1 December 2022

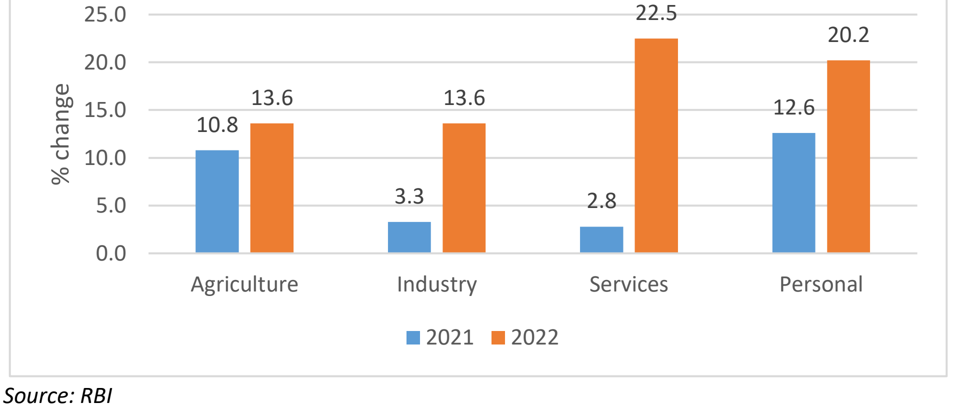
Where is bank credit growing?

Growth in Bank credit has accelerated during the financial year which is a positive sign of economic activity picking up though banks are challenged by a slower growth in deposits. In this context, it is important to see as to where is credit growth emanating.

RBI data for month ending October shows that overall gross bank credit has grown by 17.9% on an annual basis compared with 6.8% last year. Total outstanding credit is now Rs 128.89 lakh crore. Data across sectors is available for around Rs 120 lakh crore. Significantly the largest component now is personal loans with a share of 31.4%. This is followed by manufacturing and services which are almost the same with 27.4% and 27.6% respectively. Agriculture had a share of 13.2% while the balance was food credit.

The chart below gives the growth rates of credit to the 4 sectors within non-food credit. The interesting observation is that there has been higher than average growth in credit to the services and personal loans segments, while that to agriculture and industry has trailed. Further, while growth to agriculture is lower at 13.6% it comes over a relatively higher growth in 2021 of 10.8%. In case of industry there was lower growth of 3.3% and hence the base effect is stronger here. For the other two sectors growth in credit has been above 20% with services recording it over a low growth of 2.8% while for personal loans it was 12.6% last year. Therefore it can be said that growth in credit to agriculture has been sustained while it accelerated for the personal loans segment.

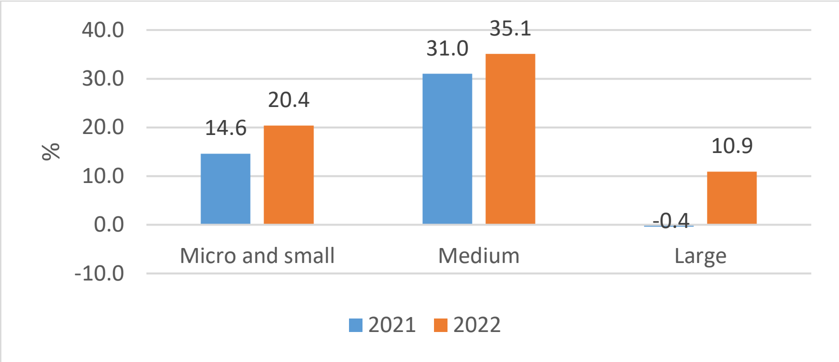
Chart 1: Sector-wise growth in credit: October over October



Source: RBI

Within these sectors too there are some interesting observations. In case of industry the sharp growth rates in micro & small and medium industries has been maintained with acceleration seen for the former. The contribution of ECLGS has been significant here. In case of large industry there was a marginal fall in 2021 which has been reversed and this lower base has resulted in higher growth of 10.9%. (Chart 2). The share of large industry in credit to industry is high at 76.5% followed by micro and small with 16.8% and medium with 6.7%. The relatively less impressive growth in credit to this sector can be linked with virtually flat growth in manufacturing for H1-FY23 as per the GDP numbers released yesterday.

