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THE TIMES OF INDIA

Bank credit grows slowest in 4 years

TNN | May 1, 2021, 04.00 AM IST



MUMBAI: Bank credit to businesses and individuals slowed to a four-year low of 4.9% in FY21, down from 6.8% in FY20 due to the pandemic. Credit growth during the year was, however, higher than forecasts made last year when many expected flat or even degrowth in loans.

Growth in bank credit during the financial year was driven by personal loans and credit to agriculture and allied activities. While advances to large industry fell, lending to the micro, small & medium enterprise (MSME) segment grew, bolstered by government-guaranteed schemes. Credit growth picked up substantially in March this year on the back of a lower base in the same month of 2020 due to the imposition of a lockdown.

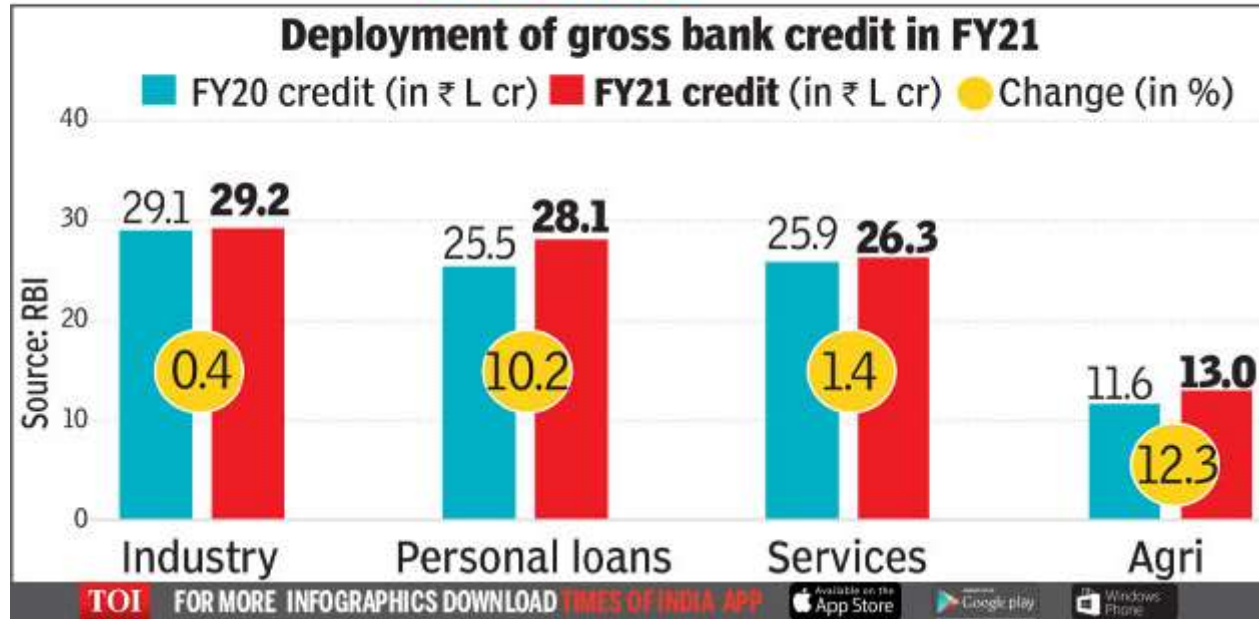
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According to data released by the Reserve Bank of India (RBI) on Friday, non-food credit of all banks stood at Rs 96.6 lakh crore as on March 26, 2021 — up 4.9% from Rs 92.1 lakh crore as on March 27, 2020.

FINANCING GROWTH



Banks added Rs 2.6 lakh crore to their loan portfolio during the year, taking the loan book to Rs 28.1 lakh crore. The share of personal loans has gone up from 27.7% in FY20 to 29.1% in FY21 and is now close to the share of credit to the industry, which has fallen from 31.5% to 30.2% during the same period. The share of the services sector in bank credit has fallen from 28.2% to 27.2% during the fiscal due to a sharp fall in growth of loans to professional services.

In absolute terms, the biggest consumer of incremental bank credit during FY21 was agriculture and allied activities which grew Rs 1.4 lakh crore to nearly Rs 13 lakh crore, followed by housing which expanded by Rs 1.2 lakh crore to Rs 14.6 lakh crore. Credit to large industry shrunk by 0.8%, or Rs 19,608 crore, to just under Rs 24 lakh crore.

Within the large industry, loans to the road sector grew the most (by Rs 60,623 crore) to Rs 2.4 lakh crore. The biggest dip was in loans to the telecom sector which shrunk by Rs 30,680 crore to Rs 1.1 lakh crore. Reliance Jio had significantly reduced its

debt after selling a stake to international investors. Steel industry saw its outstanding loans shrink by nearly Rs 30,000 crore during the year partly due to the debt resolution process of some companies.

While personal loans were a big driver of growth, they have been slowing down in the third quarter. Personal loan growth decelerated to 10.2% in March 2021 from 15% a year ago. However, vehicle loans and loans against gold jewellery continued to perform well during the month, registering accelerated growth.

According to Care Ratings, the credit growth of close to 5% is in the range of 4-5% forecast by the rating agency. “Overall credit to the industry did turn the corner and was 0.4% after being negative for 11 months while growth to the large industry remains negative for the year. Growth in credit to services was lower this year at 1.4% as against 7.4% last year. The drop was largely on account of NBFC and other services,” a note from the rating agency said.