

# BofA India Loan Growth Indicator

## Good downside support as rates peak – risk appetite driving +ve surprise

Industry Overview

### BofA India Loan Growth Indicator – 8-month lead

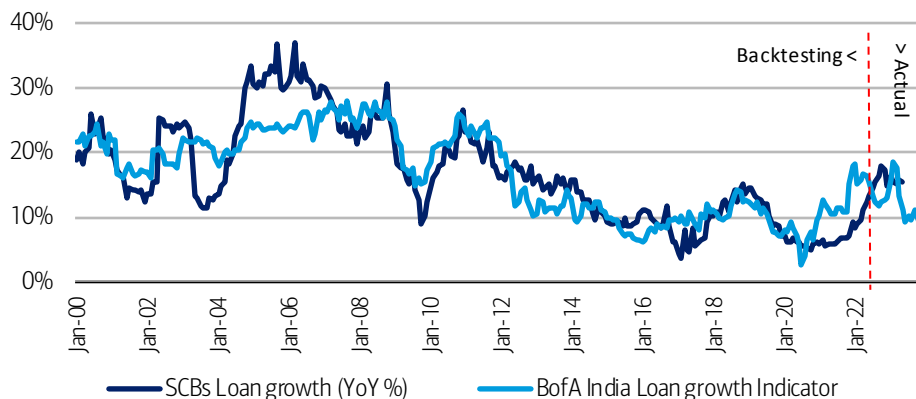
We update BofA India Loan Growth Indicator for input data available till Apr'23, which allows us to anticipate SCB loan growth till Dec'23 (our indicator has an eight-month lead). The BofA indicator suggests normalization of loan growth from peak of 17-18% in Feb-Mar'23 to 10-11% over Apr-Dec'23 on a high base. This is driven by higher lending rates, decline in inflation and tighter liquidity environment. Over the past 2-3 months, the indicator is suggesting a strong downside support helped by peaking rates and resilient bottom-up drivers like IIP.

### Can system growth continue to surprise positively?

While the indicator suggested decline in growth to 13%/11% by Apr/May'23 as lower base effect vanishes, actual credit growth continues to hold up at 15-16% by May end. The key driver of this robust credit growth is banks' continued risk appetite in a historically benign asset quality environment. Though there has been some moderation in retail growth, it continues to hold above 20% YoY and is being offset by some pick up in industry credit. We see higher probability of FY24 credit growth surpassing market's initial expectation of 11-13% YoY. Pickup in deposit growth in May boosts confidence.

#### Exhibit 1: BofA India Loan Growth Indicator –

Loan growth indicator suggests normalized growth to 10-11% in 9MFY24



Source: BofA Global Research Estimates, RBI, Bloomberg

The Scheduled Commercial Banks (SCBs) Loan growth is the reported monthly data obtained from the Reserve Bank of India.

The portion of chart left of red dotted line represents back tested data through May 2022. This performance is back-tested and does not represent the actual performance of any account or fund. Back-tested performance depicts the theoretical (not actual) performance of a particular strategy over the time period indicated. No representation is being made that any actual portfolio is likely to have achieved returns similar to those shown herein. The BofA India Loan Growth Indicator is intended to be an indicative metric only and may not be used for reference purposes or as a measure of performance for any financial instrument or contract, or otherwise relied upon by third parties for any other purpose, without the prior written consent of BofA Global Research. This indicator was not created to act as a benchmark.

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SCB – Schedules Commercial Banks

