

## FY22 CREDIT GROWTH CROSSES RS 10 TRILLION: CREDIT GROWTH OF PUBLIC SECTOR BANKS CONTINUES TO CROWD IN CREDIT GROWTH FROM PRIVATE BANKS

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FY22 ended with an incremental credit growth at Rs 10.5 trillion, 1.8 times higher than growth of Rs 5.8 trillion in FY21. Segment-wise, the jump in credit to MSMEs and Infrastructure was strong at Rs 2.3 trillion while credit to Housing and NBFC sector was close to Rs 2 trillion. Retail loans expanded by a sharp Rs 3.7 trillion, driven by a surge in personal loans apart from housing credit. Credit to Agri was at Rs 1.3 trillion. It seems that the economy was able to shrug off, to a large extent, the aftereffects of the pandemic as credit growth was broad-based across all sectors.

We find an interesting pattern in credit growth that augurs well for FY23. **It is now evident that an expansion in public sector bank (PSBs) credit is crowding in credit growth from private sector banks (PVB).** Once this trend turns into a self-fulfilling prophecy, the economy stands to benefit. **Consider this, in FY22, the weighted contribution of PSBs in overall credit growth was as much as 43%. This is steady rise from the lows of 27% in FY19. Simultaneously, the share of PVBs in credit growth has declined from 65% to 47% for the year ended FY22.** In the past, when ever credit growth turns the corner and jumps from single digit to double digit, the share of PVBs has always jumped commensurately. It seems that the PSBs are always early movers at the beginning of a pick up in credit cycle and later becomes all pervasive when the PVBs joins the bandwagon. **However, the latest trends indicate that PSBs have been continuously chipping away on the back of a robust asset quality and also some of the credit initiatives that were launched during pandemic. This healthy competition could bring in new rules of the game as we move towards the rebuilding phase post pandemic.**

However, the share of incremental bank credit in incremental nominal GDP, which was as high as 63% in pre-pandemic year (FY19) plunged sharply to decade low of 27% in FY22. The average share was 50% for 7 year period ended FY20. A higher credit-to-GDP ratio indicates aggressive and active participation of the banking sector in the real economy, while a lower number shows the need for more formal credit. For, FY23 we believe that share of bank credit may again breach the 50% mark indicating the increasing role of banks in economic growth.

Even as the outlook of credit growth looks positive in FY23 also, the current inflation trends could play a spoilsport as rate hikes could have a dampening impact on credit demand just as the economy has been turning round the corner. An RBI study (RBI Working Paper Series No. 14) indicates that an increase (decrease) in policy rate by 100 basis points causes the credit to decline (increase) by 1.95% with a lag of six quarters. Our regression results involving credit growth and policy rate (monthly data from Jan'09 to Apr'20) reveal that an increase (decrease) in policy rate by 100 basis points causes the credit to decline (increase) by less than 1%. **However, we believe, a constellation of factors like significant weakening of growth prospects from China could act as favorable conduits of a not so aggressive pace of rate hikes by central banks around the world, including RBI. Oil is likely to correct below \$100, with even sub-\$90 looking a possibility. The 10 year domestic yield has already retreated sharply and could head sub-7% (6.85-6.9% might be threshold) as real economic activity slows down following the prolonged geo-political conflict. US 10 year yields have already softened sharply, perhaps indicating what the future holds in store! Ultimately, as an RBI study suggest, yields are a function of real economic activity!**

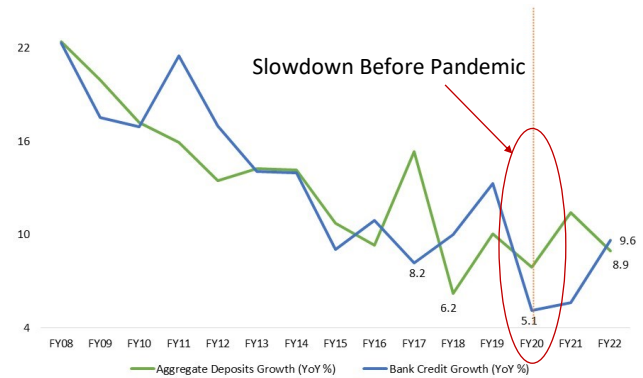
Meanwhile, new investment announcements in FY22, as per Projects Today, is at an all time high of around Rs 20 trillion, which is around 2x from the previous year. What is important to mention is that announcements from Private sector too have recorded an all-time high of Rs 13.6 trillion which is 2.5x from the previous year. **With this, the share of private investment announcement has increased to around 70% in FY22 from around 40-50% during last couple of years.**

