



Bank Credit Watch

Sept 2017





Credit Growth Continues to be Muted

- Non-food credit growth has remained muted reflecting the challenging environment that banks are facing.
- Fortunately, while nominal credit growth has remained subdued, there is adequate credit availability to most sectors once the numbers are adjusted for inflation and increased borrowing from the bond market, and other non-bank funding sources. Furthermore, banks have written-off/sold loans to asset reconstruction companies (ARCs), which effectively compressed their loan books and in addition a large share of the UDAY bond issuances during the financial year represent conversion/swapping of bank credit into special securities.
- Going forward the trajectory of lending rates and thereby credit growth will be determined by the proposed rules for the base rate setting mechanism (MCLR) system. The MCLR system adopted last April was designed to improve policy rate transmission. However the review of the system released with the October monetary policy has noted that banks deviated in an ad hoc manner from the specified methodologies for calculating the base rate and the MCLR to either inflate the base rate or prevent the base rate from falling in line with the cost of funds. As such the review has recommended limiting the flexibility that banks have enjoyed by removing arbitrary and discretionary components added to the formula. The panel has suggested a risk-free curve involving rates on treasury bills, or certificate of deposits rates or the policy repo rate and that lending rates should be reset once every quarter.
- If these recommendations of the review panel are accepted it could certainly lead to better policy rate transmission and therefore lower lending rates. However we will have to wait and see the results once the recommendations have been implemented as there were similar expectation for the original MCLR framework.
- Even if policy rate transmission improves, we have consistently argued sustained pick up in credit growth will require a meaningful reduction in NPAs. NPA problems will not be easily solvable as banks continue to struggle with diminished profitability while at the same time the implementation of Basel III norms raise the need for additional capital. Under such conditions we continue to believe that the current levels of capital infusions by the government are highly inadequate to support the level of credit growth that will be required for a recovering economy. The RBI continues to be focused on the NPA problem, however there is still a long way to go.
- Furthermore we expect that recent regulatory developments including allowing foreign ownership of asset reconstruction companies and the bankruptcy code will start to bring down NPLs sitting on bank books. After prolonged period of deterioration, asset quality trends for public sector banks are starting to stabilize.



Credit Growth Summary

Non-Food Credit Growth

- Non-food bank credit increased by 5.5% y-o-y in August 2017 as compared with 8.2% during August 2016

Credit Growth by Sector*

- Credit to agriculture (14.1%) increased by 6.5% in August 2017, as compared to 13.6% increase in August 2016
- Credit to industry (37.8%) contracted by 0.3% in August 2017 as compared with a contraction of 0.2% in August 2016. Major sub-sectors which witnessed contraction of credit, were infrastructure, textiles and metal products
- Credit to services sector (23.7%) increased by 5% in August 2017 lower than the 12.1% increase recorded in August 2016
- Personal loans (24.4%) increased by 15.7% in August 2017, lower than the 18.1% growth in August 2016.

Credit Deposit Ratio

- Deposit growth was 6% in August 2017 lower than the 8.7% growth in August 2016. Deposit growth has outstripped credit growth since September 2016.
- The credit deposit ratio stood at 74.7% and the incremental credit deposit ratio was 71.2% compared with 74.9% and 79% in August 2016