IIP – Index of Industrial production

WPI – Wholesale Price Index

MCLR – Marginal cost of funds-based  
production

PLR – Prime lending rate

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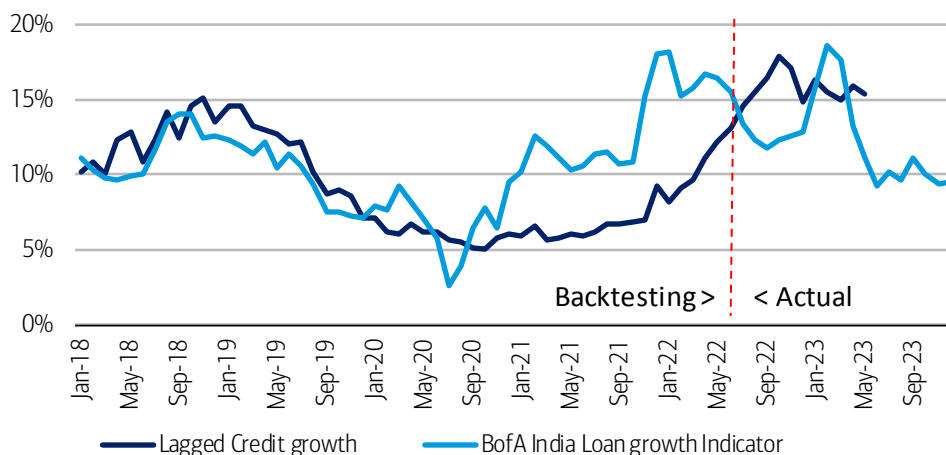
# BofA India Loan Growth Indicator

## Quick overview – how to read indicators?

BofA India Loan Growth Indicator seek to identify directional trends and key turning points for loan growth in India with a lead time of 8 months. The indicator helps gauge how loan growth would shape up in next few quarters. The indicator uses 6 equal-weighted inputs tracking overall performance of economy. These 6 variables can be classified under (1) Rates & prices - 10 yr Government bond yield (%), SBI MCLR (%), (2) Income – Real wage rate growth (%), (3) Inflation – WPI (%), (4) System Liquidity – M3 growth/WPI (%) and (5) Business activity – IIP (%).

### Exhibit 2: BofA India Loan Growth Indicator: loan growth likely to moderate post Mar'23

Actual credit growth showing diversion from predicted loan growth as per BofA loan growth indicator



Source: BofA Global Research

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### Exhibit 3: Heat map - Inputs

While inputs show a declining trend, few of them (SBI lending rate, IIP) are expected to start turning positive in next few months

| Factor                    | Direction | Feb-22 | Mar-22 | Apr-22 | May-22 | Jun-22 | Jul-22 | Aug-22 | Sep-22 | Oct-22 | Nov-22 | Dec-22 | Jan-23 | Feb-23 | Mar-23 | Apr-23 | May-23 | Jun'23-Dec'23 |
|---------------------------|-----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|
| 1 10 year G-Sec Yield     | -         |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |               |
| 2 SBI lending rate        | -         |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |               |
| 3 WPI                     | -         |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |               |
| 4 Real wage growth        | -         |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |               |
| 5 IIP                     | -         |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |               |
| 6 M3 adj growth           | -         |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |               |
| SCBs Loan growth          |           |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |               |
| Our Loan growth Indicator |           |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |               |

Source: BofA Global Research, RBI, Bloomberg

Red indicates that the component is contributing to incremental weakness in the indicator. Green indicates the component is contributing to incremental strength in the indicator.

'Direction' column indicates how the movement of the factor will impact the indicator

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# Input Variables

## Exhibit 4: Summary of inputs used for India Loan growth indicator

We have selected 6 macro variables that could help anticipate credit growth trend

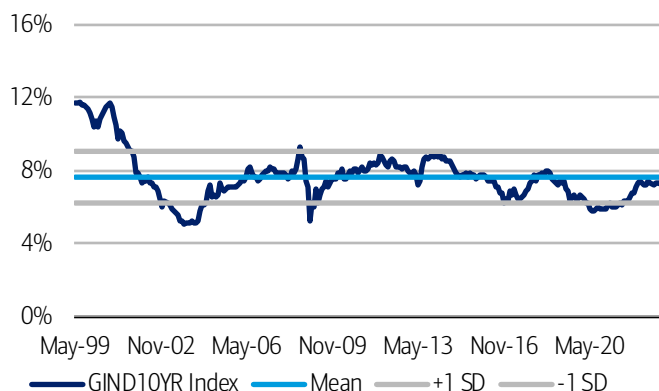
| S.no. | Variable  | Frequency   | Source                                      | Adjustment  |
|-------|---|---|---|---|
| 1     | India Govt. Bond Generic 10 Year Yield  | Daily   | Reserve Bank of India                       | None (used the month end value for monthly series)  |
| 2     | State Bank of India Prime Lending Rate (PLR) and Marginal Cost of Funds based Lending Rate (MCLR) | Steady till revised   | State Bank of India                         | From May 1999 to March 2016, used the SBI PLR. From April 2016, the adjusted MCLR (PLR + change in MCLR)  |
| 3     | Wholesale Price Index (WPI) Combined  | Monthly (14 <sup>th</sup> of next month)                          | MOSPI (NSO), CMIE                           | Used the WPI base 2004-05 from May-99 to Dec-11, base of 2012 from Jan'12 to Sep'20, base of 2020 from Sep'21 onwards.  |
| 4     | Real wage growth  | Monthly   | Labour Bureau, Reserve Bank of India (DBIE) | The average of Agricultural wage growth and non-agri wage growth minus the CPI-IW series; CPI-IW data is not available for Sep'20-Sep'21, so, we are using Sep'20 data till Aug'21. |
| 5     | Index of Industrial Production (IIP)  | Monthly (with a lag of 1 month on 12 <sup>th</sup> of next month) | MOSPI (NSO)                                 | 3-month rolling average used. From May-99 to Mar-12 is IIP base year 2004-05. From April-12 onwards, the new IIP (base year 2011-12)  |
| 6     | Broad Money (M3) growth   | Monthly (fortnight after month end)                               | Reserve Bank of India (DBIE)                | Adjusted the M3 growth with Wholesale Price Index (WPI) to arrive at the inflation adjusted M3 growth   |