What is worrying is that our estimated implementation ratio (Project investment Under Execution/Total\*100) which suggest the actual start of project implementation/execution of the project announced, is still low at 36.24 as of March'22, which means around 64% of the projects announced are still in planning stage only. Projects under executions include under execution and partially completed stages. Higher implementation ratios suggest higher demand for credit as the project draw-down starts/increases with the stages of project implementation. **With the announcement from private sector at all time high coupled with PM Gati Shakti programme, which will break departmental silos, we expect the ratios to increase from here. The PM Gati Shakti will bring in more holistic and integrated planning which will help in speed up project execution.**

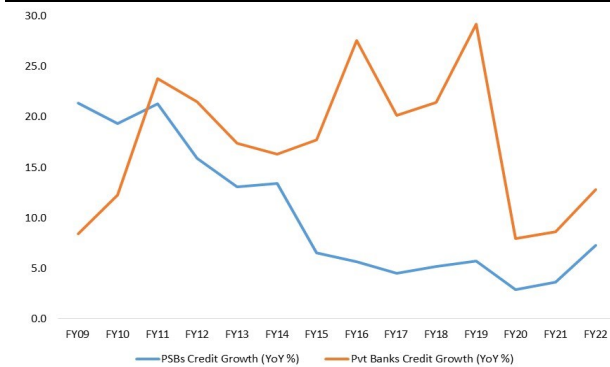
**CREDIT GROWTH: CURRENT STATUS**

- ◆ The COVID-19 pandemic was the first major test of the global financial system since the implementation of reforms following the global financial crisis of 2008. The timely policy interventions has helped alleviate stress experienced by individuals, MSMEs, corporates and lenders, and by keeping access to finance open on easy terms.
- ◆ However, before the onset of pandemic, the credit growth in the Indian banking industry was muted, which was further impacted in the wake of COVID-19 pandemic related restrictions and stood at 5.1% for October 2020 (the lowest since May 2017). However, with the resumption in economic activities, ASCB's credit turned positive for the first time in November 2020 and its growth stood at 5.6% on a YoY basis for FY21.
- ◆ Due to the various measures taken by RBI & Government, the signs of recovery became visible in FY22. With this, ASCB's credit grew by 9.6% in 2021-22, driven by all the major sectors. Interestingly, in 2021-22, retail loans have emerged as the main driver of bank credit and now have the largest share (28.4%) in the outstanding credit of ASCBs, displacing industrial loans (26.7%).
- ◆ However, ASCB's aggregate deposits growth slowed to 8.9% in 2021-22, compared to 11.40% in 2020-21, due to the base effects & lower interest rate environment as also an ever-increasing proportion of retail investors flocking to capital markets / digital asset classes chasing higher returns. During the year, both demand and time deposits grew consistently with the trend growth.
- ◆ We find an interesting pattern in credit growth that augurs well in FY23. **It is now evident that an expansion in public sector bank (PSB) credit is crowding in credit growth from private sector banks (PVB).** Once this trend turns into a self-fulfilling prophecy, the economy stands to benefit. Consider this. In FY22, the weighted contribution of PSBs in overall credit growth was as much as 43%. This is steady rise from the lows of 27% in FY19. Simultaneously, the share of PVBs in credit growth has declined from 65% to 47% for the 4 year ended FY22. Interestingly, the newly formed small finance banks (SFBs) have gained market share of more than 1% just 5-years of operation.

