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Where has all the credit gone?

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As of Dec 22, 2017, the year-on-year growth in bank credit has been stronger at 10.7% compared with 4.7% last year. This is a positive sign which if sustained could point towards a recovery in terms of demand for funds for investment purposes. Further, with o/s CPs (December 15) being higher also by 21% compared with 4.7% last year, the sum of bank credit and CPs has grown at a higher rate of 11.2% on a yearly basis for the period ending Dec 22nd.

The increase in credit during this period was contributed to a large extent by the growth in credit in the period of December 2016-March 2017 with an increment of Rs 5,338.3 bn out of a total increase of Rs 7,793.4 bn thus accounting for around 68% of total increase in credit. Further, the extra fortnight in March 2017 had involved an increase of Rs 3162.2 bn which is around 40% of the incremental credit.

Table 1: Growth in Bank credit (y-o-y) November (%)

Sector	o/s Nov 2017 Rs bn	2016	2017
Gross Bank Credit	**71,501**	**4.0**	**8.3**
Agriculture etc	**9,882**	**10.3**	**8.4**
Industry	**26,041**	**-3.4**	**1.0**
Micro & Small	3,592	-7.7	4.6
Medium	947	-10.1	-8.3
Large	21,502	-2.3	0.8
Services	**17,593**	**7.1**	**14.0**
Transport Operators	1,145	5.6	12.6
Professional Services	1,353	24.5	15.0
Trade	4,328	3.4	16.1
Com Real Estate	1,819	3.2	3.2
NBFCs	3,603	1.3	13.8
Personal Loans	**17,630**	**15.2**	**17.3**
Consumer Durables	180	18.2	-8.2
Housing	9,221	15.6	13.1
Credit Card	637	23.1	37.5
Education	717	4.8	1.0
Vehicle Loans	1,808	21.4	8.0

Table 1 above provides information on y-o-y growth in bank credit to the broad sectors. The higher growth in credit has emanated from the services and personal loans segments, while growth to manufacturing/industry has turned negative though low at 1% while that to agriculture has slowed down. These two segments accounted for around 87% of the incremental credit during this period.

Within industry while micro and large have witnessed positive growth rate, the mid-sized companies had a decline. The major services sectors i.e. NBFCs, trade, professional services, transport witnessed high growth rates in 2017. Within personal loans housing and vehicle loans have led the improvement in growth in credit.

The takeaway is that industry is yet to witness a significant increase in growth in credit and hence the recovery in investment cycle is yet to be significant.

Table 2: Sector-wise Growth in credit to industry and Stressed assets

	% change y-o-y			2017
Industry	**2017**	**2015**	**2016**	**Stressed assets**
Mining	326	-3.0	-5.1	27.1
Food Processing	1,389	-13.4	9.9	24.9
Beverage & Tobacco	166	-8.5	2.6	n.a.
Textiles	1,949	-5.4	4.6	23.7
Leather & Leather Products	107	-2.0	6.4	n.a.
Wood & Wood Products	105	-0.2	4.8	n.a.
Paper & Paper Products	308	-3.4	-8.6	23.6
Petroleum, Coal Nuclear Fuels	466	10.5	-4.5	n.a.
Chemicals & Products	1,549	-2.1	3.2	8.1
Rubber, Plastic Products	405	-1.9	13.7	5.1
Glass & Glassware	82	-6.7	1.8	n.a.
Cement and Products	532	-4.2	0.7	12.8
Basic Metals & Product	4,133	3.0	1.0	44.5
All Engineering	1,503	-4.9	2.4	31.0
Vehicles, Parts & Equipment	712	4.0	1.7	21.0
Gems & Jewellery	681	-2.9	1.1	11.7
Construction	855	3.9	8.9	26.7
Infrastructure	8,796	-6.7	-2.3	19.6
Other Industries	1,977	2.0	1.9	n.a
All industry	**26,041**	**-3.4**	**1.0**	**19.3**

From Table 2 it may be viewed that:

- 13 out of the 19 industry groups witnessed improvement in credit growth.
- The two largest industries in terms of share in outstanding credit are infrastructure and metals accounting for almost 50% of total. Infra continued to de-grow while growth in metals was lower than that last year. Their stressed assets levels were also of a high order as of March 2017.
- The next three important industries in terms of share in aggregate credit were chemicals, food processing and textiles and accounted for 19% of the total. All of them witnessed higher growth rates.

Concluding remarks:

- The higher growth in credit during the first 9 months of the year needs to be interpreted in the relevant perspective.
- A large part of this growth which is reckoned on a y-o-y basis is due to the sharp growth witnessed in the period Dec 2016-March 2017, with the last fortnight of March providing a major impetus.
- Data available up to November suggests that growth in credit has been more buoyant in case of services and personal loans. In case of industry the micro & small and large companies have witnessed positive growth rates.
- NBFCs and trade have dominated services while personal loans are largely driven by housing and vehicle segments.
- Within industry, the largest constituents which reflect investment activity in the economy i.e. metals and infrastructure have witnessed low growth in credit.

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