Banking Fortnightly Report 5th -June-10

Acceleration in credit growth

In the current fortnight, bank credit grew at a faster pace as compared to the previous fortnight. On a fortnightly comparison, bank credit increased by Rs. 579bn as compared to a increase of 24bn in the previous fortnight. Last year same period bank credit grew by 215 bn.

Much of the increase in the credit off take during the current fortnight is due to demand for funds from telecom companies for making payment for 3G services and advance tax outflows.

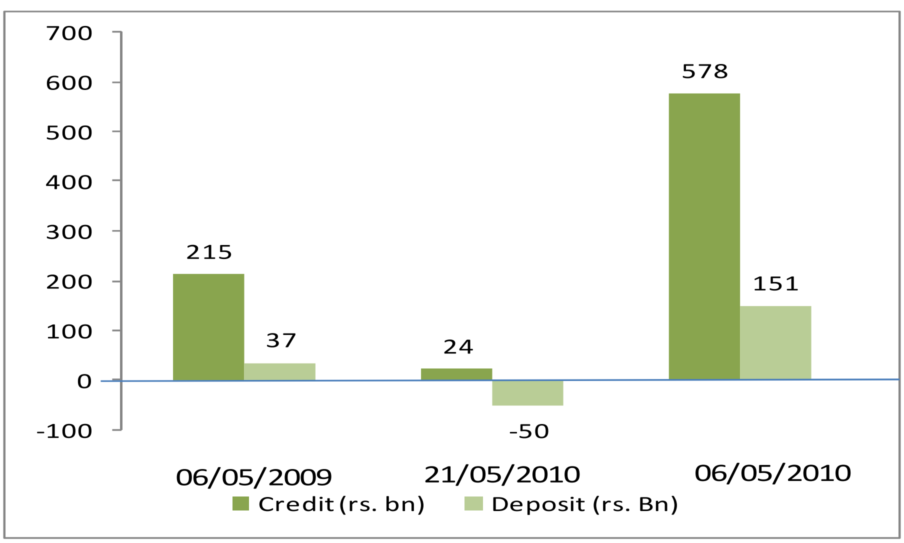
Credit off take is expected to improve further due to demand from agriculture sector which is usually witnessed during the first quarter. Even though credit growth has witnessed sharp rise in the current fortnight, in order to judge the sustainability of growth rate, it is viable to keep an eye on credit growth in the coming fortnights.

Components of credit growth (Schedule Commercial Banks)

Particulars (Rs bn)	05-Jun-09	21-May-10	05-Jun-10	y-o-y (%)	Fornightly (%)
Bank Credit	27,572	32,302	32,881	19.3%	1.79%
Increamental credit growth for fortnight	215	24	579		
Food Credit	591	494	521	-11.8%	5.6%
Non Food Credit	26,981	31,808	32,359	19.9%	1.7%
Deposits	39,717	45,262	45,413	14.3%	0.3%
Investments	12,749	14,447	14,357	12.6%	-0.6%
Credit-to-deposit ratio	69.4%	71.4%	72.4%		
Investment-to-deposit ratio	32.1%	31.9%	31.6%		

