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Growth in credit offtake at 9-yr high, with retail driving demand

The outstanding bank credit stood at Rs 125.5 lakh crore during the reporting fortnight, Rs 17.5 lakh crore more than the Rs 108.02 lakh crore during the fortnight ended September 10, 2021, as per the latest data released by the Reserve Bank of India.

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As per Reserve Bank data, outstanding bank credit stood at `125.5 lakh crore during the fortnight ended September 9. (File Photo)

Bank credit grew at 16.2 per cent in the fortnight ended September 9, the highest in about nine years, aided by revival in the economic activity post-Covid, increased working capital demand, rising discretionary spending and low-base effect.

The outstanding bank credit stood at Rs 125.5 lakh crore during the reporting fortnight, Rs 17.5 lakh crore more than the Rs 108.02 lakh crore during the fortnight ended September 10, 2021, as per the latest data released by the Reserve Bank of India. On a sequential basis, the growth in credit was 0.7 per cent compared to the fortnight ended August 26, the data showed.

“Credit offtake saw a 16.2 per cent year-on-year robust growth, expanding by a significant around 948 basis points (bps), for the fortnight ended September 9, 2022. The growth is nearly the highest in the last 9 years (16.3 per cent credit growth: October 18, 2013),” said Saurabh Bhalerao, associate director—BFSI research, Care Ratings. A basis point is one hundredth of one percentage point

This rise in demand for loans has been driven by sustained retail and improving wholesale credit, which is likely to continue the rest of the fiscal, experts said. "There is a pick-up in the economy and we are seeing normalcy coming back in all the sectors post-Covid. The discretionary spending in the retail segment, which were being postponed, are now being bunched up. The demand for working capital demand from corporates has started," said Suresh Khatanhar, deputy MD, IDBI Bank.

Banks are also seeing an increased demand for funds from retail-focused non-banking financial companies (NBFCs).

The growth in credit has been on an upward trajectory since the latter half of FY22 and has been in double digits since April 2022, despite a 140-basis point hike in repo rate — the rate at which the RBI lends money to banks to meet their short term funding needs — since May this year.

saw a robust growth at 18.8 per cent year-on-year in July 2022, driven by the miniaturisation of credit, housing, and vehicle loans, said Bhalerao.

Bankers said that with hardening of bond yields, corporates are now shifting to banks from the capital market for their funding requirements.

“Earlier, when the interest rates were lower, corporates preferred the bond market route to raise funds. However, with the reversal in bond yields, they are now shifting to banks,” said Khatanhar.

The 10-year bond yield has increased to 7.35 per cent as on September 26, from around 7.24 per cent on September 2.

Experts believe that with the onset of the festival season, bank credit growth is expected to remain strong.

Chowdhury, chief analytical officer, Acuité Ratings & Research.

Bankers, however, feel that inflation remains a key risk for credit growth.

"Even as RBI has managed domestic inflation to some extent, global inflation has remained high despite hawkish policies. This may lead to demand issues globally causing second-order effects in India," said Bhalerao.

He expects credit growth to be in the range of 12-13 per cent in FY23, compared to 8.59 per cent seen in the previous fiscal.

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