Industry share in bank credit hits record low

Accounted for 26.6% of non-food bank credit at the end of January

KRISHNA KANT
Mumbai, 8 March

The share of industry in the total non-food bank credit declined to a record low of 26.6 per cent at the end of January 2023, according to the Reserve Bank of India (RBI) data. This share stood at 28.6 per cent as of March 2022, and 45.8 per cent around a decade ago, at the end of March 2013.

Credit to industry grew at a healthy pace – between 10 and 14 per cent — in most months during the first half of 2022-23 (FY23), in contrast to the slowdown seen after November. The outstanding bank credit to industry grew 8.7 per cent year-on-year (YoY) in January this year, as against 13.6 per cent YoY growth in October 2022.

In the first eight months of FY23 (April-November 2022), bank credit to industry grew about 11 per cent YoY, while it was up 9.9 per cent YoY in FY22. In comparison, the overall non-food credit was up 16.6 per cent YoY in January this year.

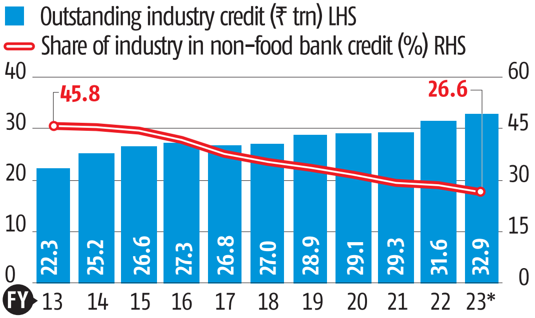
Non-food credit is the sum of all loans given by banks to firms and individuals other than Food Corporation of India (FCI). Bank loans to FCI for the procurement of foodgrain are called food credit. Credit to industry is all bank loans to firms in the industrial sector such as manufacturing, power, mining, oil & gas, construction, telecom and other infrastructure sectors.

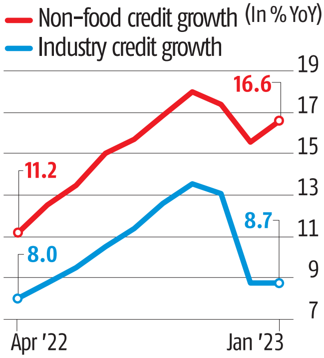
The outstanding bank credit to industry stood at ₹32.9 trillion at the end of January 2023 as compared to ₹31.6 trillion as of March 2022 and ₹27 trillion five years ago. In the same period, banks' outstanding non-food credit grew to ₹123.6 trillion at the end of January 2023 from ₹110.2 trillion at the end of March 2022 and ₹76.9 trillion as of March 2018.

The slowdown in bank credit to industry is not new; it's in line with the trend seen in the past 7-8 years wherein banks depended on retail or personal loans to grow their loan book. In the past five years, only 13.2 per cent of banks' new loans went to industry, while 41.7 per cent were absorbed by retail (personal loans), including home loans, followed by loans to the services sector at 32.8 per cent.

Turn to Page 6

BANK CREDIT TREND





*FY23 data is oustanding bank credit as on January 27, 2023; for other years, data is at the end of March
Note: Total non-food credit is the sum of outstanding bank credit to agricultrure, industry, service sector, and personal loans
Sources: RBI, *Business Standard* calculations

Q3GDP: KEY INDICATORS SHOW CONTINUING UNEVEN GROWTH P6

latest US economic data were stronger than expected, suggest the final level of interest rates could likely be higher than previously expected.

Higher US interest rates typically prompt global investors to flock to the world's largest economy, thus leading to strength in the dollar and exerting pressure on emerging market currencies. The dollar index, which measures the currency against six rivals, was at 105.68 at 3.30 pm IST, as against 104.60 at the same time on Monday.

In a bid to bring down high inflation, the Fed has hiked interest rates by 450 bps since March 2022, marking its most aggressive tightening cycle in around four decades.

Industry...

In the first 10 months of FY23, too, banks made fresh loan disbursements worth ₹13.5 trillion, but only 10 per cent of this went to industry.

Personal loans accounted for 42.9 per cent of the fresh loans, followed by the services sector at 34.2 per cent. As a result, the share of personal loans in the overall bank credit reached a record high of 32 per cent at the end of January 2023, up from 30.7 per cent as of March 2022 and higher than 28.6 per cent at the end of FY22. The share of personal loans in the overall bank credit was 18.4 per cent a decade ago.

While India Inc has focussed on deleveraging their balance sheets in the past few years (including the pandemic period), experts attribute the slowdown in industrial credit and its decline in the overall non-food credit to a slower-than-expected growth in corporate capital expenditure. "Growth in industrial credit is largely related to capex and investment in new projects by corporates. But we have not seen a broad-base pick-up in corporate capex, restricting the demand for bank credit," said Madan Sabnavis, chief economist, Bank of Baroda.

Sabnavis said capex was largely occurring in sectors such as roads, airports, chemicals and auto components but the numbers were too small to move the needle.

Economists at India Ratings blamed the recent surge in interest rates. "The pent-up demand which had provided the thrust to growth is normalising, exports which had been buoyant are facing headwinds from the global growth slowdown, and credit growth is facing tighter financial conditions," said Sunil Kumar Sinha, principal economist and senior director (public finance) at India Ratings and Research, in a recent note on India's GDP.

Others said that industry credit had been largely driven by working capital loans, which had slowed down. "The Q3FY23 results of listed companies, however, suggest a slowdown in aggregate demand in the economy and contraction in profits in the non-financial space. This is adversely affecting demand for working capital loans as well," said Dhananjay Sinha, director and head of research & strategy at Systematix Institutional Equity.

This could also weigh on India's GDP growth. "A slowdown in industry credit will adversely affect the growth of the manufacturing sector and is negative for the overall GDP growth in FY24, if not matched by a pick-up in growth in the service sector," added Sabnavis.