Retail fuels a near-3x growth in bank credit

Housing loans—the largest chunk of retail credit—grew 16.2% from a year earlier to ₹17.7 trillion, data showed. mint

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Aggregate retail loans were at ₹36 tn in July, up 18.8% from a year ago, RBI data showed

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Outstanding non-food bank cre ion as on 12 August, up 15.8% from a year ago, showed data from the Reserve Bank of India (RBI). A year ago, the corresponding figure stood at 5.52%. This is the highest credit growth in a fortnight since December 2011.

While disaggregated data on which sectors are seeing the maximum credit growth comes with a lag, recent trends point to retail loans as the primary source of such high growth. RBI data for July showed that aggregate retail loans stood at ₹35.9 trillion, up 18.8% from the year earlier. Housing loans—the largest chunk of retail credit—grew 16.2% from a year earlier to ₹17.7 trillion, with bankers seeing no lull in demand despite rising interest rates. Apart from personal loans, the primary driver of this growth has been the micro, small and medium enterprise (MSME) segment.

“We continue to feel confident about retail and micro, small and medium enterprise (MSME) sectors driving credit growth for the banking system—led by better credit vehicle, and consumer durable loans continue to account for retail credit growth.

"After the modest credit growth in recent years, the outlook for bank credit offtake is positive due to the economic expansion tracking nominal gross domestic product (GDP) growth, rise in government and private capex, rising commodity prices, implementation of the production-linked incentive (PLI) scheme, the extension of emergency credit line guarantee scheme (ECLGS) for MSME and retail credit push," Care Ratings said on 30 August.

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Bankers are quite bullish that this trend of high credit growth despite rising interest rates will continue, relieving them from the margin pressures seen last year. The largest domestic lender, State Bank of India (SBI), expects to maintain the current have decent visibility of the demand, and I hope that it will continue. When it comes to small and medium enterprises, there is a reasonably good pipeline," Khara said.

Analysts are also upbeat about the revival of credit demand, although it is to be seen how long such a high pace can be sustained. Analysts at Motilal Oswal said in a report on 29 August that while any material change in the demand environment needs to be monitored, given the challenging macroenvironment, credit is expected to grow 12% and 13.5% y-o-y in FY23 and FY24, respectively.

“Banks with a higher current account, savings account (CASA) and floating rate loans are likely to be better placed in a rising rate environment," the Motilal report said.