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Bank credit to surge 13% in FY23, medium-term outlook promising; rate hike, inflation headwinds: Care Ratings

Analysts believe that medium-term prospects of bank credit growth look promising with diminished corporate stress and a substantial buffer for provisions.

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Credit growth to be in the range of 12%-13% during FY23

Bank credit growth in India is likely to accelerate in FY23. However, inflation and interest rate hike may be the major headwinds impacting growth rate adversely, said Care Rating in a report. After a modest credit growth in recent years, the outlook for bank credit offtake is positive due to the economic expansion tracking nominal GDP growth, rise in government & private capital expenditure, rising commodity prices, implementation of the PLI scheme, and the extension of ECLGS for MSME and retail credit push, according the research firm.

Analysts believe that medium-term prospects of bank credit growth look promising with diminished corporate stress and a substantial buffer for provisions. They estimate the credit growth to be in the range of 12%-13% during FY23, however, inflation and rate hikes could adversely impact credit growth.

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fortnight ended 12 August 12 2022, up from 5.5% in the year-ago period and increasing sequentially by 0.5% from the immediate fortnight. In absolute terms, credit outstanding stood at Rs 124.3 lakh crore, growing by Rs 16.5 lakh crore over the one year. "Low base, small ticket size loans, working capital requirements, and a shift to bank borrowings on account of high yields in the capital market continue to drive growth," the research firm said.

Small ticket loans, credit card receivables, housing, vehicle and consumer durable loans continue to account for the growth of retail credit in the sector. Apart from personal loans, driven by the miniaturization of credit, the major driver of this growth has been the MSME segment. This segment resulted in wholesale credit reporting double-digit growth after witnessing a significant slowdown last year, Care Ratings report said.

Meanwhile, CPI inflation eased to a five-month low of 6.71% in July due to lower edible oil and vegetable prices. It, however, has continued to remain above the 6% mark for several months. Hence, RBI has already increased the repo rate several times in FY23. Further, the 10-year benchmark G-Sec yield rose from 6.79% as of 31 March to 7.29% as of 31 July 2022, leading to an increase in market borrowing costs. Further, banks have also raised their lending rates.

Bank deposit growth trajectory flattens

Bank deposits stood at Rs 169.5 lakh crore for the fortnight ended 12 August 2022, registering a growth of 8.9% on-year. Meanwhile, in absolute terms, bank deposits have increased by Rs 13.8 lakh crore over the last 12 months. However, deposits decreased by 1% from the immediately preceding fortnight. The time deposits grew by 9.1% on an yearly basis, while demand deposits rose by 10.3% in the reporting fortnight compared to 9% and 22.6% on-year growth looking to reduce excess liquidity from the system to manage inflation. This is also reflected in an increase in short-term funding through Certificates of Deposits (CD) by banks. The research firm anticipates that the deposit rate increase would start gaining speed given the fact that the credit growth has picked up and the liquidity is narrowing in the banking system.

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CD ratio increases

Meanwhile, the Credit to Deposit (CD) ratio which has been increasing since October 2021, stood at 73.3%, expanding by 411 bps on-year from the similar fortnight last year and by 40 bps over the immediate fortnight, due to faster growth in credit as compared to deposits. Assuming credit investments to be at Rs. 7.97 lakh crore for the fortnight ended 12 August, the CD ratio would be around 78%, higher than the 69.2% in the similar fortnight last year due to higher credit growth and was tempered by a fall in investments.