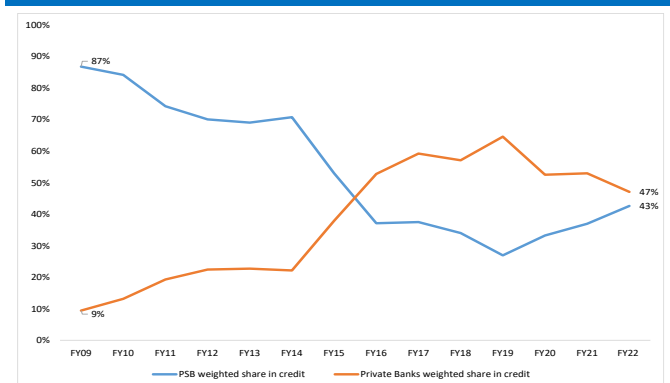
**ASCB's Deposits & Credit Growth Movement (YoY %)**



**Credit Growth (YoY %): PSBs vs Pvt Banks**

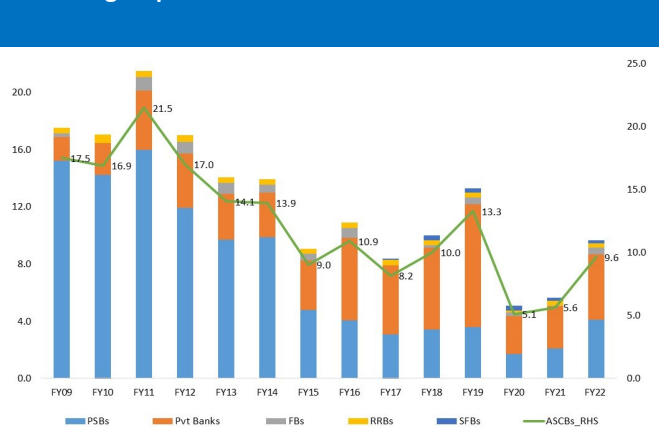


**Share in Incremental Bank Credit (PSB vs Pvt Banks)**



Source: SBI Research

**Bank-group wise Contribution to Incremental Credit**



Source: SBI Research

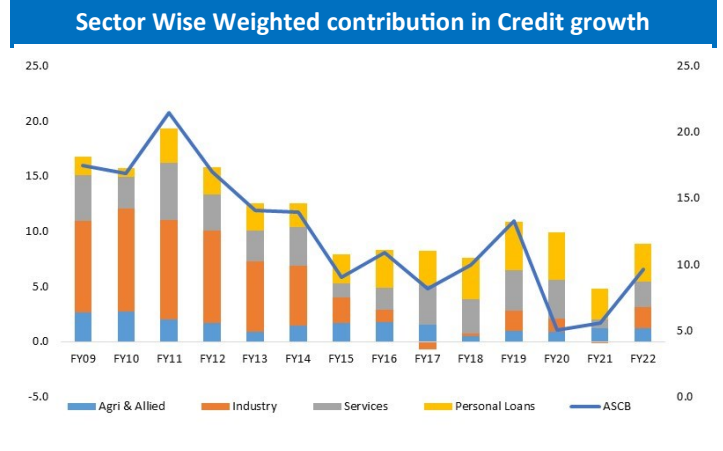
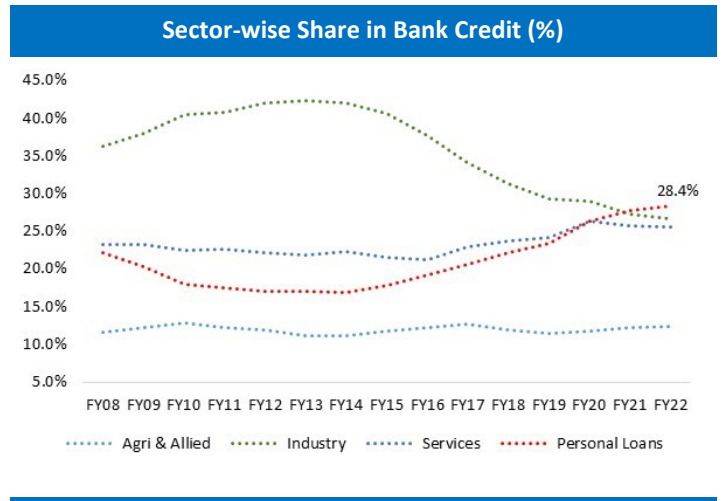
ASCBs Sector-wise Credit Growth				
Sectors	FY21		FY22	
	in Amt (Rs bn)	% YoY	in Amt (Rs bn)	% YoY
<b>Agri. &amp; Allied</b>	<b>1263</b>	<b>10.5</b>	<b>1325</b>	<b>9.9</b>
<b>Industry</b>	<b>-111</b>	<b>-0.4</b>	<b>2096</b>	<b>7.1</b>
MSE (Priority)	308	2.7	1261	10.6
Infrastructure	178	1.6	1019	9.3
<b>Services</b>	<b>822</b>	<b>3.0</b>	<b>2477</b>	<b>8.9</b>
NBFCs	-17	-0.2	989	10.4
<b>Personal Loans</b>	<b>2890</b>	<b>10.7</b>	<b>3732</b>	<b>12.4</b>
Housing (Including Priority)	1311	9.6	954	6.4
Other Personal Loans	1039	13.7	1984	23.1
<b>Bank Credit</b>	<b>5769</b>	<b>5.6</b>	<b>10458</b>	<b>9.6</b>

