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Sectoral growth in Credit – November 2023

Daily macro indicators

Indicator	28-Dec	29-Dec	Chg (%)
US 10Y yield (%)	3.84	3.88	3bps
India 10Y yield (%)	7.21	7.17	(4bps)
USD/INR	83.17	83.21	0.0
Brent Crude (US\$/bbl)	78.4	77.0	(1.7)
Dow	37,710	37,690	(0.1)
Hang Seng	17,044	17,047	0.0
Sensex	72,410	72,240	(0.2)
India FII (US\$ mn)	27-Dec	28-Dec	Chg (\$ mn)
FII-D	74.0	105.4	31.4
FII-E	384.4	679.7	295.3

Source: Bank of Baroda Economics Research

SUMMARY
INDIA ECONOMICS: FINANCIAL STABILITY REPORT

RBI has attested to the strength of the Indian economy in its latest half-yearly Financial Stability Report. India's macroeconomic fundamentals have been underlined by moderating inflation, narrowing CAD, sustained growth and rising foreign exchange reserves. Against this backdrop, the health of the financial sector continues to be steady amidst sustained growth in bank credit, adequate capital, liquidity buffers, strong earnings and lower NPAs. Balance sheets of both corporate and banking sector have also strengthened and this is prompting anew investment and credit cycle. Apart from this, stress tests results indicate that even under severe stress scenario, capital reserves of SCBs remain adequate and GNPA ratios are also likely to inch up only marginally.

[Click here](#) for the full report.



INDIA ECONOMICS: INTEREST RATES

A closer look at the table reveals how transmission of interest rates across different spectrum have fared. The change is taken from Apr-22 just before RBI embarked on the journey of rate hikes, to control inflation. The transmission of interest rates was better for PSBs relative to PVBs. In case of PSBs the transmission on fresh term deposits was almost complete with an increase of 240 bps. On the lending side, WALR rose by 183 bps. For PVBs the increase on fresh deposits was lower 195 bps and that on loans was 154 bps. The increase in MCLR on 1 year loans was again higher for PSBs relative to PVBs with the difference being 23 bps for this period. PVBs had a higher share of loans under EBLR at 78% compared with PSBs with 37%. Yet the transmission of rate increase was swifter for PSBs.

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INDIA ECONOMICS: SCBS DEPOSIT AND CREDIT

Deposits held with SCBs: RBI's fortnightly data shows that, SCBs (including HDFC merger impact) in FYTD24, i.e. between Mar'23 and Dec'23 (as of 15th Dec), have registered an increase of Rs 17.5 lakh crore as incremental deposit (+9.7%), with demand deposits noting Rs 1.4 lakh crore (+6.4%) increase, and time deposits recording Rs 16.1 lakh crore (+10.1%) increase in this period.

[Click here](#) for the full report.

INDIA ECONOMICS: SECTOR GROWTH RATES

The sectoral growth in credit provides useful insights on which sectors are borrowing funds and hence driving the investment and production cycles. The table below provides data on growth across sectors.

[Click here](#) for the full report.

**FINANCIAL STABILITY
REPORT**

30 December 2023

Highlights of RBI's Financial Stability Report

RBI has attested to the strength of the Indian economy in its latest half-yearly Financial Stability Report. India's macroeconomic fundamentals have been underlined by moderating inflation, narrowing CAD, sustained growth and rising foreign exchange reserves. Against this backdrop, the health of the financial sector continues to be steady amidst sustained growth in bank credit, adequate capital, liquidity buffers, strong earnings and lower NPAs. Balance sheets of both corporate and banking sector have also strengthened and this is prompting anew investment and credit cycle. Apart from this, stress tests results indicate that even under severe stress scenario, capital reserves of SCBs remain adequate and GNPA ratios are also likely to inch up only marginally.

Aditi Gupta
Economist

The FSR also noted that due to increasing interconnectedness, the share of interbank exposures in the total assets of banking system reached a 3-year peak in Sep'23. This leaves the financial system susceptible to contagion risk. However, it is unlikely to lead to the failure of any bank. With heightened volatility and uncertainty in the global financial system, risks of a spillover also cannot be entirely ruled out. It is therefore important to closely monitor the evolving picture and react proactively. This also needs to be supplemented with prudent management exposures and building of financial buffers

RBI's in the Financial Stability Report (FSR) alluded to the strength of the domestic banking system. The strong performance of the financial system has been underlined by:

- adequate buffers,
- robust earnings and
- improvement in asset quality.

