29th April 2023

How has bank credit grown in FY23?

Bank credit growth was 15% in FY23 compared with 9.6% in F22. Interestingly, growth has been driven by the non-industry segments. This was also the year in which the RBI has increased the repo rate by 250 bps which means that lending rates have been increasing. Therefore, notwithstanding rising interest rates where transmission is immediate in case loans are linked to the external benchmark, demand remained steady. Demand for credit in general kept pace to growth prospects in various industries and hence has not been even across all sectors. At the macro level too it was observed that GDP growth was propped up more by the services segment than manufacturing. Also over the years it has been observed that the dial has shifted away from industry as being the main recipient of credit.

Table 1 gives the outstanding credit across major segments as well as share in total along with growth rates in the last two years. *(The aggregate bank credit number will differ from the sum of the components due to data reporting to RBI. Shares have hence been calculated in sum of the 4 components and not aggregate bank credit).*

Table 1: Segment-wise growth in bank credit

	24.Mar,2023	Share	FY22	FY23
	Rs crore	%	%	%
I. Bank Credit (II + III)	**1,36,75,228**		**9.6**	**15.0**
II. Food Credit	19,906		-10.2	-63.8
III. Non-food Credit	1,36,55,322		9.7	15.4
1. Agriculture and Allied Activities	***16,87,191***	***13.3***	***9.9***	***15.4***
2. Industry (Micro and Small, Medium and Large)	***33,36,722***	***26.2***	***7.5***	***5.7***
Micro and Small	5,98,390	***4.7***	23.0	12.3
Medium	2,56,023	***2.0***	54.4	19.6
Large	24,82,310	***19.5***	2.0	3.0
3. Services	***36,08,574***	***28.4***	***8.7***	***19.8***
Transport Operators	1,76,239	***1.4***	8.6	13.4
Professional Services	1,34,661	***1.1***	7.7	15.3
Trade	8,19,921	***6.4***	10.8	17.8
Commercial Real Estate	3,14,579	***2.5***	0.6	8.0
Non-Banking Financial Companies (NBFCs)	13,31,097	***10.5***	7.8	30.2
Other Services	7,09,044	***5.6***	13.8	15.8
4. Personal Loans	***40,85,168***	***32.1***	***12.6***	***20.6***
Consumer Durables	37,323	***0.3***	60.0	35.1
Housing	19,36,428	***15.2***	12.9	15.0
Advances against Fixed Deposits	1,21,897	***1.0***	7.0	46.2
Advances to Individuals against share, bonds, etc.	6,778	***0.1***	15.9	8.3
Credit Card Outstanding	1,94,282	***1.5***	12.7	30.9
Education	96,847	***0.8***	5.9	17.1
Vehicle Loans	5,02,780	***4.0***	9.3	24.9
Loans against gold jewellery	88,428	***0.7***	-1.5	19.6
Other Personal Loans	11,00,404	***8.7***	15.0	25.4

Source: RBI

Table 1 reveals that:

