4 February 2023

How does the banking business scene stack up?

The third quarter has witnessed a rather stable performance from the banking sector in terms of all financial indicators. But how is the business scene? This is important because it has been seen that growth in deposits has lagged that in credit which has led to diminishing surplus liquidity. Banks have been raising their deposit rates in a calibrated manner. Credit growth on the other hand has been of a different nature with the retail segment being the main driver. In this context, the foregoing analysis puts in place the present scene on deposits and credit.

The table below provides information on the latest situation on state of deposits and credit.

Table 1: Growth in business indicators of scheduled commercial banks

		As of January 13			
	Outstanding as on Jan. 13, 2023	Financial year so far		Year-on-Year	
		2021-22	2022-23	2022	2023
Aggregate Deposits	1,76,74,372	8,69,467	12,09,058	13,57,589	16,91,393
Growth (per cent)		5.8	7.3	9.3	10.6
Demand	20,75,219	-32,843	2,472	2,54,530	2,46,870
Time	1,55,99,153	9,02,310	12,06,586	11,03,059	14,44,523
Investments	52,00,471	1,63,258	4,71,524	2,03,752	5,74,687
Growth (per cent)		3.7	10.0	4.6	12.4
Bank Credit	1,32,81,377	5,51,790	13,90,063	8,57,584	18,82,299
Growth (per cent)		5.1	11.7	8.1	16.5

- Growth in deposits has now gone past that in the last financial year and for the YTD period is at 7.3%. The absolute increase was Rs 12.09 lakh crore.
- Growth in bank credit has been higher at 11.7% (16.5% on y-o-y basis).
- The difference between incremental deposits at Rs 12.09 lakh crore and bank credit at Rs 13.90 lakh crore reflects the liquidity pressure in the system. Add to this the fact that investments have also increased by Rs 4.71 lakh crore. This explains how the surplus liquidity in the system has been absorbed.

Growth in credit has been swift this year compared with last year thus exceeding the initial projection of 12-14% for FY23. It may end up at around 14-15%. The pattern of growth in credit for the period April-December (YTD basis) is also interesting as seen in the table below.

- Overall growth in credit was 11.9%. Interestingly growth for manufacturing was lower at 4.3% reflecting lower level of activity. Within manufacturing large industry was an under performer with growth of just 2.7%. Medium industry grew by 11% and small by 8.7%.
- Personal loans and services drove growth in credit by 16.4% and 16.2% respectively.

Table 2: Growth in bank credit across sectors

Rs crore	Dec-22	Dec-21	Dec-22
		Growth Dec over March	
Total	**1,33,04,393**	**5.8**	**11.9**
Food	**53,972**	**44.8**	**-1.9**
Non-food	**1,32,50,421**	**5.6**	**11.9**
Agriculture and allied activities	**16,30,871**	**10.0**	**11.6**
Industry	**32,91,537**	**3.2**	**4.3**
Micro & small	5,79,070	17.6	8.7
Medium	2,37,564	48.5	11.0
Large	24,74,903	-2.1	2.7
Personal loans	**39,35,144**	**9.0**	**16.4**
Housing (Including priority sector housing)	18,98,411	9.5	12.7
Advances against fixed deposits	1,09,937	9.5	39.6
Advances to individuals against share, bonds,	6,806	10.5	10.5
Credit card outstanding	1,80,090	8.0	21.9
Education	92,754	4.9	12.1
Vehicle loans	4,84,747	5.5	20.4
Loans against gold jewellery	84,256	1.1	13.9
Consumer durables	36,640	45.4	32.6
Other personal loans	10,41,502	10.2	18.7
Services	**35,04,664**	**5.6**	**16.2**
Transport operators	1,64,451	3.1	5.9
Computer software	22,404	6.2	7.2
Tourism, hotels & restaurants	63,588	6.6	-1.2
Professional services	1,26,739	4.2	8.6
Shipping	7,307	-7.3	-13.4
Aviation	28,930	-47.6	20.6
Trade	7,68,167	7.5	10.3
Commercial real estate	3,09,031	1.6	6.1
Non-banking financial companies (NBFCs)	13,20,299	2.7	29.1
Other services	6,93,750	14.2	12.3

