Lenders raise rates as credit growth picks up

Credit growth is visible across sectors such as non-bank financiers, telecom and infrastructure, including power and roads **(Photo: Mint)**

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Experts said corporate credit growth is probably coming back to banks as corporate bond issuances have declined

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several months to match the rise in credit demand, although experts said it is too early for the rate cycle to turn.

Two major banks, State Bank of India (SBI) and HDFC Bank Ltd, have raised their deposit rates by up to 10 basis points (bps) in the past couple of weeks. In fact, private lender HDFC Bank has hiked deposit rates for the second time since December.

Comeback trail

Large banks want to ensure that their lending capacity is not crimped by the availability of customer deposits when credit demand perks up further.

Although demand for loans has picked up in the fortnight to 31 December, deposit inflows still outpace loan disbursals, indicating that smaller banks may not be i hurry to raise rates.

Non-food credit growth, languishing in the 6-7% range during most of 2021, has risen by 9.28% from a year earlier in the fortnight to 31 December.

Although it cannot be definitively ascertained as to which sectors received most of the incremental credit deployed, experts said demand from companies might be behind the growth spurt.

“We will have to wait for the first fortnight of January and track the outstanding credit to see how much of this quarter-end surge gets reversed. If the outstanding number does not decline in January, then it is a sign that companies are borrowing from banks," said Madan Sabnavis, chief economist at Bank of Baroda.

Sabnavis said that while some banks are raising rates in specific brackets for asset-liability management (ALM) reasons, it still cannot be seen as an upcoming change in the rate cycle unless such hikes are more broad-based.

“There is still a disconnect between the market and the institutional rates. While bond yields are going up, bank rates have not moved. In the last fortnight, banks have seen a substantial rise in both deposits and credit. Banks have also been taking a lot of money through the certificate of deposit (CD) route," he added.

However, the inflow of deposits is in no mood to slow down. For the nine months to 31 December, while banks’ loan book has expanded by ₹7.55 trillion, deposits have increased over ₹10 trillion in the same period. Care Ratings pointed out that deposit growth ranged between 9.3% and 11.6% from April to December and has been broadly trending down since March last year.

Experts said corporate credit growth is probably coming back to banks as corporate bond issuances have declined. Corporate bond issuances have fallen more than 25% to around ₹4.1 trillion in the nine months to December from a year earlier. According to State Bank of India's chief economic adviser, Soumya Kanti Ghosh, this indicates that the reverse credit flow from banks to the bond market in FY21 is now on the wane as the deleveraging of corporates and substituting of high-cost debt with low-cost borrowings from the bond markets seems to have been largely completed.

"This is also possible as corporates across sectors are now taking recourse to te
loans in anticipation of a future growth revival on the back of several government initiatives," Ghosh said in a note on 12 January.

Ghosh said that the recent credit growth is visible across sectors like non-bank financiers, telecom, petroleum, chemical, electronics, gems and jewellery and infrastructure, including power and roads.