

Bank Credit Watch

January 2017

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Credit Growth Continues to be Muted

- Non-food credit growth has remained muted reflecting the challenging environment that banks are facing.
- The continued sluggishness in credit growth and the performance of banks in Q3 indicates that the demonetisation exercise has clearly dampened economic activity and thereby the demand for credit.
- As expected, deposit growth in the banking system has already accelerated post demonetisation with several implications;
    - Surplus banking system liquidity putting downward pressure on lending rates
    - A reduction in holdings of cash lowers currency leakage from the banking system, which should enhance credit creation by banks.
    - A rise in deposit base will allow banks to lower the marginal cost of funds as higher CASA deposits help to replace the high cost of borrowing and lower overall cost of funds.
- The new base rate setting mechanism of MCLR is designed to take into account the lower cost and will thereby lead to a decline in lending rates and improved transmission. This is already taking place as seen from announcements by various banks. However sustained pick up in credit growth will also require a meaningful reduction in NPAs which is expected to take time.
- 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.
- On a positive note banks have continued to get regulatory forbearance which has helped them weather the storm. The RBI has provided some breathing room by relaxing the capital treatment rules for core equity tier 1 capital (CET1) and more recently has expanded the type of available reserves that banks can use to service AT1 bonds.
- 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 3.5% y-o-y in January 2017 as compared with 9.8% during January 2016

Credit Growth by Sector*

- Credit to agriculture (13.9%) increased by 8.1% in January 2017, as compared to 13.4% increase in January 2016
- Credit to industry (39.1%) decreased by 5.1% in January 2017 as compared with increase of 5.6% in January 2016. Major sub-sectors which witnessed contraction of credit, were infrastructure, food processing, textiles and chemicals
- Credit to services sector (24%) increased by 8.1% in January 2017 higher than the 8.1% increase recorded in January 2016
- Personal loans (23.0%) increased by 12.9% in January 2017, lower than the 18.1% growth in January 2016.

Credit Deposit Ratio

- Deposit growth was 13.8% in January 2017 significantly higher than the 10.5% growth in January 2016. As expected deposit growth has been driven by demonetisation of high denomination notes.
- The credit deposit ratio stood at 71.4% and the incremental credit deposit ratio sunk to 33.9% compared with 76.5% and 78.8% in January 2016

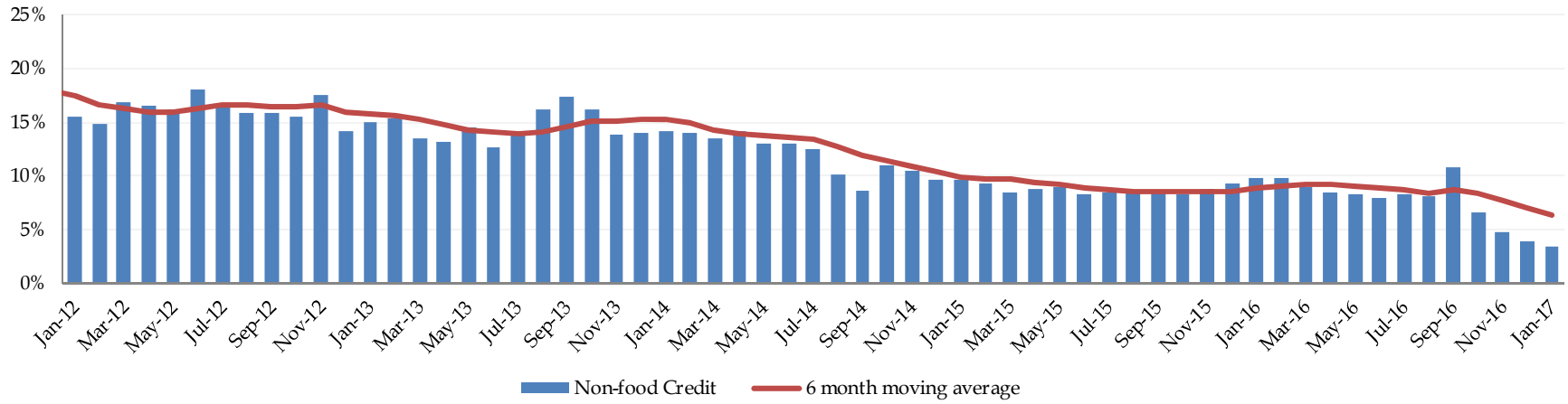
Credit Growth by Bank Group

- 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.