Credit Growth by Bank Group

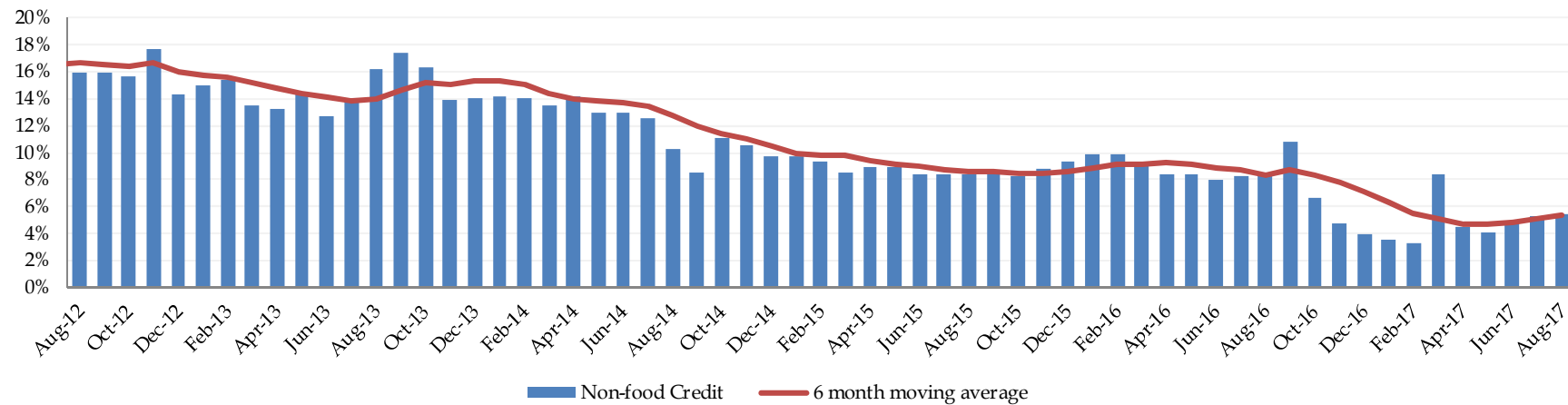
- Credit growth differed across bank groups. Credit growth for SBI and other Public Sector banks, which make up the majority of credit, was 5.3% and 2.9% in December 2016 respectively. Private bank credit growth was 17.7% lower than 24.9% recorded in December 2015 while foreign bank credit growth was 0.8%, lower than 11.9% during the same period the prior year.

* Percentages in parenthesis refer to share of total non-food credit based on the latest available data

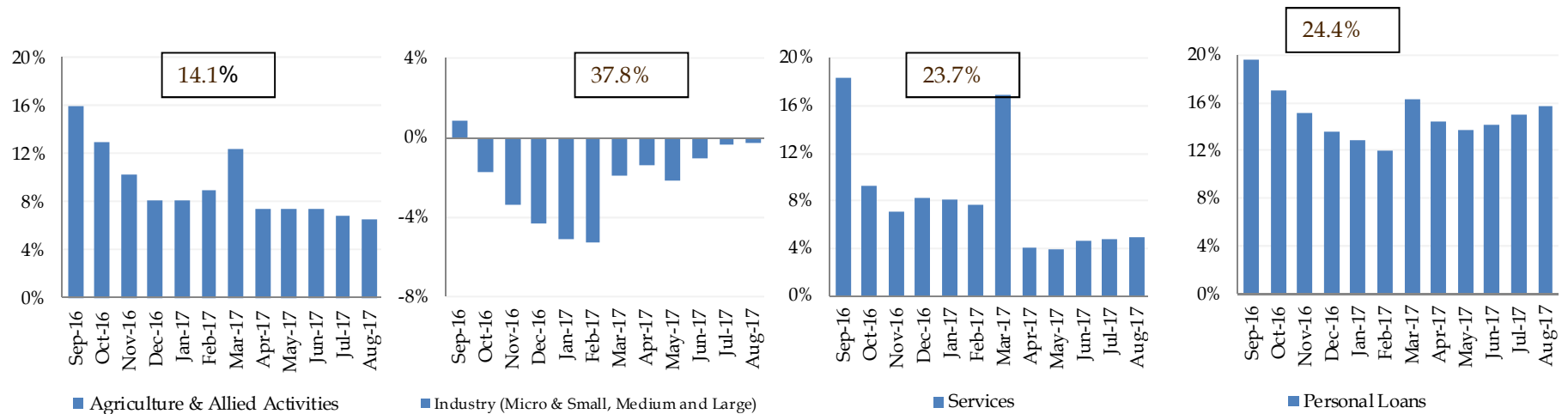


Sectoral Credit Growth Trends

Non-food Credit Growth



Non-food Credit Growth by Sector*



* Percentages in the boxes refer to share of total non-food credit based on the latest available data
Source: RBI, Trust Research