Improved margins due to higher interest rates has helped banks' profitability. However, with the interest rate cycle expected to have peaked, some pressure on this front is expected. Concerns have also been raised on the impact of sustained period of high interest rates on banks due to valuation losses. This is particularly important since banks hold ~63.6% of their investments in held-to-maturity (HTM) category, which are not marked to market. However, RBI's assessment showed that unrealized losses on HTM securities have fallen from Mar'23.

Some of the highlights mentioned in the report are:

- Underpinned by strong interest margins and buoyant credit demand the net interest income (NII) of banks have improved leading to a pickup in earnings. RoA and RoE have increased to 1.2% and 12.9% respectively in Sep'23, from historic lows of (-) 0.2% and (-) 2.2%, respectively, in Mar'28.



INTEREST RATES

30 December 2023

How transmission has fared?

A closer look at the table reveals how transmission of interest rates across different spectrum have fared. The change is taken from Apr-22 just before RBI embarked on the journey of rate hikes, to control inflation. The transmission of interest rates was better for PSBs relative to PVBs. In case of PSBs the transmission on fresh term deposits was almost complete with an increase of 240 bps. On the lending side, WALR rose by 183 bps. For PVBs the increase on fresh deposits was lower 195 bps and that on loans was 154 bps. The increase in MCLR on 1 year loans was again higher for PSBs relative to PVBs with the difference being 23 bps for this period. PVBs had a higher share of loans under EBLR at 78% compared with PSBs with 37%. Yet the transmission of rate increase was swifter for PSBs.

Dipanwita Mazumdar
Economist

In the same period the accretion to deposits have been Rs 31.7 lakh crore (outstanding deposits as of Apr'22: Rs 166.2 lakh crore, outstanding deposits as of 15 Nov 2023: Rs 197.9 lakh crore). For credit, there has been accretion of Rs 38 lakh crore during the same period (outstanding credit as of Apr'22: Rs 119.6 lakh crore, outstanding credit as of 15 Nov 2023: Rs 158.1 lakh crore). (All figures are including the impact of merger)

Looking at the movement of other interest rates, it is clear that the transmission has been pretty fast on short term rates (TBill rates). This is also contingent on the evolving liquidity conditions. The entire movement of repo was priced in to OIS to some extent. 10Year sovereign yield on the other hand, remained broadly stable, reflecting robust demand conditions on the back of resilience of Indian economy.

Tighter liquidity conditions in the wake of restrictive policy has resulted in WALR going above repo in the current cycle.

Table 1: Interest rates of PSBs and PVBs

Interest rates of Banks (%)	Apr-22			Nov-23			Change in bps		
	PSBs	PVBs	SCBs	PSBs	PVBs	SCBs	PSBs	PVBs	SCBs
WALR-O/s loans	8.20	9.62	8.72	9.25	10.51	9.78	105	89	106
WALR-Fresh loans	6.77	8.53	7.51	8.60	10.07	9.34	183	154	183
Term Deposits-O/S	5.11	5.13	5.03	6.85	6.76	6.79	174	163	176
Term Deposits-Fresh	4.32	4.39	4.03	6.72	6.34	6.34	240	195	231
MCLR-1Yr*	7.25	8.33	7.25	8.75	9.60	8.75	150	127	150
Share of EBLR**	33.30	61.84	44.04	37.40	78.40	53.30	-	-	-

Source: RBI, Bank of Baroda Research, All figures are including merger, * the current data for 1 year MCLR is of Dec'23,** the current share of EBLR as of Sep-23 and the Apr-22 share is as of Mar-22, as per availability of data.



SCBS DEPOSIT AND CREDIT

30 December 2023

SCB's fortnightly performance

Deposits held with SCBs: RBI's fortnightly data shows that, SCBs (including HDFC merger impact) in FYTD24, i.e. between Mar'23 and Dec'23 (as of 15th Dec), have registered an increase of Rs 17.5 lakh crore as incremental deposit (+9.7%), with demand deposits noting Rs 1.4 lakh crore (+6.4%) increase, and time deposits recording Rs 16.1 lakh crore (+10.1%) increase in this period.