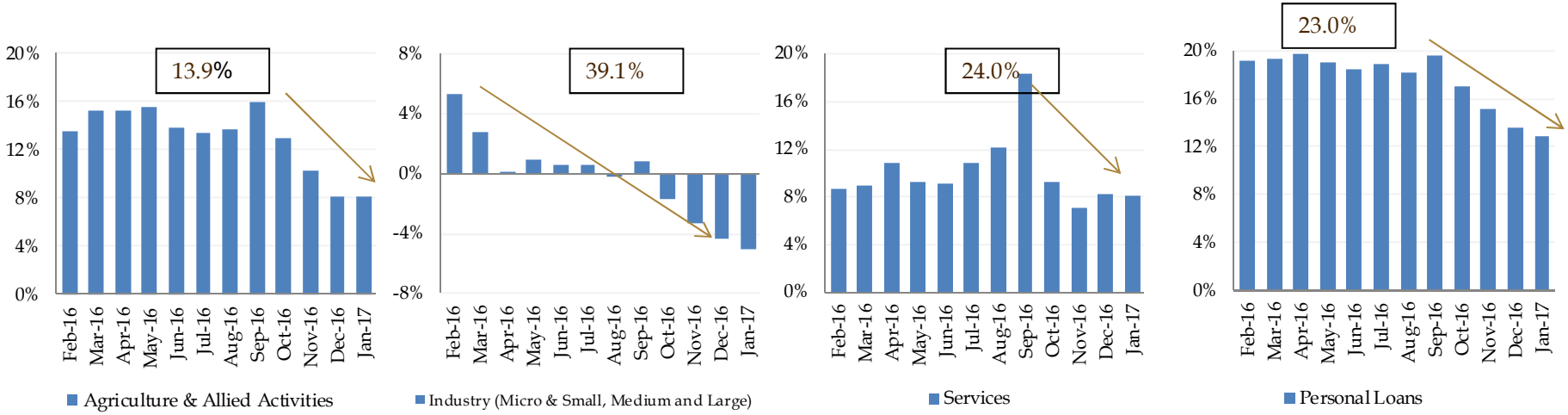
* Percentages in parenthesis refer to share of total non-food credit based on the latest available data

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

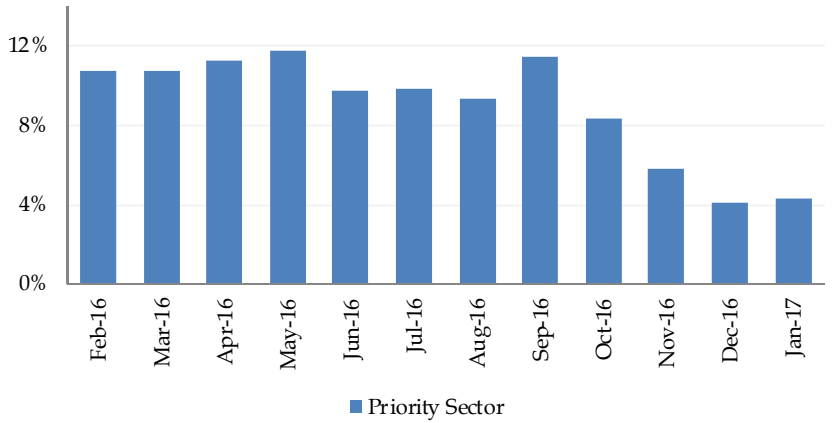
Source: RBI, Trust Research

Sector Share of Credit

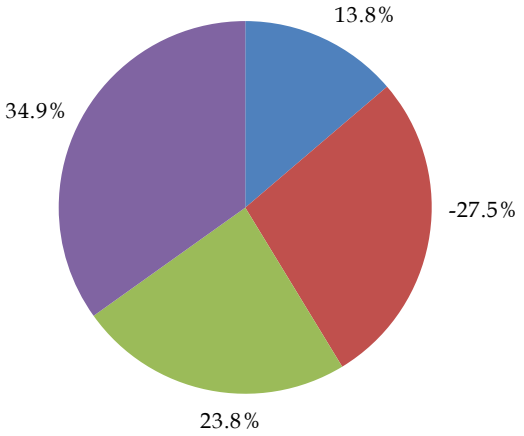
Sectoral Deployment of Credit (Rs B)

Sector	Outstanding as on			Variation (Y-oY)	
	23-Jan-2015	22-Jan-2016	20-Jan-2017	2015-16	2016-17
				%	%
Non-food Credit	58,253	63,981	66,228	9.8	3.5
Agriculture & Allied Activities	7,510	8,514	9,202	13.4	8.1
Industry	25,792	27,244	25,866	5.6	-5.1
Services	13,527	14,732	15,923	8.9	8.1
Personal Loans	11,425	13,491	15,236	18.1	12.9
Priority Sector	19,640	21,724	22,655	10.6	4.3