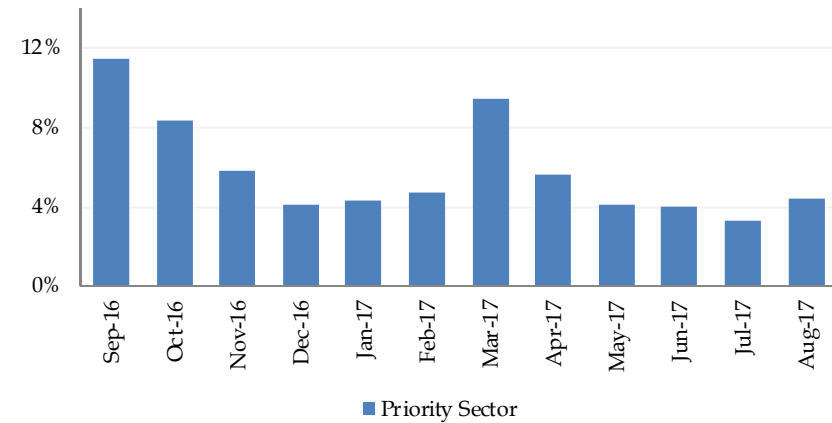


Sector Share of Credit

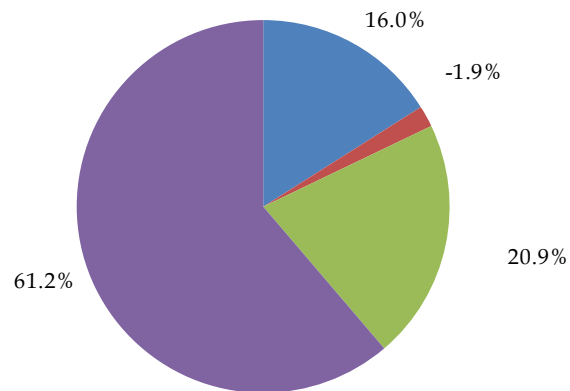
Sectoral Deployment of Credit (Rs B)

Sector	Outstanding as on			Variation (Y-oY)	
	21-Aug-2015	19-Aug-2016	18-Aug-2017	2015-16	2016-17
				%	%
Non-food Credit	60,550	65,515	69,117	8.2	5.5
Agriculture & Allied Activities	8,078	9,177	9,777	13.6	6.5
Industry	26,238	26,181	26,112	-0.2	-0.3
Services	13,906	15,594	16,375	12.1	5.0
Personal Loans	12,329	14,563	16,854	18.1	15.7
Priority Sector	20,708	22,646	23,642	9.4	4.4

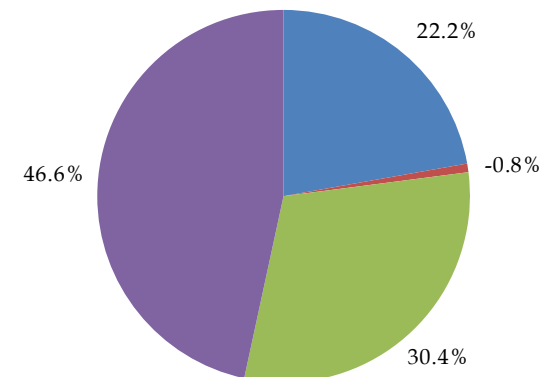
Priority Sector Growth



Share of Sectors in Incremental Credit Growth (August 2017)



Share of Sectors in Incremental Credit Growth (August 2016)



←
Loans to industry and services have declined while personal loans have increased