Source: RBI WSS, Sectoral Credit Press Release

- ◆ During FY22 credit off-take has taken place in almost all major sectors compared to FY21. Personal loans holds 35% share in the incremental bank credit for FY22.
- ◆ If we look the sectoral data in details, the share of personal/retail loans in incremental credit for the years stands around 44%, followed by services 31% and industry at 23%.
- ◆ Going forward, the outlook on banking sector depends upon the evolving geopolitical situation and its impact on global commodity prices and logistics. The opening of economy has reduced the need for a new stimulus package, and the current momentum can be sustained without large scale disruption. In FY23, we expect both deposits and credit will continue to grow in double digits, despite the interest rate reversal.

**INCREMENTAL CREDIT TO GDP SHARE**

- ◆ The share of incremental bank credit in incremental nominal GDP, which was as high as 63% in pre-pandemic year (FY19) plunged sharply to decade low 27% in FY22. The average share was 50% for 7 year period ended FY20.
- ◆ A higher credit-to-GDP ratio indicates aggressive and active participation of the banking sector in the real economy, while a lower number shows the need for more formal credit. For, FY23 we believe that share of bank credit may again breach the 50% mark indicating the increasing role of banks in economic growth.



Source: SBI Research

Incremental Credit to GDP Share					
FY	Incremental (Rs Lakh Cr)		Incremental Credit to GDP Share	% YoY Growth	
	Credit	Nominal GDP		Credit	Nominal GDP
FY13	6.5	12.1	54%	14.1	13.8
FY14	7.3	12.9	57%	13.9	13.0
FY15	5.4	12.3	44%	9.0	11.0
FY16	7.1	13.0	55%	10.9	10.5
FY17	5.9	16.2	37%	8.2	11.8
FY18	7.8	17.0	46%	10.0	11.0
FY19	11.5	18.1	63%	13.3	10.6
FY20	5.0	11.8	42%	5.1	6.2
FY21	5.8	-2.7	-	5.6	-1.4
FY22	10.5	38.4	27%	9.6	19.4
FY23 P	13.0	24.8	52%	11.0	10.5

