

Bank credit growth close to 9-yr high at 15.5%: RBI data

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Credit growth of commercial banks was near a nine-year high at 15.5 per cent year-on-year for the week ended August 26, the latest data released by the Reserve Bank of India showed. The credit growth is the highest since November 1, 2013, when it was 16.1 per cent.

In the current financial year so far, banks have extended ₹5.66 trillion by way of loans, representing growth of 4.8 per cent, compared to -0.5 per cent during the same period last year.

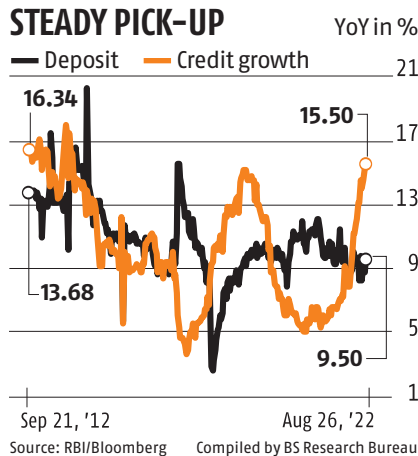
“Credit growth in the system is quite robust currently and at a multi-year high but touching 20 per cent growth looks challenging given that most of the heavy lifting is being done by the retail segment,” Prakash Agarwal, director and head (financial institutions), India Ratings, said.

“For credit growth to touch 20 per cent, the pace of economic growth to be much higher entailed larger credit expansion on the industrial side as well as supporting deposit accretion. Credit growth should sustain at these levels



for some time, especially with the festive season around,” he said, adding there could be some impact on loan demand going forward due to inflation and interest rate hikes.

Deposit growth was 9.5 per cent YoY, according to the data. Deposit growth has been trailing credit growth in this financial year, exacerbating concerns among analysts that slow deposit growth could emerge as one of the



biggest constraints for loan growth in the system. “We have seen a steady and broad-based pick-up in system credit growth despite rising interest rates, which we view positively. However, a widening gap between deposit and credit growth, remains our primary concern as it could lead to supply-side constraints going ahead,” said Macquarie Research in a report.

Credit growth has remained over 15

per cent for two consecutive fortnights now, indicating a more sustained pick up in demand. For the fortnight ended August 12, credit grew at 15.3 per cent and deposits grew at 8.84 per cent. The incremental credit-deposit ratio is at 107.13 per cent as of August 26.

“The concerning issue here is the widening credit – deposit growth gap which is multi year high. Banks need to plan as this may turn out to be a constraining factor. They would have to raise their deposit rates further to attract more deposits, which may lead to a rise in the MCLR in the system,” Agarwal said.

RBI’s latest sectoral deployment of credit for July 2022 pointed out that not only is the retail segment seeing handsome growth of almost 19 per cent, supported by both secured and unsecured loans, credit to industry also saw the highest growth since 2014, due to increased demand for working capital in an inflationary environment. Also, Indian corporates have now turned towards banks for their funding requirements given bond yields have moved up sharply as compared to lending rates of banks.