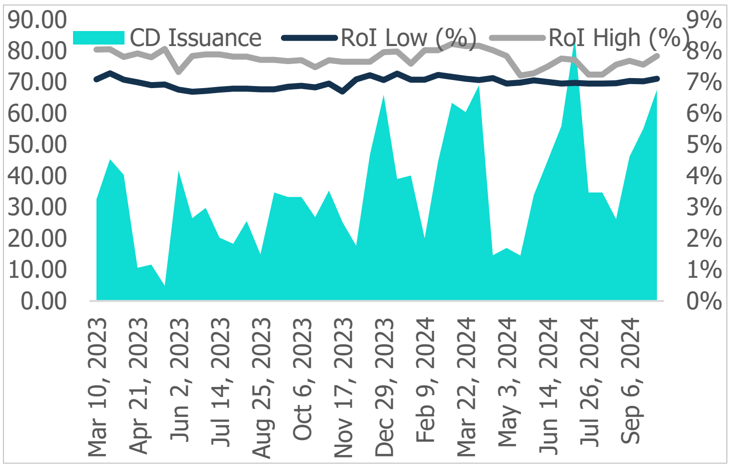
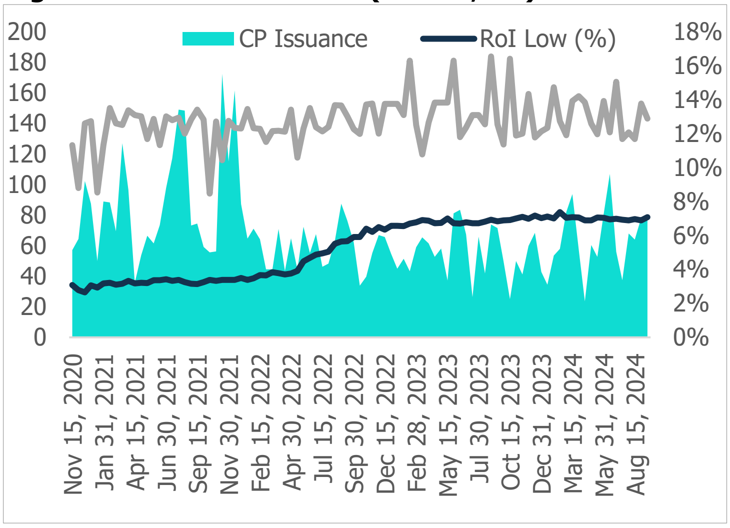


Figure 9: Commercial Paper Outstanding

Fortnight ended	Amount Outstanding (Rs'000 cr.)	Y-o-Y growth %
Sep 30, 2023	412.2	2.8
Dec 31, 2023	364.2	1.3
Mar 31, 2024	388.6	9.9
Apr 30, 2024	411.5	-2.4
May 15, 2024	421.2	-0.1
May 31, 2024	404.0	-6.8
Jun 15, 2024	431.1	-3.5
Jun 30, 2024	422.4	-2.5
Sep 15, 2024	440.9	1.9

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

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



RBI Announcements

Announcement	Comments
RBI's draft circular on Forms of Business and Prudential Regulation for Investments	The circular aims to ringfence banks' core business from other risk bearing non-core businesses and provide operational freedom to banks for making investments in financial services/non-financial services companies and Alternative Investment Funds. The circular prevents multiple entities within a bank group from undertaking same business or having same category of license or registration from any financial sector regulator. Further, there shall be no overlap in lending activities undertaken by the bank and its group entities. In case of existing NBFC and HFC entities in the group will be subject to regulations applicable to scale based Upper Layer NBFCs and restrictions on loans and advances applicable to banks. There are few banks which have NBFC subsidiaries and there could be similar products offered both by the bank and NBFC.

	Certain non-lending businesses like mutual fund business, insurance business, pension fund management, investment advisory services, portfolio management services and broking services or other such risk-sharing activities that require ring-fencing, shall not be carried out departmentally and will have to be done only through a group entity. While fund, insurance and broking services are largely through separate entities, few banks will have to re-align their PMS and advisory businesses. The circular will require few banks to re-align their group structure and products offered as per the circular to separate the core operations from non-core banking businesses. The circular provides a window of 2 years from applicability of the circular to comply with the guidelines.
Gold loans - Irregular practices observed in grant of loans against pledge of gold ornaments and jewellery	The RBI carried out a review of the adherence to prudential guidelines as well as practices being followed regarding loans against pledge of gold ornaments and jewellery. The major deficiencies include (i) shortcomings in use of third parties for sourcing and appraisal of loans; (ii) valuation of gold without the presence of the customer; (iii) inadequate due diligence and lack of end use monitoring of gold loans; (iv) lack of transparency during auction of gold ornaments and jewellery on default by the customer; (v) weaknesses in monitoring of LTV; and (vi) incorrect application of risk-weight. All regulated entities have been advised to review activities around gold loans to identify gaps and initiate timely appropriate remedial measures.

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