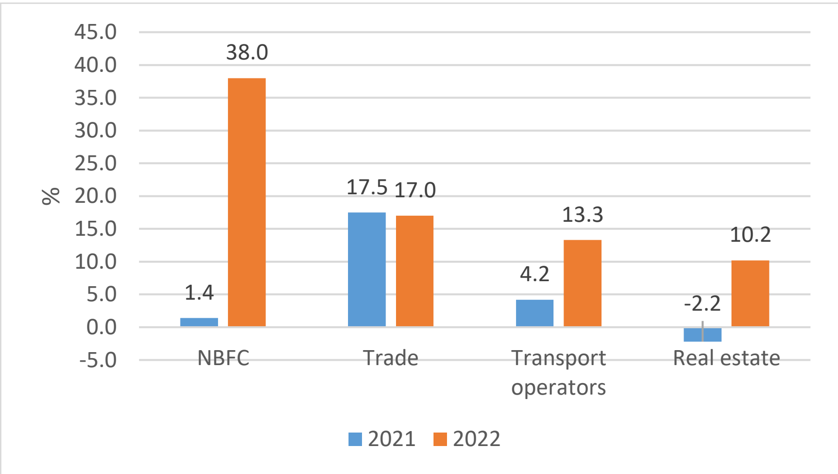
Chart 2: Growth in credit in industry: October over October



Source: RBI

The services sector in general has benefited In FY23 with the lifting of covid-based restrictions across all segments. This has resulted in an uptick in activity as seen in the GDP growth numbers too. GVA growth to the trade, transport, communications etc. segment was high at 19.5% for the 6 month period on top of growth of 19.3% in 2021. Accordingly growth in credit to this segment was robust led by credit to NBFCs and trade. Within services, the share of NBFCs is 38% followed by 23% for trade (wholesale and retail combined). Commercial real estate has share of 9.2% followed by transport operators with nearly 5%.

Chart 3: Growth in credit in services: October over October

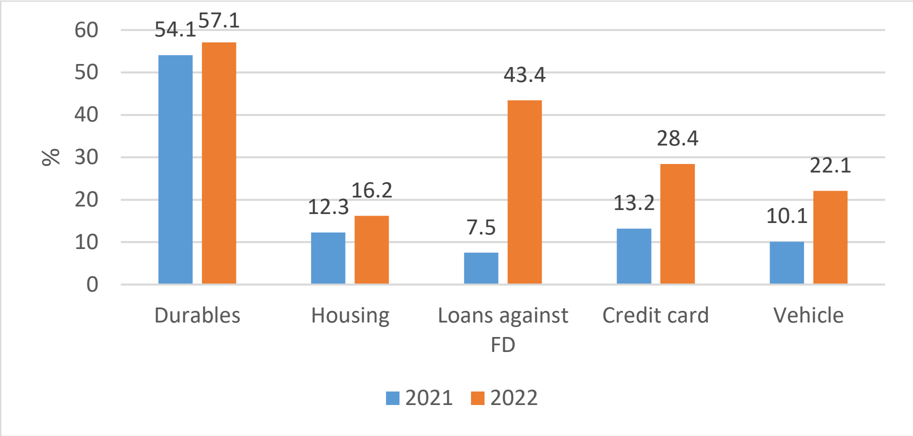


Source: RBI

As can be seen in Chart 3 above, there was sharp growth in credit across these segments, with the base effect kicking in for NBFCs and real estate in particular followed by transport operators. The real estate sector, it must be mentioned has recovered quite well this year on both the housing and commercial fronts which accounts for an increase in flow of credit to the companies in this business.

Chart 4 below captures growth in credit within the personal loans segment. Here the observations are interesting. Higher than sector average growth of 20.2% was witnessed in case of consumer durables, loans against fixed deposits, credit cards and vehicles. For home loans it was still high at 16.2%. Quite clearly there has been high levels of consumption during this period which has been financed through leverage. Growth in consumption was 29.1% during the first half of the year which has led to substantially higher GST collections in the first 7 months of the year at Rs 10.45 lakh crore as against Rs 8.12 lakh crore in 2021. Within personal loans the highest share is accounted for by housing with 49% followed by 12% for vehicles.

Chart 4: Growth in credit within personal loans: October over October



Source: RBI

The higher level of consumerism which is being financed by bank credit is curious. If households are using credit to finance purchase of smaller value consumer goods or are using collateral in the form of gold jewelry or fixed deposits is indicative of the changing culture of consumption.