Source: BofA Global Research

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## Exhibit 5: 10Y Government bond yield (%) – May'99- Apr'23

Government bond yield has moderated slightly from Jun-Jul level but stable

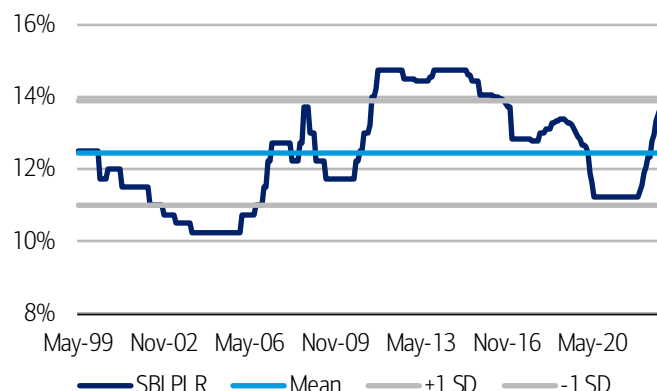


Source: BofA Global Research, Bloomberg

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## Exhibit 6: SBI PLR (%) – May'99- Apr'23

SBI lending rate continue to trend up – 3% up from May'22 level



Source: BofA Global Research, RBI, SBI website

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**Exhibit 7: WPI (%) - May'99- Apr'23**

Wholesale inflation continued to moderate, 4.7% in Jan'23



Source: BofA Global Research, RBI, Bloomberg

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**Exhibit 8: Real wage rate growth (%) - May'99- Mar'23**

Real wage growth rate close to 0 on higher inflation in recent months

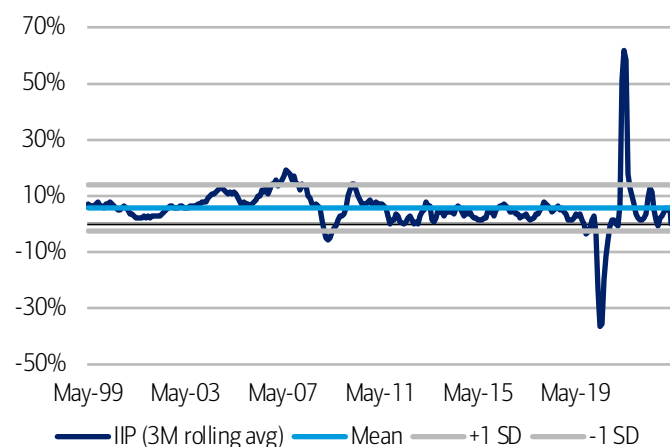


Source: BofA Global Research, RBI, Bloomberg

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**Exhibit 9: IIP (3M rolling avg) (%) - May'99- Apr'23**

IIP recovered in last 2 months and is now close to long term mean



Source: BofA Global Research, RBI, Bloomberg

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**Exhibit 10: Adjusted broad money (M3) growth (%) - May'99- Apr'23**