Source: SBI Research; P: SBI Projection

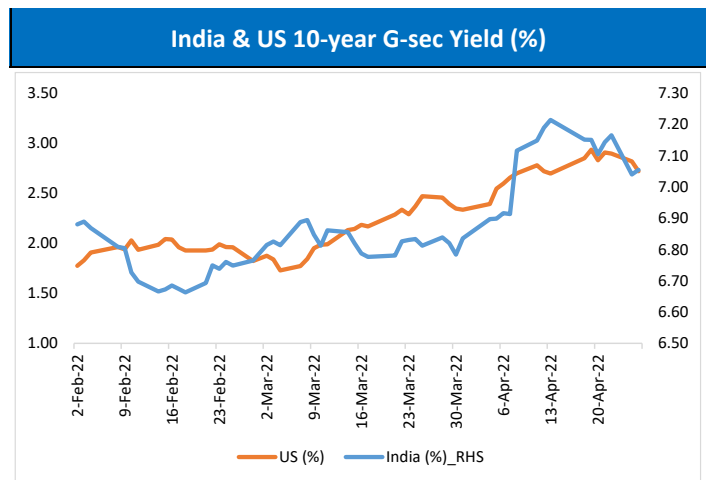
**LINK BETWEEN CREDIT GROWTH AND INTEREST RATES**

- ◆ A plethora of factors impacts the credit growth. Prominent among are nominal GDP growth, deposits growth, investment growth, interest rates, asset quality and other bank-specific characteristics like the size of the bank and capitalisation. A large volume of empirical literature has analysed the effect of various macroeconomic indicators on credit growth, and it is an established fact that interest rate is the most crucial factor and credit growth and interest rates are negatively co-related. Higher the interest rates, higher will be the cost of borrowing and hence, lower would be the demand for credit.
- ◆ India is not an exception and an RBI study (RBI Working Paper Series No. 14) indicates that the coefficient of policy rate (i.e., Repo) was negatively related with credit growth and it was statistically significant also. An increase (decrease) in policy rate by 100 basis points causes the credit to decline (increase) by 1.95% with a lag of six quarters. We have also run regression on credit growth and policy rate (monthly data from Jan'09 to Apr'20) and found out that an increase (decrease) in policy rate by 100 basis points causes the credit to decline (increase) by less than 1%.
- ◆ The repo rate is at 4% since May-20 and the increasing inflation might put pressure on RBI to increase rates. **Even though the markets are talking about aggressive rate hikes, we believe that things may turn abruptly favorable as the world grapples with the current geo-political conflict. There are indeed couple of reasons to believe so.**

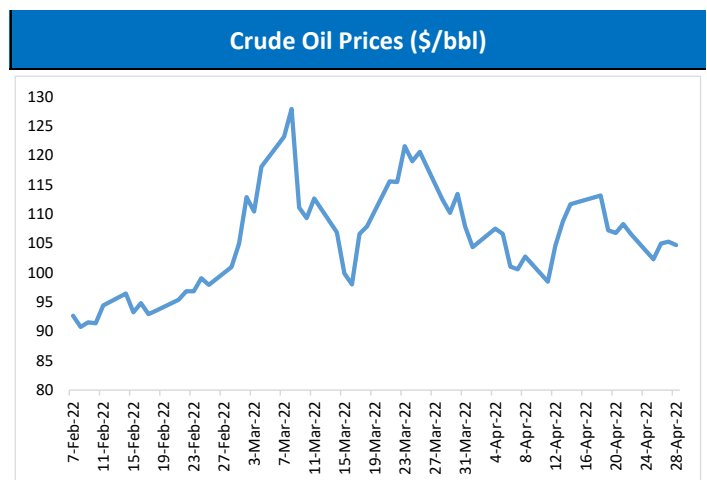
**WOULD RATE HIKES MAY STILL BE MANAGEABLE?**

- ◆ **Decline in China's oil demand:** China is heading for the largest oil demand shock since the early days of the pandemic as the nation's efforts to tame a rapidly spreading Covid-19 hobbles vast swathes of the economy. Demand for gasoline, diesel and aviation fuel in April is expected to slide 20% from a year earlier. That's equivalent to a drop in crude oil consumption of 1.2 million barrels a day. It will be the largest hit to demand since the lockdown of Wuhan more than two years ago. The decline equates to about 9% of China's daily oil demand when compared with the 2021 average.