Source: RBI and Nirmal Bang Research

Fortnightly Credit Deposit Movement



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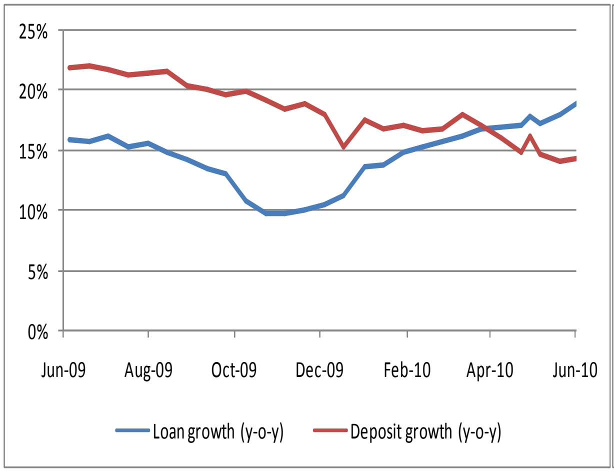
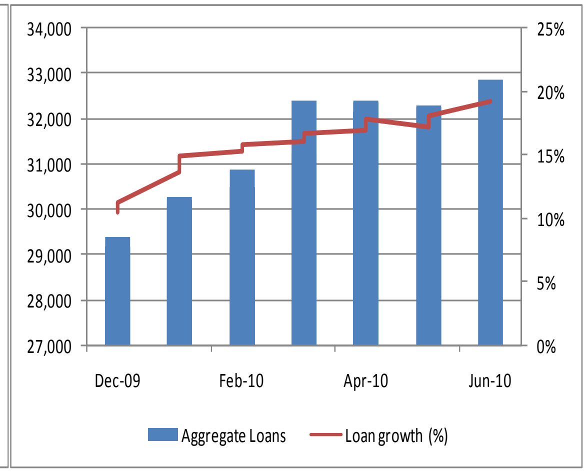
Aggregate Loan and Deposit Growth



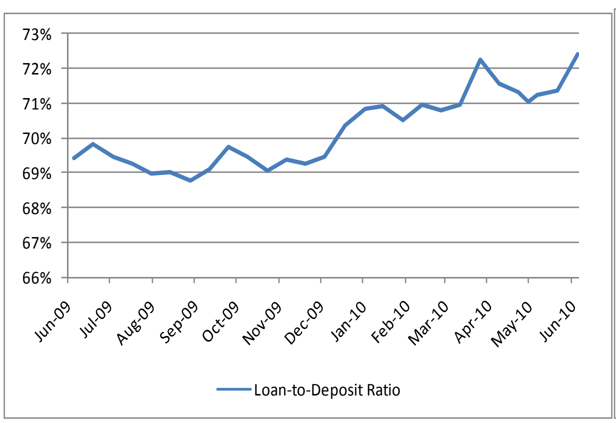


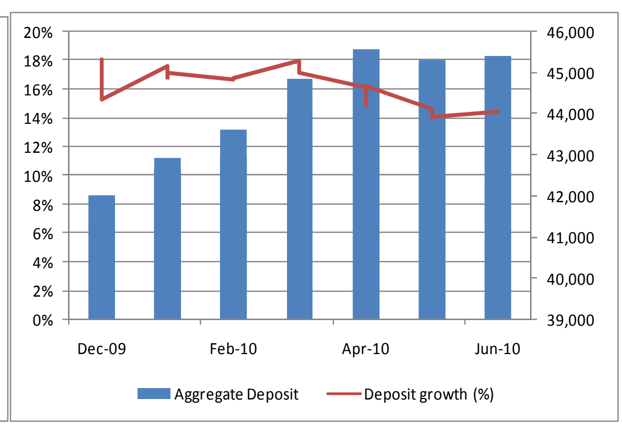
On a fortnightly comparison, bank deposit increased by 151 bn in the current fortnight as compared to decline of 50bn in the previous fortnight. On a YOY basis banks deposit grew at 14.3%.

Credit deposit ratio stood at 72.5% at the end of the current fortnight as compared to 71.4% in the previous fortnight due to growth in the deposits. Demand deposits increase by Rs.89 bn during the current fortnight, whereas time deposits increased by Rs.62 bn.