The table below gives the shares of 4 such modes of credit within personal loans which has increased in the last two year. It can be interpreted as the growing sophistication of the individual where one is not shy of using credit for purchases of lower value goods (credit cards for example) or the growth of consumerism where the 'buy now and pay later' philosophy is being followed. This can also be due to a generation shift with the millennials being more aggressive in using different modes of credit to satiate consumption. There was a time when loans were taken only for high value transactions such as a house or vehicle. Today it has trickled down to lower value goods and services too.

Share in total personal loans (%)

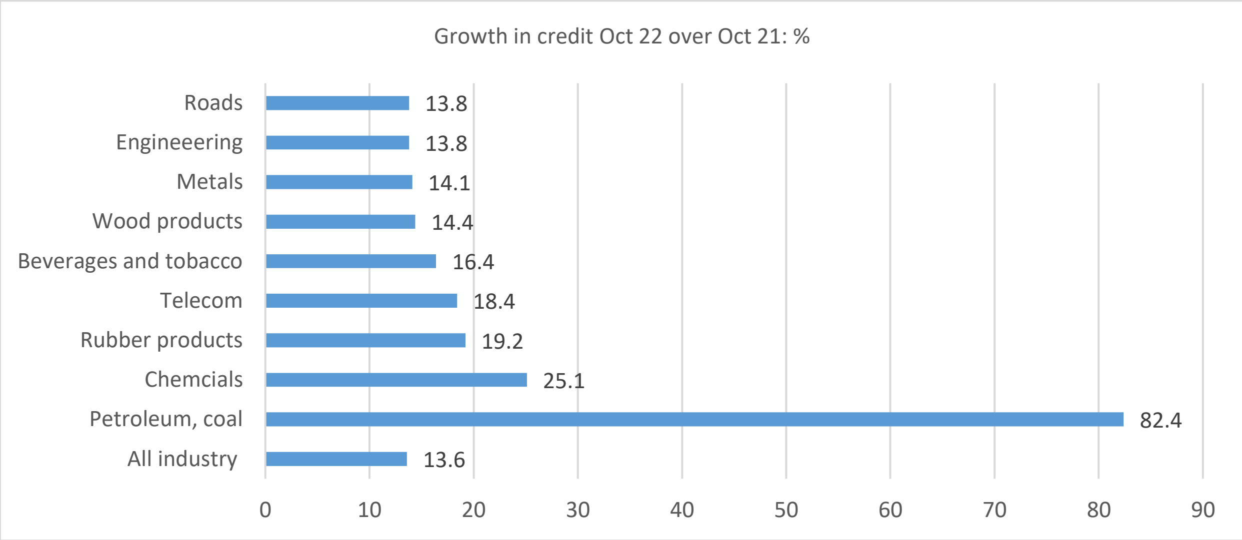
Loan heading	2020	2022
Consumer durables	0.5	0.9
Fixed deposits	2.2	2.7
Gold	1.9	2.2
Credit cards	4.4	4.7
Total	**9.0**	**10.5**

Source: RBI

Which sectors are driving credit within industry?

The chart below gives an illustration of the sectors within industry where growth in credit is higher than the average of 13.6% registered at the aggregate level. In all the sectors except rubber and rubber products there has been a relatively high growth in the production levels as per the IIP. In case of engineering, where the classification is different, there was a decline in production as per IIP in the first half of the year for electrical machinery of 7.6% and an increase for the non-electrical machinery.

Chart 5: Growth in credit within industry: Sector-wise



Source: RBI

It can hence be concluded that the growth in credit is linked to the overall state of the economy. To the extent that growth across sectors has been uneven, the same is getting reflected in growth in bank credit too. These numbers do indicate that the regime of higher interest rates has so far not come in the way of growth in credit. It would need to be seen if this trend continues for the remaining part of the year. However, we do expect the economy to slow down in the next few months due to the exhaustion of the pent up demand phenomenon which provided an upward thrust to consumption. Also the recessionary tendencies in the west will leave its imprint on exports in particular which will have an impact on all related industries. All this combined with the repo rate hike effect would tend to moderate the growth in credit which will come down to the region of 14-15% for the year.

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