- ◆ **Oil prices may drop to sub-\$90/bbl:** The crude oil prices rose from \$90/bbl to close to \$130/bbl post the Russia-Ukraine war. However, in the recent times it has declined continuously (due to decline in demand) and currently hovering around \$100/bbl. We believe that the crude oil may drop to below \$90/bbl in the couple of months if the current conditions persists.
- ◆ **Softening of US 10-year G-sec yield:** US 10-year G-sec yield which rose sharply from early March to Mid-April is started to decline after that. After reaching a high of 2.94%, the yields are softening now. Since its recent peak, yield has moderated around 15 bps in just 7 sessions.
- ◆ **India's 10-year G-sec yield:** The India's 10-year G-sec yields has also started to decline recently after it crossed the 7.0% mark.



Source: SBI Research



Source: SBI Research

**CAPACITY UTILISATION CROSSES 72%, INVESTMENT ANNOUNCEMENT ALL TIME HIGH BUT EXECUTION IS THE KEY**

- ◆ A recent RBI report suggest Capacity utilisation (CU) in the manufacturing sector crosses 72 per cent in Q3FY22 from 68.3 per cent in the previous quarter and also pre-pandemic levels of 69.9 per cent in Q4FY20.
- ◆ New investment announcements in FY22, as per projects today, is all time high of around Rs 20 trillion, which is around 2x from the previous year. What is important to mention that announcements from Private sectors too has recorded an all-time high of Rs 13.6 trillion which is 2.5x from the previous year. With this the share of private investment announcement increased to around 70% in FY22 from around 40-50% during last couple of years.

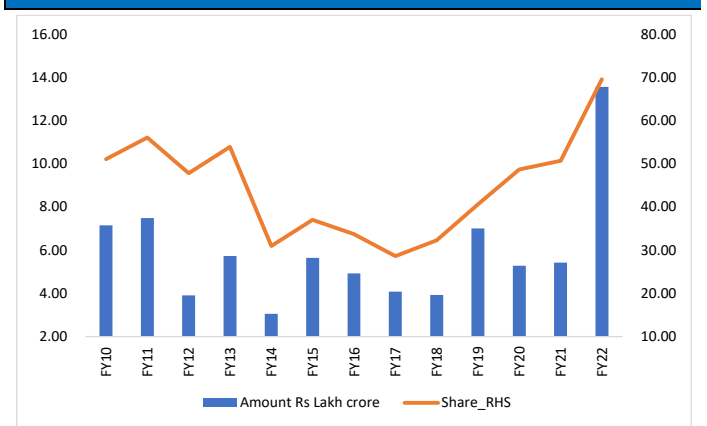
**NEW INVESTMENT ANNOUNCEMENTS SECTOR WISE FY22**

- ◆ Major sectors where new investment announcements seen includes Iron & Steel, Roadways, Basic Chemicals including Petrochemicals (Hydrocarbon), Drug & Pharma, Real Estate, Electronics, Automobiles, Power including renewable energy etc. Other sector includes Textiles, Power Distribution, Storage & Distribution, Pipelines, Food Products etc.