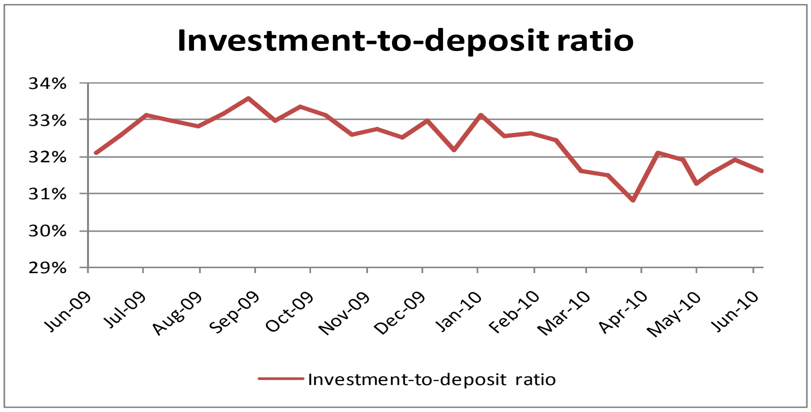
However, incremental credit deposit ratio increased from 89% in previous fortnight to 93% for the fortnight under review mainly on account of huge spike in the credit in the current fortnight and sluggish growth in deposits.

Loan-Deposit performance



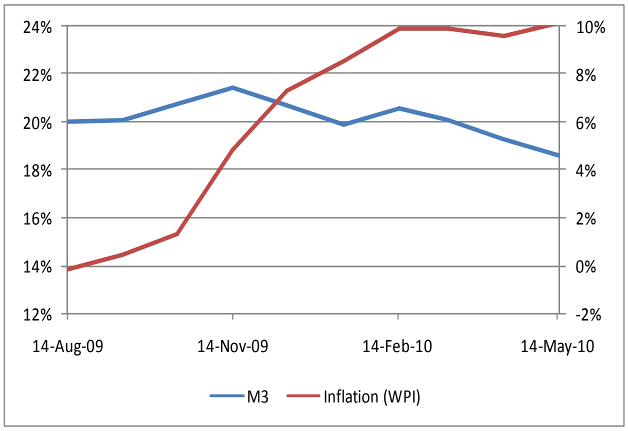


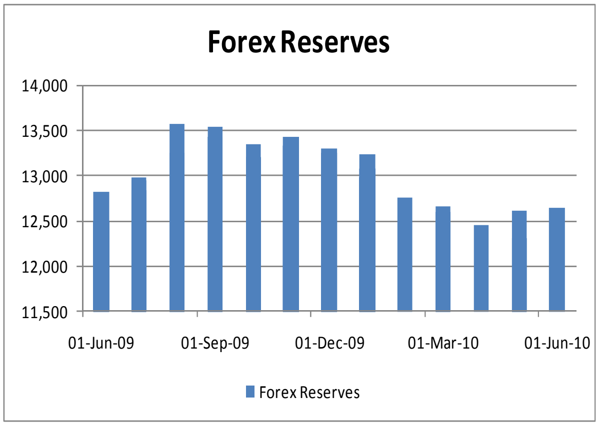
Investments for the fortnight, increased by 12.6% on a YOY basis. Also IDR (investment deposit ratio) stood 31.6% levels in the current fortnight as compared to 31.9% for previous fortnight. Investments by banks in government securities and other approved securities decreased by Rs 89 bn in the current fortnight in order to fund the sharp growth in credit. Relatively tight liquidity condition, has led to a reduction in banks' exposure in mutual funds.



Money Supply and Inflation

Growth in M3 increased by 14.5% on a YOY basis in the week ending on 21st May 2010. All the components of money supply posted a positive growth for the current fortnight. On a fortnightly basis money supply increased by 0.2% or Rs. 8,808 crores.





Inflation	Weight	Apr-10	May-10	M-o-M (%)	May-09	Y-O-Y(%)
General	100	253.7	258.1	1.73%	234.3	10.16%
Primary	22.0	289.7	299.9	3.52%	257.2	16.60%
Fuel	14.2	364.0	368.2	1.15%	325.7	13.05%
Manufacturing	63.8	216.6	219.1	1.15%	205.9	6.41%

WPI inflation rose to 10.16% for the month of May 2010, from 9.6% in the month of April 2010. Inflation in primary articles was up 3.52 % on M-O-M basis, even after the arrival good rabi crop. The increase in primary articles was driven by non food articles and minerals which rose by 10.5% and 8.4% on as compared to previous month. Food inflation accelerated to 16.74%. Inflation in fuel rose by 1.15% from previous month due to higher prices of lubricants and aviation turbine fuel. Inflation in manufacturing group was up 6.4% on a YOY basis in May.

