

## Lockdown impact: Bank credit growth plunges 50% in fortnight to May 22

**Banks had surplus liquidity of Rs 4.5 trn in the period**

**Abhijit Lele | Mumbai June 06, 2020** Last Updated at 23:32 IST



*During the week ended May 22, the banking system had surplus liquidity of over Rs 4.5 trillion, said CARE Ratings, leading to banks slashing interest rate on deposits*

Banking system credit grew 6.5 per cent year-on-year in the fortnight ended May 22, down almost 50 per cent from a year ago, reflecting the impact of the nationwide lockdown imposed at the end of March.

Credit grew at a similar pace — 6.5 per cent — in the previous fortnight, while it expanded 12.7 per cent a year ago (as of May 24, 2019), according to rating agency CARE Ratings.

Senior bankers said severe demand destruction during the lockdown was one of the reasons behind the fall in credit growth. The use of sanctioned credit would see a gradual rise as businesses begin activities during the unlocking phase, they said.

Also, the first quarter of the financial year is usually lean as units and service sector enterprises are engaged in finalising accounts for the year gone by.

The deposit accretion activity has remained steady in the current financial year compared to the same period last year. Deposits grew 10.6 per cent (as of May 22, 2020) over the previous fortnight, and improved marginally on a YoY basis (10.1 per cent as of May 24, 2020).

The coronavirus-induced lockdown has destroyed the demand for money, leading to banks sitting on surplus liquidity, said a public sector banker. The customers, too, have enough cash in their accounts as there's no spending.

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During the week ended May 22, the banking system had surplus liquidity of over Rs 4.5 trillion, said CARE Ratings, leading to banks slashing interest rate on deposits.

State Bank of India (SBI) reduced the fixed deposit (FD) rates to 4.4 per cent from 4.8 per cent earlier on deposits with tenures between 180 days and 210 days. The rate for FDs maturing between five years and 10 years was cut to 5.4 per cent from 5.7 per cent.

Liquidity in the banking system is expected to remain surplus, with the growth in bank deposits expected to be higher than the growth in the bank credit offtake.

In the previous financial year, the pace of bank credit growth had fallen sharply to 6.1 per cent, from 13.3 per cent in FY19.

Deposit accretion activity had also moderated in FY20 to 7.9 per cent from 10 per cent in FY19, according to the Reserve Bank of India (RBI) data. While banks faced the slowdown impact throughout the year, the Covid-19 blow came in the final month of the financial year.

# BALANCE SHEET

Trend of YoY deposit and credit growth (%)

■ Credit ■ Deposit growth