**IMPLEMENTATION RATIOS NEEDS TO CATCH UP WITH ANNOUNCEMENTS**

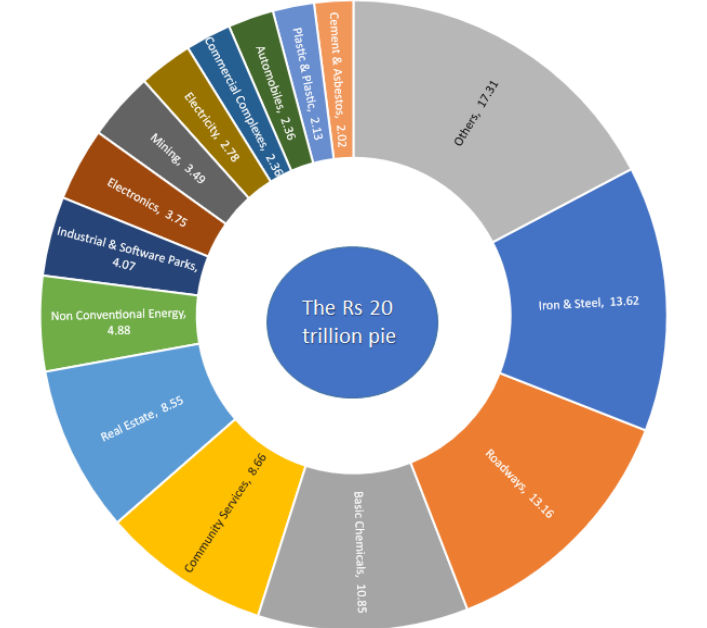
- ◆ Implementation ratios (Project investment Under Execution/Total\*100) which suggest the actual start of project implementation/execution of the project announced, is still low at 36.24 as of March'22, which means around 64% of the projects announced are still in planning stage only. Projects under executions includes under execution and partially completed stages.
- ◆ Higher implementation ratios suggest higher demand for credit as the project drawdown starts/ increases with the stages of project implementation. With the announcement from private sector at all time high coupled with PM Gati Shakti programme, which will break departmental silos, we expect the ratios to increase from here.  
(Implementation Ratio = Project investment Under Execution/Total\*100)

**New Investment Announcements by Private Sector and Share**



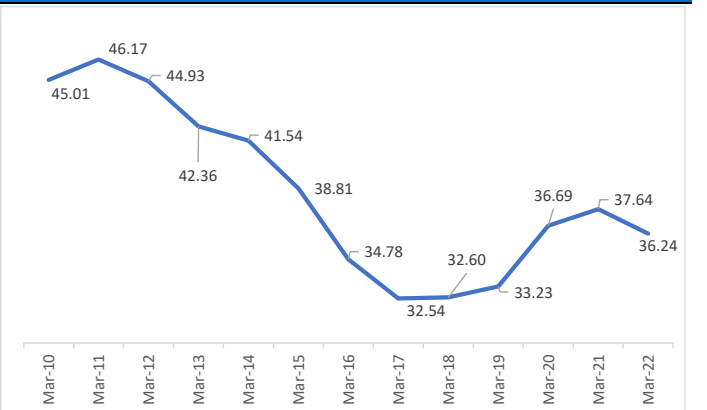
Source: Projects today; SBI Research

**New Investment Announcements Sector wise FY22—The Rs 20 trillion pie**



Source: Projects today; SBI Research

**Implementation Ratio**



Source: Projects today; SBI Research

**ROBUST CAPITAL MARKET**

- ◆ Indian corporates raised Rs 1.17 lakh crore equity through IPOs/FPOs in FY22 as compared to the previous year. This was nearly 3.5 times Rs 0.32 lakh crore raised through IPOs/FPOs in FY21 and 5.4 times of the in the year FY20 in which Rs 0.21 lakh crore was raised.
- ◆ Overall public equity fundraising in last two year, including IPOs/FPOs/QIP/InvITs/ReITs etc. is Rs 1.86 lakh crore and Rs 1.74 lakh crore in FY21 and FY22 respectively.
- ◆ IPOs from new age technology start-ups, strong retail participation and huge listing gains were the key highlights for the year in capital market. We expect, backed by increasing number of retail participation, capital market will keep the momentum in current year also.

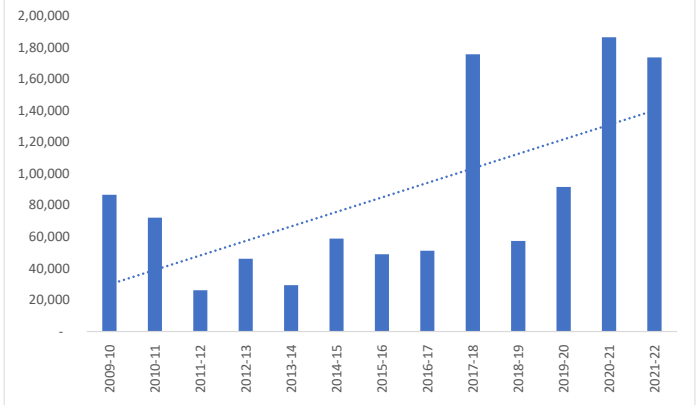
**CORPORATE BOND AND COMMERCIAL PAPER MARKET**