- Topline growth of 15.4% has been driven by retail, services and agriculture which have all grown at the same or higher rates.
- Growth in credit to industry has lagged at 5.7%. Within industry, the MSME sector has registered high growth. However, large companies' credit grew by just 3% compared with 2% in Fy22.
- The overall matrix of composition is now tilted to retail loans which account for almost a third (32.1%) of aggregate credit as of FY23.
    - Housing and vehicle loans account for 15.2% and 4% respectively. Other personal loans have a high share of 8.7%.
    - This is a segment where an external benchmark is used for pricing and hence 250 bps increase in repo rate has meant similar transmission to the customers.
    - The steady growth in credit to housing has also been associated with steady growth in the real estate sector as well as related industries like steel and cement which registered growth of 8.6% in FY23.
    - The high growth of 24.9% in vehicle loan can be associated with heightened demand for vehicles as well as the resolution of the supply chain issues which affected the auto industry in FY22.
    - While the shares of loans for consumer durables, credit cards and those against fixed deposits are low, growth in credit has been very high as the pent up demand phenomenon witnessed in the second half of FY23 has made households borrow from banks to meet their requirements. Attractive schemes offered by sellers also contributed to this upsurge in consumption.
- Growth in credit to services was comparable to that in retail loans at 19.8%.
    - The two major components here were NBFCs with share of 10.5% and trade with 6.4%. Growth was at an accelerated pace for them as the services sector had been fully opened up in the first half of FY23 that led to enhanced demand for credit. NBFCs continued to borrow from both the banking system as well as debt market.
- In case of industry, large companies had a share of almost 20% while overall industry accounted for 28.4% of total credit. Growth was subdued mainly due to limited investment taking place in the economy. The MSME credit growth also slowed down though was in the double digit range. The decline in non-oil related exports witnessed at the macro level fed back to this segment's performance.
- Within industry (Table 2), infrastructure had the highest share in total credit of 35.6% followed by metal related industries with 10.3% and chemicals with 6.5%. While growth in credit to infrastructure was negative, it was 19.1% and 10.2% respectively for the other two industries. Growth in credit to power and telecom had fallen while that to airports and roads was positive. Airports have benefited from the push given by the government to construction of new modern facilities across the country.
- Growth in credit to industries related to housing/construction and auto witnessed relatively higher growth rates like wood products, glassware, and cement. High and volatile crude oil prices also meant that demand for credit was higher.

Table 2: Industry-wise growth in credit in FY23

Industry	24.Mar,2023	Share in total	Variation	
			25.Mar,2022 / 26.Mar,2021	24.Mar,2023 / 25.Mar,2022
			%	%
Mining and Quarrying (incl. Coal)	58,812	1.8	13.0	19.7
Food Processing	1,82,878	5.5	10.7	5.6
Beverage and Tobacco	23,362	0.7	2.1	28.5
Textiles	2,27,843	6.8	9.3	1.7
Leather and Leather Products	11,675	0.3	7.8	0.9
Wood and Wood Products	19,963	0.6	8.0	22.5
Paper and Paper Products	43,010	1.3	7.2	6.0
Petroleum, Coal Products and Nuclear Fuels	1,49,363	4.5	35.6	39.2
Chemicals and Chemical Products	2,16,481	6.5	6.2	10.2
Rubber, Plastic and their Products	79,037	2.4	28.5	9.8
Glass and Glassware	8,100	0.2	-9.6	36.1
Cement and Cement Products	56,592	1.7	-16.8	18.1
Basic Metal and Metal Product	3,43,507	10.3	-5.5	19.1
All Engineering	1,75,260	5.3	9.4	4.3
Vehicles, Vehicle Parts and Transport Equipment	96,603	2.9	4.7	7.5
Gems and Jewellery	77,718	2.3	8.2	-3.5
Construction	1,22,880	3.7	-1.6	4.4
Infrastructure	11,86,248	35.6	9.1	-0.7
Power	6,04,691	18.1	7.1	-1.1
Telecommunications	1,11,334	3.3	13.4	-14.6
Roads	2,84,793	8.5	19.5	5.3
Airports	9,492	0.3	-22.5	42.8
Ports	8,175	0.2	-12.5	-8.0
Other Industries	2,57,391	7.7	10.6	1.4

Source: RBI

Going ahead in FY24, growth in bank credit may be expected to slow down to a range of 13-14%. Given that overall GDP growth would be lower in the range of 6-6.5% compared with 6.8-7% in FY23, the investment cycle would be slow to turn around. Hence demand for credit from industry would tend to be largely stable and it would be the same set of industries that would witness higher growth as in FY23. There would be higher demand from the renewables sector as well as EVs as the push given by the government has been significant. Dependence on retail and services segments would continue. Agriculture could require higher allocations in case the monsoon turns out to be less favourable on account of El Niño.

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