Sonal Badhan
Economist

Excluding the impact of HDFC merger, deposits have risen by Rs 16.2 lakh crore (+9%) in FYTD24 so far. Last year in FYTD23 (Mar-Dec), deposits had risen by Rs 8.9 lakh crore (+5.4%), as Rs 9.3 lakh crore (+6.5%) increase in time deposits was slightly offset by Rs 0.4 lakh crore (-1.9%) decline in demand deposits.

Table 1: SCB deposits

Rs lakh crore	Outstanding as of 15 Dec 2023	Incremental (FYTD23)	Incremental (FYTD24)
Total Deposits	197.9	8.9	17.5
Total Deposits (excluding HDFC merger)	196.7	8.9	16.2
Time Deposits	174.7	9.3	16.1
Demand Deposits	23.2	(0.4)	1.4

Source: CEIC, RBI, Bank of Baroda Research

SCBs' credit growth: Lending by SCBs (including HDFC merger) has risen by 15.6% in FYTD24 so far (between Mar'23 and 15 Dec 2023), implying an incremental credit growth of Rs 21.3 lakh crore.

If we exclude the impact of HDFC merger, then incremental credit growth was only Rs 15.5 lakh crore, noting 11.4% increase, which is still slightly higher than 10.6% increase (+ Rs 12.6 lakh crore) registered in FYTD23 during the same period.

Table 2: SCB bank credit

Rs lakh crore	Outstanding as of 15 Dec 2023	Incremental (FYTD23)	Incremental (FYTD24)
Total bank credit (including the impact of HDFC merger)	158.1	12.6	21.3
Total bank credit (excluding the impact of HDFC merger)	152.3	12.6	15.5

Source: CEIC, RBI, Bank of Baroda Research

During this period investments increased by Rs 4.4 lakh crore (Rs 5.45 lakh crore including HDFC). Hence on the assets side there was an increase of close to Rs 20 lakh crore (excluding HDFC) while deposit increased by Rs 16.2 lakh crore. This explains the persistent liquidity deficit in the system witnessed for over a month now.



SECTOR GROWTH RATES

30 December 2023

Sectoral growth in Credit – November 2023

The sectoral growth in credit provides useful insights on which sectors are borrowing funds and hence driving the investment and production cycles. The table below provides data on growth across sectors.

Sonal Badhan
Economist

Deployment of Gross Bank Credit by Major Sectors

Rs cr	17.Nov.2023	2022/2021	2023/2022
		%	%
Bank Credit (II + III)	1,56,20,554	17.2	20.6
	<i>1,50,39,956</i>		<i>(16.2)</i>
Food Credit	40,261	-36.6	-22.9
Non-food Credit	1,55,80,294	17.6	20.8
	<i>1,49,99,695</i>		<i>(16.3)</i>
1. Agriculture and Allied Activities	19,31,215	14.0	18.2
2. Industry	36,00,876	13.0	6.6
	<i>35,83,164</i>		<i>(6.1)</i>
Micro and Small	6,89,502	19.5	17.2
Medium	2,83,774	27.9	12.0
Large	26,27,599	10.3	3.6
3. Services	42,64,761	21.3	25.4
	<i>41,45,875</i>		<i>(21.9)</i>
Transport Operators	2,18,897	11.8	24.4
Professional Services	1,55,924	12.5	21.1
Trade	9,10,846	16.0	19.0
Commercial Real Estate	4,28,720	7.7	37.5
	<i>3,62,185</i>		<i>(16.2)</i>
Non-Banking Financial Companies (NBFCs)	14,93,751	32.4	21.5
Other Services	9,06,037	25.2	36.2
	<i>8,68,549</i>		<i>(30.6)</i>
4. Personal Loans	50,56,524	19.9	30.1
	<i>46,12,590</i>		<i>(18.6)</i>
Housing (Including Priority Sector Housing)	25,94,106	16.6	37.0
	<i>21,77,221</i>		<i>(15.0)</i>
Advances against Fixed Deposits	1,12,983	30.2	17.2
Credit Card Outstanding	2,44,689	25.8	34.2
Education	1,11,868	12.9	22.8
Vehicle Loans	5,64,785	22.3	20.8
Loans against gold jewellery	1,00,279	17.8	18.5
Other Personal Loans	12,96,385	24.0	24.3
	<i>12,69,843</i>		<i>(21.7)</i>

Note: Figures in italics exclude numbers of HDFC Limited



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