- ◆ Corporate bond market gradually gaining momentum, as outstanding corporate bond which was around Rs 20 lakh crore as of March'16 crossed Rs 40 lakh crore as of March'2022.
- ◆ Corporate bond primary issuances are around Rs 7-8 lakh crore a year, while through short term commercial papers, corporate raise around Rs 20 lakh crore every year.
- ◆ CP issuances increased by around 16% in FY22 to Rs 20.19 lakh crore from Rs 17.41 lakh crore in FY21. However, CP issuances in Q4FY22 declined by around 44% to Rs 3.61 lakh crore as compared to Rs 6.49 lakh crore in Q3FY22 as yield started inching up since last two months i.e. from 4.11% in January'22 to 4.54% in March'22. With increase in yield, corporate may restore to bank credit for their working capital needs from short term paper.

**OUTLOOK**

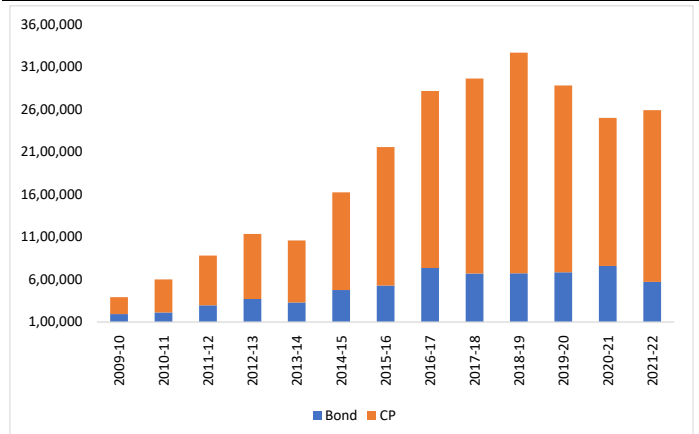
- ◆ As the project announcements in FY22 is at time high, once the execution pace will start momentum, we can see growth in credit demand particularly in longer term loans.
- ◆ As CP rates are going up, Corporates seems to be coming back to Banks for their working capital needs as Bank credit picks up, rise in inflation also will add to the working capital needs of corporates.
- ◆ We have seen several rounds of corporate deleveraging in the pandemic year and as capacity utilisation is also crossed 72% in Q3FY22, we feel corporates will start their next round of capex program once global uncertainty phases out.
- ◆ We believe favourable equity market always supplement credit, as it helps corporates to further leverage its capital/equity for balance sheet expansion and hence will contribute to credit growth in coming year.
- ◆ Further, National Infrastructure Pipeline (NIP) along with PM Gati Shakti, a transformative approach for economic growth and sustainable development with an aim to break departmental silos, will bring in more holistic and integrated planning which helps in speed up project execution.

**Equity raised through capital market**



Source: SBI Research; Primedatabase; including IPOs/FPOs/QIP/InvITs/ReITs etc.; Rs crore

**Bond and Commercial Paper Issuances**



Source: SBI Research; Primedatabase

- ◆ The approach is driven by seven engines, namely, roads, railways, airports, ports, mass transport, waterways, and logistics infrastructure.
- ◆ Major sectors which could drive the demand for credit includes Iron & Steel, Infrastructure including Road, Power including renewable energy etc., Basic Chemicals including Petrochemicals (Hydrocarbon), Electronics, Automobiles, Textiles, Power Distribution, Storage & Distribution, Pipelines etc.
- ◆ As corporate investment creates employability which in turn catalyst to retail demand for credit including for Housing, Vehicle, Personal loans etc., we expect robust credit demand and double-digit credit growth during FY23-25. However, with increase in input cost demand could moderate in mortgage space.

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