Indices of Industrial Production

IIP	Weight	Mar-10	Apr-10	M-o-M (%)	Apr-09	Y-O-Y(%)
General	1,000	348.5	316.7	-9.12%	269.3	17.60%
Manufacturing	793.6	374.9	341.5	-8.91%	286.1	19.36%
Mining	104.7	234.5	197.0	-15.99%	176.9	11.36%
Electricity	101.7	260.0	246.9	-5.04%	232.9	6.01%
Used Based Industry						
Basic	355.7	277.2	251.5	-9.27%	231.1	8.83%
Capital	92.6	653.2	508.8	-22.11%	294.4	72.83%
Intermediates	265.1	321.8	307.1	-4.57%	277.2	10.79%
Consumer Goods	352.8	363.1	344.5	-5.12%	301.0	14.45%
- Durables	53.7	587.4	568.4	-3.23%	415.0	36.96%
- Non Durables	233.0	311.8	292.9	-6.06%	274.8	6.59%

The Indices of Industrial Production for the Mining, Manufacturing and Electricity sectors for the month of April 2010 stand at 197, 341.5, and 246.9. As per User-based classification, the Sectoral growth rates in April 2010 over April 2009 are 8.8% in Basic goods, 72.8% in Capital goods and 10.8% in Intermediate goods. The Consumer durables and Consumer non-durables have recorded growth of 37.0% and 6.6% respectively, with the overall growth in Consumer goods being 14.5%. Capital goods and consumer durables were the main growth drivers. However this superlative growth is one off. This doubled digit growth can be attributed to low base affect which is expected to wear off by June onwards and there after we expect moderation in growth numbers. However on M-o-M basis all the indices have show a negative growth rate, indicating that the growth rate should start softening in coming months

Manufacturing sector, having 80% weight in the index, grew at 19.4 % partly due to low base effect , however on M-O-M basis manufacturing sector recorded negative growth of 9%.

Monetary Rates

CRR and Interest Rates	06-Jun-10	21-May-10	05-Jun-09
Prime lending rate	11.00-12.00	11.00-12.00	11.00-12.25
Deposit Rate	6.50-7.5	6.00-7.50	6.5-8.25
Call Money Rate (low/high)			
- Borrowing and Lending	0.30/4.00	2.50/5.00	1.25/3.75
Cash reserve ratio	6.00	6.00	5.00
Bank Rate	6.00	6.00	6.00
3M Commerical Paper rate	6.10	5.50	5.25

On account of excess liquidity, call money rates have remained below the reverse repo rate for the majority of the month. However due to liquidity pressure going forward due to advance tax outflows and loans needed by telecom companies for 3G services, call money rates are headed northwards. Short-term rates like one-year overnight indexed swaps (OIS) and commercial papers and certificate of deposits may rise 20-50 basis points during the crunch period, while overnight rates could jump 100 basis points. Liquidity is slowly drying up and this is evident from the fact that call rates have risen.

The RBI had announced special measures to manage the liquidity situation arising out of the large outflow of funds from the system for meeting the payment requirements on account of auctioning of the 3G spectrum licences for telcos and the ongoing auctioning of broadband wireless spectrum. The central bank had allowed scheduled commercial banks to avail additional liquidity support under the liquidity adjustment facility (LAF) to the extent of up to 0.5% of their net demand and time liabilities (NDTL) and in case it results in curtailment of minimum SLR level which banks have to maintain at 25%, they will be allowed waiver of penal interest purely as an ad hoc, temporary measure. The Reserve Bank of India's (RBI) move to infuse liquidity into the system by reducing the statutory liquidity ratio (SLR) by 50 basis points—on an ad hoc basis —can create headroom for Rs 20,000 crore and this will have a positive impact on liquidity and interest rate scenario in the system.

Banking Fortnightly Report **5th -June-10**

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