Priority Sector Growth

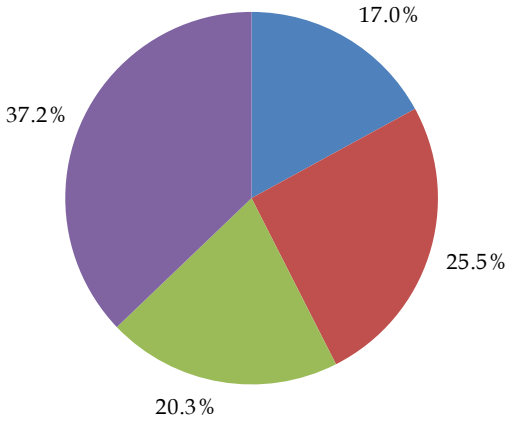


Share of Sectors in Incremental Credit Growth (Jan 2017)



Loans to industry have declined while services, have increased

Share of Sectors in Incremental Credit Growth (Jan 2016)

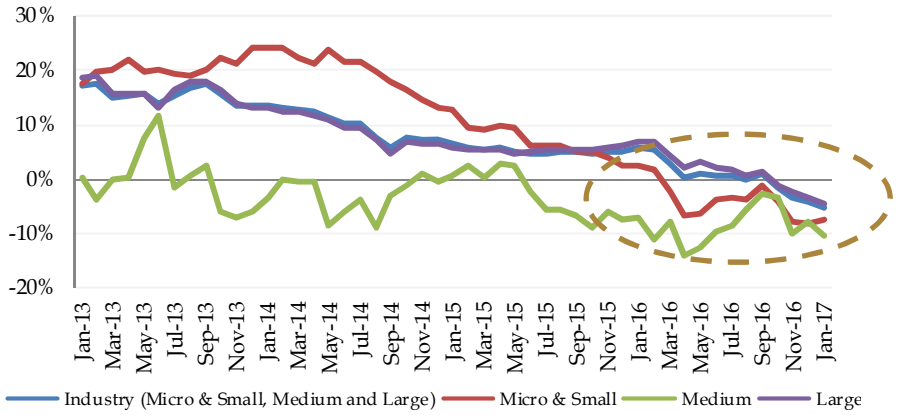


Agriculture & Allied Activities ■ Industry ■ Services ■ Personal Loans

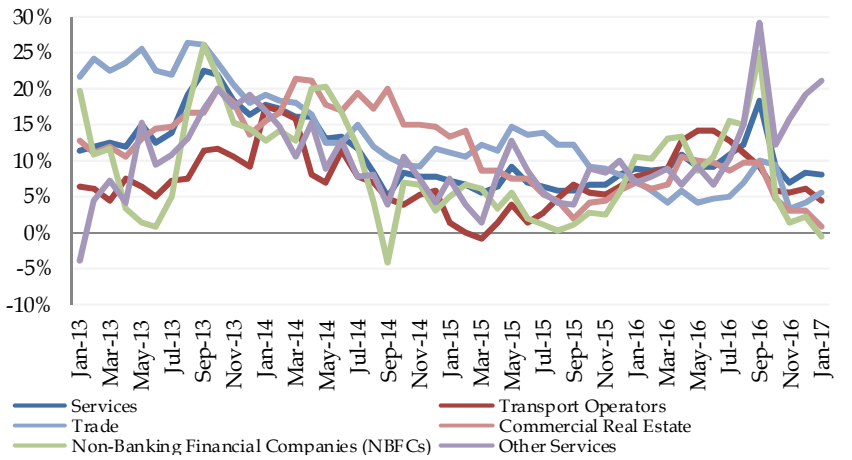
Source: RBI, Trust Research

Credit Growth Trends

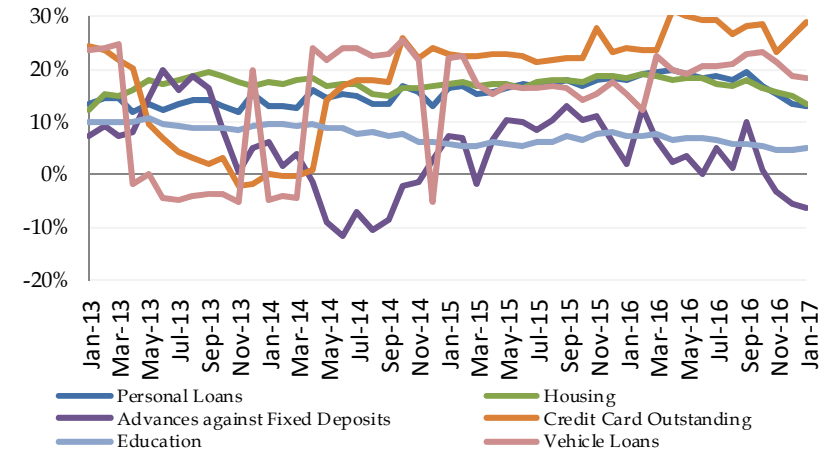
