At 16.2%, bank credit growth at multi-year high: RBI data

But a widening credit-deposit gap is a concern for lenders

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Credit growth in the banking system was at a multi-year high of 16.2 per cent year-on-year (YoY), for the fortnight ended September 9, the latest data released by the Reserve Bank of India (RBI) showed. Last time, credit growth touched 16 per cent was in November 2013.

In the current financial year, so far, banks have extended over ₹6.5 trillion in loans, showing YoY growth of 5.5 per cent. Over the same period last year, there was a decline of 0.3 decline YoY. Analysts expect credit demand to remain robust because of the ongoing festive season, though liquidity in the system may decline because consumers tend to hold more cash during this time.

"We expect credit demand to remain high but think the financial system will scramble for resources to fund credit growth. Consequently, there could be pressure on deposit rates in the coming few months," said Suresh Ganapathy & Param Subramanian of Macquarie Research in a recent report.

"Working capital utilisation levels have gone up. A reasonable part of the increase in credit growth is inflation-linked. Bankers are also seeing capex selectively in sectors like renewables, cement, and steel. Capex demand has generally been weak over the past several years but we are likely to see some early signs of capex-related credit growth in H2FY23," Macquarie Research said in the report.

According to a Motilal Oswal report, while credit growth in the past few years has been largely driven by retail, the same for the corporate segment is seeing healthy signs of a pick-up. Corporate credit is largely driven by working capital requirements as private capex is still a few quarters away.

GROWTH TRAJECTORY

(% in YoY)

Source: RBI/Bloomberg

Compiled by BS Research Bureau

"While corporate credit will pick up gradually, the retail and MSME segment will remain the key growth driver. Home and unsecured loans will continue to keep retail growth healthy," the report said.

Credit growth has remained over 15 per cent for three consecutive fortnights now, indicating a sustained pick-up in demand. For the fortnights ended August 26 and August 12, banking credit grew at 15.5 per cent and 15.3 per cent, respectively.

But deposit growth has been trailing growth by a large margin. Deposits in the banking system grew 9.5 per cent YoY for the fortnight ended September 9. The credit-deposit gap has widened to 670 basis points and the widening gap has exacerbated concerns that slow deposit growth may emerge as one of the biggest constraints for loan growth in the system.

With liquidity in the system tightening, banks are expected to get aggressive in garnering deposits to support credit demand in the system. This is also expected to move the needle on deposit rates, which have not moved in tandem with lending rates. Earlier this week, liquidity in the banking system slipped into a deficit mode for the first time in over three years, signalling a structural shift away from loose financial conditions in the economy.

Credit growth has seen sustained a rise since April this year, despite the RBI adopting a tighter monetary policy stance. The RBI's six-member Monetary Policy Committee has increased the benchmark repo rates by 140 basis points since May this year and consequently, the banks have increased their external benchmark linked loans by the same proportion.

However, the MCLR hike has not been to that extent which is drawing the industries to borrow more from the banking sector.