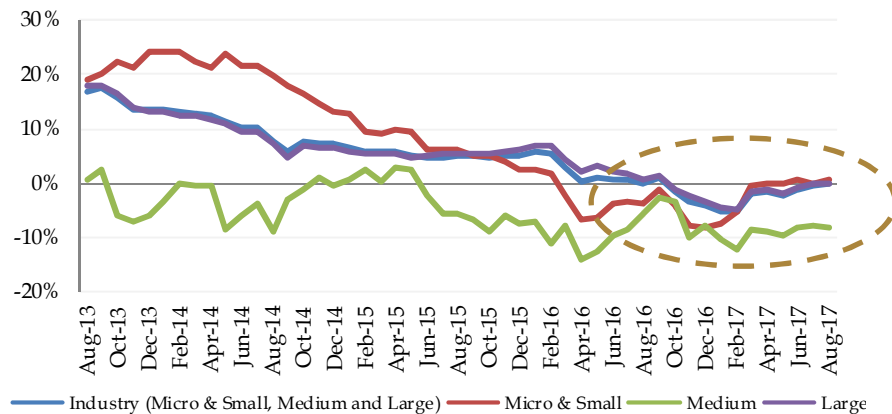
Source: RBI, Trust Research

■ Agriculture & Allied Activities
 ■ Industry
 ■ Services
 ■ Personal Loans

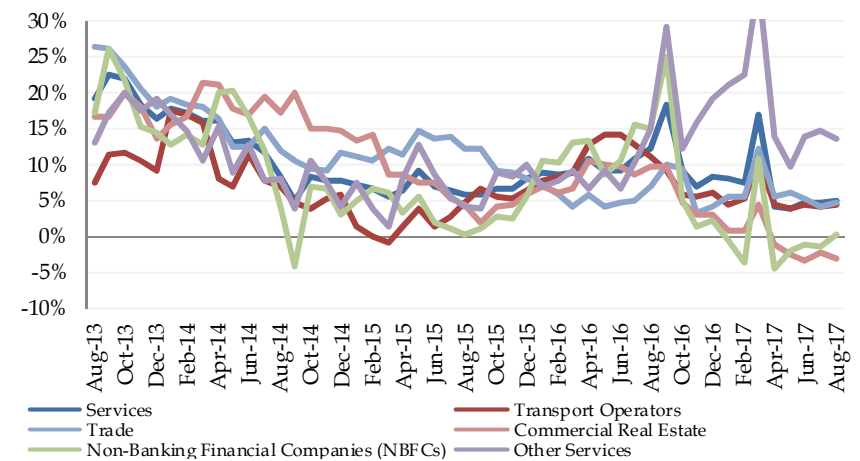


Credit Growth Trends

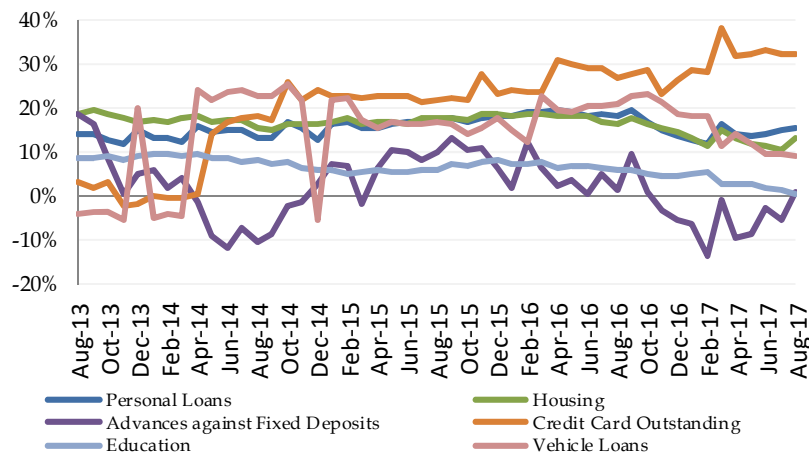
Industry Credit Growth



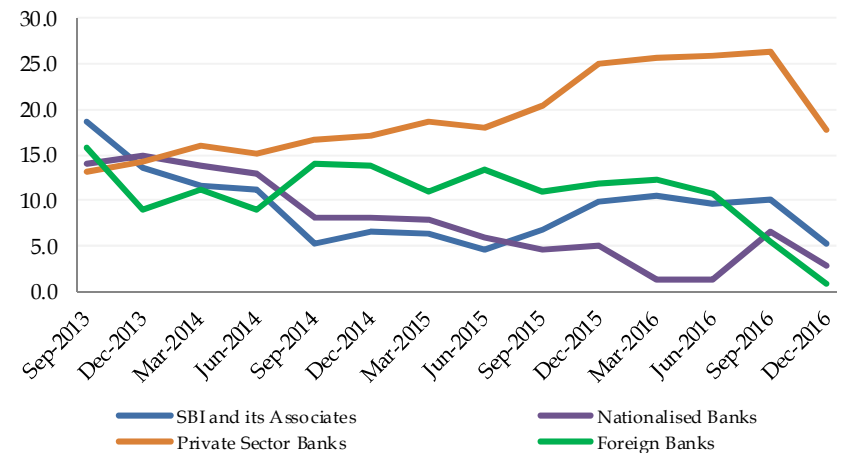
Services Sector Credit Growth



Personal Loans Credit Growth