Adj. M3 growth has been improving in last few months



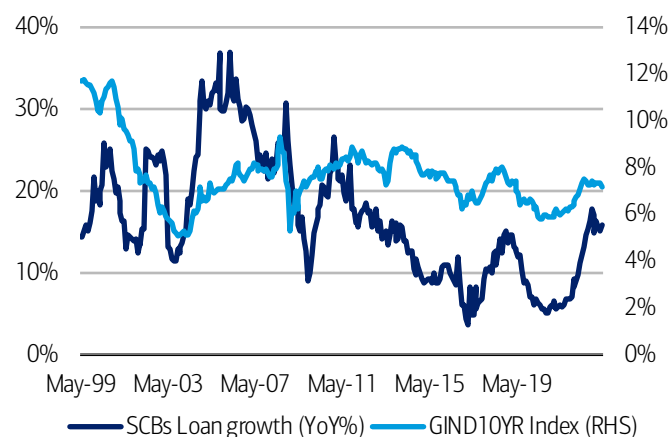
Source: BofA Global Research, RBI, Bloomberg

Note - Adjusted M3 growth is calculated as  $((1+M3 \text{ growth YoY})/(1+WPI))-1$ 

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**Exhibit 11: SCB loan growth (%) vs 10 yr govt bond (%)**

Positive but low correlation of 22%

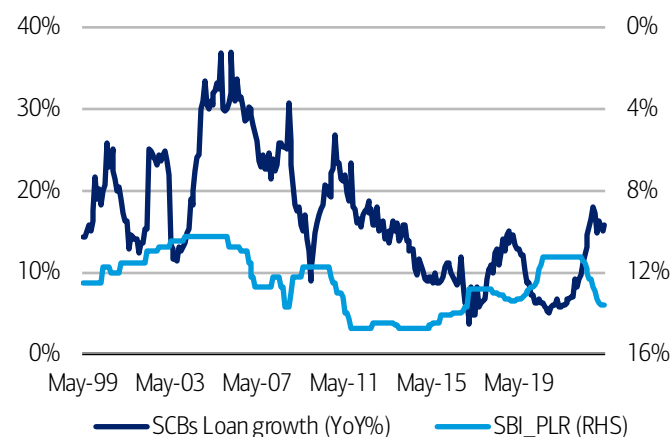


Source: BofA Global Research, RBI, Bloomberg

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**Exhibit 12: SCB loan growth (%) vs SBI PLR (%)**

Negative correlation of 34%

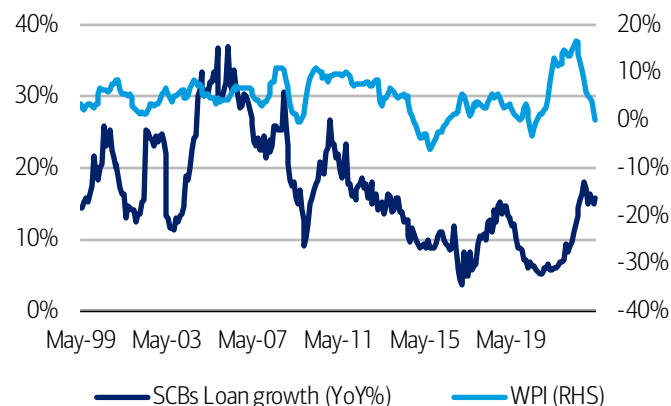


Source: BofA Global Research, RBI, Bloomberg

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**Exhibit 13: SCB loan growth (%) vs WPI (%)**

Positive correlation of 28%



Source: BofA Global Research, RBI, Bloomberg

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**Exhibit 14: SCB loan growth (%) vs Real wage growth (%)**

Negative correlation of 5%



Source: BofA Global Research, RBI, Bloomberg

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**Exhibit 15: SCB loan growth (%) vs IIP-3M rolling avg (%)**

Positive correlation of 28%



Source: BofA Global Research, RBI, Bloomberg

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**Exhibit 16: SCB loan growth (%) vs Adjusted M3 growth (%)**

Positive correlation of 38%



Source: BofA Global Research, RBI, Bloomberg

Note – Adjusted M3 growth is calculated as  $((1 + \text{M3 growth YoY}) / (1 + \text{WPI})) - 1$ 

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|-------------------|---|--|
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| Underperform      | N/A   | ≥ 20%  |

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