- Within personal loans the growth rate was impressive for :
  - Mortgages 12.7%
  - Credit cards 22%
  - Vehicle loans 20.4%
  - Consumer durables 32.6%
- Loans against jewelry, fixed deposits and shares bonds were also up reflecting to an extent the rise of consumerism in the country where households were willing to borrow to meet consumption requirements.
- Services credit was driven by NBFCs (29.1%) followed quite distantly by trade, transport operators and professional services. quite clearly the revival in the services sector with the

complete opening up post lockdowns from April onwards were accompanied by heightened activity with the PMIs increasing.

The shares of various sectors in overall credit is given in Table 3 below.

Table 3: Shares of sectors in bank credit

	Mar-22	Dec-22
Total	**100.0**	**100.0**
Food	**0.5**	**0.4**
Non-food	**99.5**	**99.6**
Agriculture and allied activities	**12.3**	**12.3**
Industry	**26.5**	**24.7**
Micro & small	4.5	4.4
Medium	1.8	1.8
Large	20.3	18.6
Personal loans	**28.4**	**29.6**
Housing (Including priority sector housing)	14.2	14.3
Advances against fixed deposits	0.7	0.8
Advances to individuals against share, bonds, etc.	0.1	0.1
Credit card outstanding	1.2	1.4
Education	0.7	0.7
Vehicle loans	3.4	3.6
Loans against gold jewellery	0.6	0.6
Consumer durables	0.2	0.3
Other personal loans	7.4	7.8
Services	**25.4**	**26.3**
Transport operators	1.3	1.2
Computer software	0.2	0.2
Tourism, hotels & restaurants	0.5	0.5
Professional services	1.0	1.0
Shipping	0.1	0.1
Aviation	0.2	0.2
Trade	5.9	5.8
Commercial real estate	2.5	2.3
Non-banking financial companies (NBFCs)	8.6	9.9
Other services	5.2	5.2

The important takeaway here is that the top five sectors which need to be followed closely by the banking system as they drive topline growth are large industry (18.6%), housing (14.3%), NBFCs (9.9%), Trade (5.8%) and vehicle loans (3.6%). Based on the growth witnessed during the financial year so far the shift has clearly been:

- In favour of personal loans where share has increased from 28.4% to 29.6% and services from 25.4% to 26.3%.

- This has been at the expense of manufacturing where share is down from 26.5% to 24.7%.

Given the movements in credit and deposits, the changes in interest rates can be looked at.

- The WALR on fresh deposits has risen from 7.63% in March to 8.88% in December which is an increase of 125 bps.
- Weighted average lending rate on outstanding credit has increased by 78 bps from 8.74% to 9.52%.
- In case of deposits, the WADTDR rose from 5.03% to 5.78%, which is an increase of 75 bps.
- In case of the 1 year MCLR the median increased by 110 bps from 7.25% to 8.35%.

The important thing is that growth in credit has been steady notwithstanding the increase in lending rates in response to the repo rate hike which has been of the order of 225 bps.

RBI data also shows that as of September 2022, 47.6% of floating loans are linked to the EBLR followed by 46.5% for MCLR. In case of base rate it is just 3.8% and 2.1% for others. Hence, the increase in repo rate has a more efficient transmission process.

Going ahead, the overall liquidity situation needs to be tracked as surpluses have dwindled to a near neutral state. The RBI policy will be watched in this regard. The MPC would persist with another rate hike to bring the repo rate to 6.5% for this cycle before a pause. The government borrowing programme is unlikely to pressurize liquidity in an unusual manner as it has been retained at the FY 23 level. Deposits growth should get better which should add to liquidity. With the economy slowing down growth in credit would also tend to be moderated to a lower level of around 11-13% in FY24.

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