Bank Group Wise Credit Growth

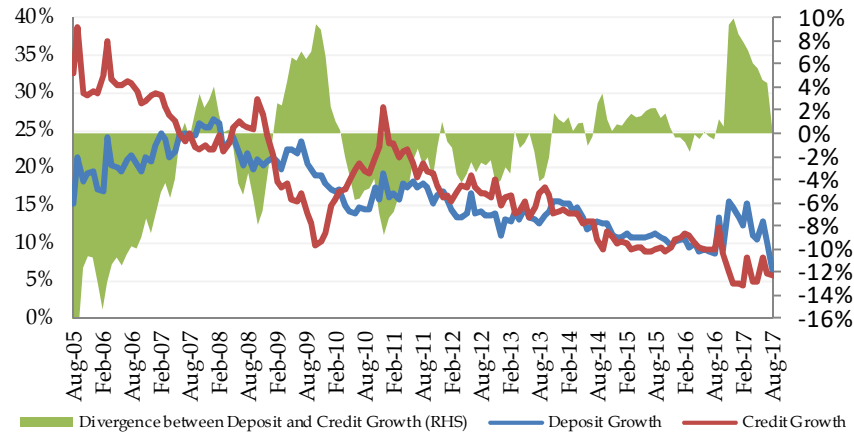


Source: RBI, Trust Research

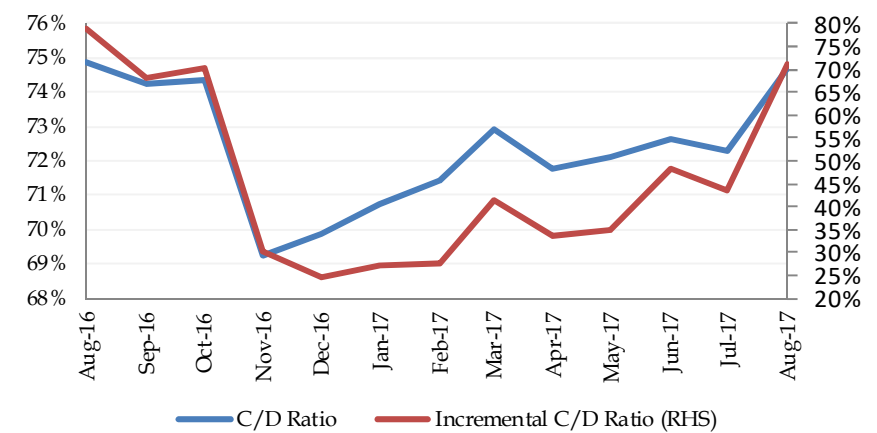


Credit Deposit Ratio

Credit and Deposit Growth



Credit Deposit Ratio



Rates and Credit Research

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Thank You



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