

Bank credit growth rises to 16.5%

SUBRATA PANDA

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After a slight moderation in growth in the previous fortnight, bank credit growth picked up in the fortnight ended January 13, 2023, with 16.5 per cent YoY growth to ₹132.81 trillion, latest data released by Reserve Bank of India (RBI) showed.

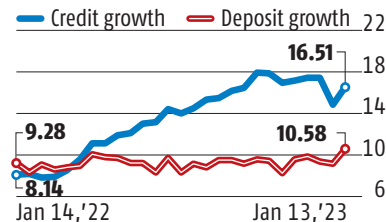
Having said that, in the first fortnight of the calendar year, credit growth contracted 0.2 per cent. Credit growth moderated to 14.9 per cent YoY in the fortnight ended December 30 due to base effect, as bank credit expanded by 9.2 per cent during the same period last year.

“Last fortnight, there was a base effect impact, hence credit growth had moderated. But it has evened out and hence we are seeing credit growth pick up on a YoY basis. We expect the growth trend to continue because Q4 is generally a strong quarter,” said Prakash Agarwal, director & head, Financial Institutions, India Ratings & Research.

Banks that reported Q3 earnings have all exhibited healthy growth in their

FIRMING UP

(% YoY)



Source: RBI/Bloomberg; Compiled by BS Research Bureau

advances, led by growth in their retail credit portfolio. Having said that, the overall credit growth has moderated from around 18 per cent in early October.

According to experts, a combination of factors, including the RBI's rate hikes, slowing GDP growth, and the normalisation of the base effect, to blunt the sharp growth in credit.

“Going forward, lower growth in working capital requirements, inflationary pressures, high interest rates and slower deposit growth are likely to weigh on loan growth. Also, exports have fallen

so corporate credit growth may get impacted. Further, retail credit growth may also see an impact because of rising interest rates. So, next year the credit growth should be lower on combination of macro factors and base effect,” Agarwal said.

Meanwhile, deposit growth gathered pace as deposits accretion in the system grew at 10.6 per cent YoY to ₹176.74 trillion in the fortnight ended January 13. In the previous fortnight ended December 30, deposit accretion grew at 9.2 per cent YoY.

But, as is the case with credit growth, deposit accretion also saw contraction by 0.3 per cent in the first fortnight of the calendar year.

Deposit growth is picking up gradually as banks have begun to pass on the RBI's rate hikes. With system liquidity shrinking, banks have become more aggressive to garner deposits to fund the high credit growth in the economy.

Although the gap between credit and deposit growth has shrunk to 590 basis points from over 800 basis points earlier, it still remains very high.