Industry Credit Growth



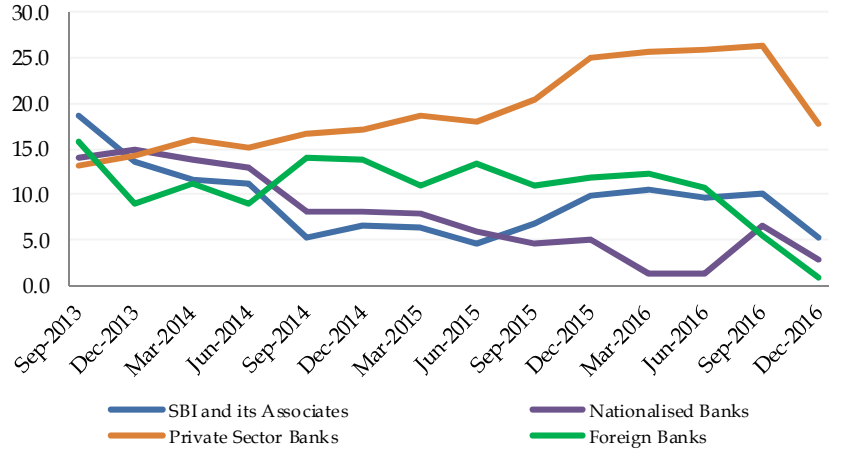
Services Sector Credit Growth



Personal Loans Credit Growth



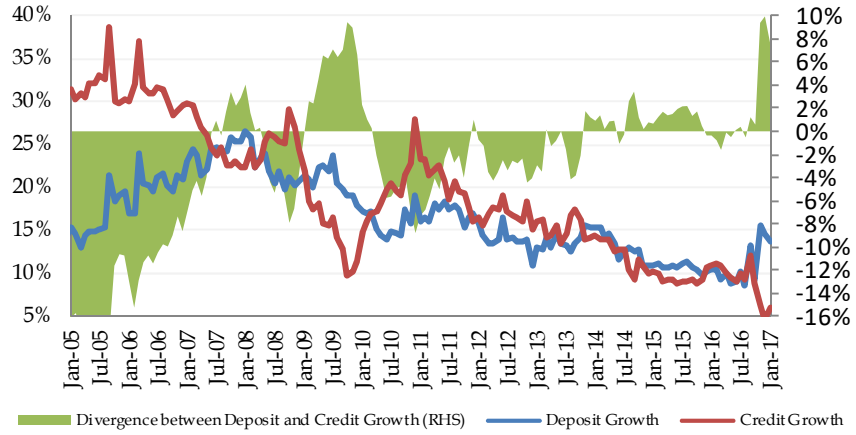
Bank Group Wise Credit Growth



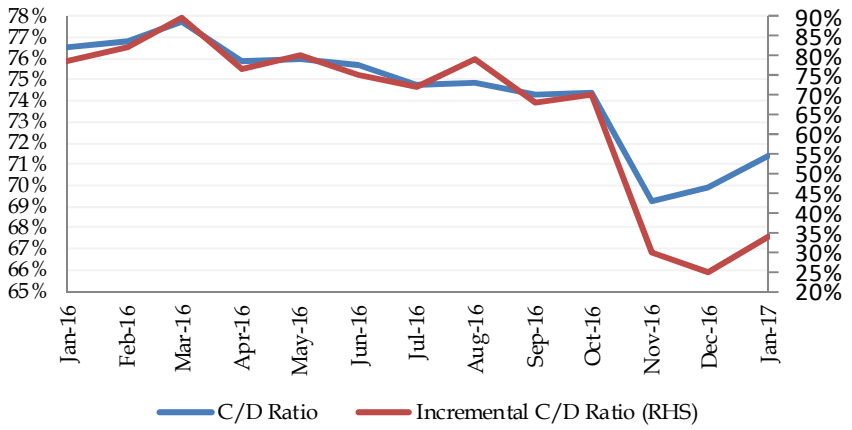
Source: RBI, Trust Research

Credit Deposit Ratio

Credit and Deposit Growth



Credit Deposit Ratio



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Thank You

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