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Banking scene in 2022-23

The year gone by was quite interesting for the banking sector with the RBI changing course on interest rates and invoking successive repo rate hikes in a bit to quell inflation which remained above the RBI tolerance limits for 9 months of the year. As India remained the fastest growing economy in the year there was a steady demand for credit. This had to be matched with deposit growth which was lagging. This led to banks also increasing their deposit rates. The foregoing analysis looks at how various banking indicators fared during the course of the year.

How did the size of the cake grow?

The table below gives the latest position of banking business as of 24th March 2023. As can be seen, the overall size of deposits was around Rs 180 lakh crore and credit Rs 137 lakh crore yielding a credit deposit ratio of 75.8%. Growth in deposits at 9.6% was higher than that of last year which was 8.9%. The increase in interest rates by banks to mop up deposits helped in this effort. Going forward, there would be some advantage for deposits to grow at a higher rate with the government withdrawing the capital gains tax benefit on debt mutual funds. With a level playing field being established, at the margin bank deposits would be preferred.

Bank credit growth however was much higher at 14.5% compared with 6% last year. In incremental terms growth was Rs 17.84 lakh crore compared with an increase of Rs 15.78 lakh crore in deposits. This was in contrast to 2021-22 where incremental deposits were higher than that in credit. Clearly banks were using their own funds for funding credit.

Table 1: Growth in deposits and credit

	Rs lkh cr	Increase (Rs lkh cr)		Growth	
Outstanding	**24th March**	**2021-22**	**2022-23**	**FY22**	**FY23**
Deposits	180.44	13.51	15.78	8.9	9.6
Credit	136.75	10.44	17.84	6.0	14.5

Source: RBI

Sectoral growth in credit has data available for up to February and has some interesting takeaways:

- Overall growth in credit was 15.5% which was spearheaded by personal loans growing by 20.4%. Home and vehicle loans were the main drivers here though credit cards with a low share in total clocked high growth of 29.2%.
- Credit to services was at 20.7% driven by NBFCs with 32% growth. Growth in credit to trade was high at 16.7%. The aviation segment also witnessed high growth of 16.5%. Given that one of the airlines has announced a large purchase plan for aircrafts, this segment would witness steady growth in the years to come.
- Growth in credit to industry was 7% with that to large industry being 5%. The MSME segment had witnessed growth of around 13%.

How did interest rates move?

All movements in interest rates got linked to the repo rate which was hiked by 250 bps before a pause has been taken in April 2023. The overnight reverse repo rate which became the benchmark for the call money market has now become less relevant and remained unchanged at 3.35%. The introduction of the SDF has now meant that it has now become the benchmark and has been kept at 25 bps lower than the repo rate. The repo rate has also become the standard for the term reverse repo (V3R) with the cut-offs being normally at 6.49%.

While all rates tended to move up, the extent of increase was lowest for the 10-years bond. In case of treasury bills, their yields were driven mainly by liquidity conditions and by the end of the year, there was convergence in yield on 364 days TBill and 10-years government bond.

Table 2: Movement in important rates

Rates	1st April	31st March	Change
Repo	4.00	6.50	2.50
Reverse repo	3.35	3.35	0.00
SDF	-	6.25	n.a.
MCLR overnight	6.45/7.00	7.50/8.50	1.275
MCLR 1 yr Median	7.25	8.55	1.30
Call	3.34	6.78	3.44
91 days	3.84	6.74	2.90
182 days	4.27	7.28	3.01
364 days	4.58	7.31	2.73
10 years paper	6.86	7.31	0.45

Source: RBI

Transmission of repo rate hikes can be best understood by how the average interest rates behaved in terms of banks passing on the rate hike. As can be seen below the 250 bps hike in repo rate led to 161 bps hike in weighted average lending rate on fresh loans. In terms of weighted average lending rate on outstanding loans the increase was 93 bps. On the deposits side the weighted average domestic term deposit rate increased by 100 bps in response to the repo rate hike.

Table 3: Monthly rates

Rate	Mar-22	Feb-23	Change
WALR o/s loans	8.74	9.67	0.93
WALR Fresh loans	7.63	9.24	1.61
WADTDR	5.03	6.02	0.99

Source: RBI

Data on proportion of loans reckoned on an external benchmark shows that in case of PSBs only 35% were under the EBLR as of December 2022 while it was double for private banks. The same held for foreign banks too. For all banks put together the proportion under EBLR was around 48%. The composition of the loan basket largely drives this ratio as personal loans and SME credit tend to be benchmarked against such a benchmark unlike corporate loans which are linked with the MCLR.

Table 4: Loans under external benchmark (EBLR)

Loans under EBLR	Share in total loans as of Dec 2022
PSBs	35.2
Private	70.5
Foreign	81.4
All	48.3

Source: RBI

Looking ahead

It does look like that the RBI will take a deep breath for a longer period of time and hence we may have reached the end of this cycle of peak interest rates. In FY24 growth in deposits should be higher while that in credit marginally lower which should assuage the liquidity situation. Therefore the picture should be steady going ahead with rates probably tending to move downwards than upwards given that inflation projections for FY24 are in the 5-5.5% band. The monsoon impact will be critical before there is any rate action which means that a status quo can be expected in the first half of this year.

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