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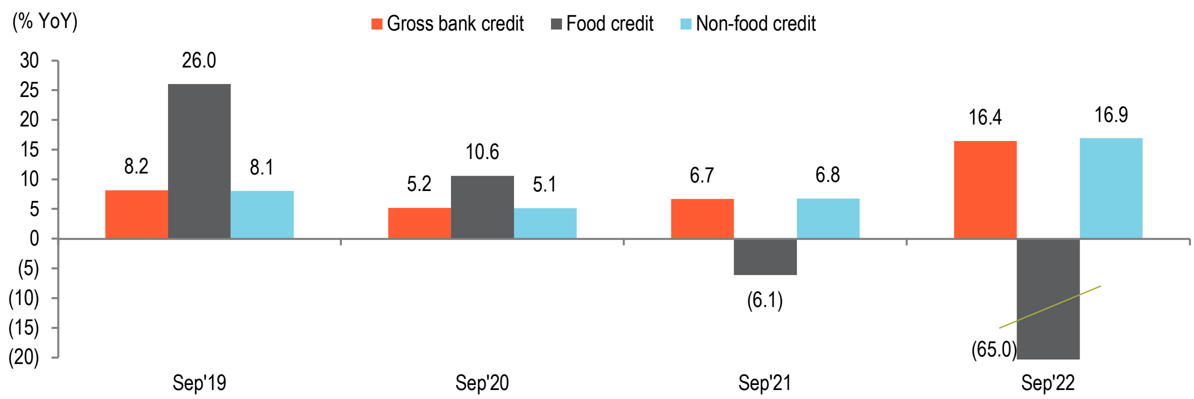
Sectoral deployment of credit

RBI has recently released its data on sector-wise credit growth till Sep'22. Data indicates that despite increase in lending rates (owing to RBI's rate hikes), credit growth remains robust. In YoY terms, it is higher even than pre-pandemic times (Sep'19), supported by higher non-food credit demand. Within this, credit to industry and services has picked up the most. Going forward, we expect credit demand to remain steady even as RBI continues to hike rates. While personal loan and services sector will be supported by pent-up consumption demand, credit to industry will be buoyed by improvement in investment climate.

Overall trends in credit growth:

Total bank credit rose by 16.4% on YoY basis as of Sep'22, compared with 6.7% growth as of Sep'21 and 8.2% as of Sep'19 (pre-pandemic). Even on FYTD basis, credit demand rose by 6.2% in H1FY23 from 0.1% in H1FY22 and H1FY20. During the financial year, sharp increase was witnessed in the non-food credit demand with growth at 16.9% as of Sep'22 (YoY) versus 6.8% as of Sep'21 and 8.1% as of Sep'19. On the other hand, food credit, given to FCI and state agencies for procurement of food grains, has seen a considerable decline this year.

Figure 1: Total credit demand

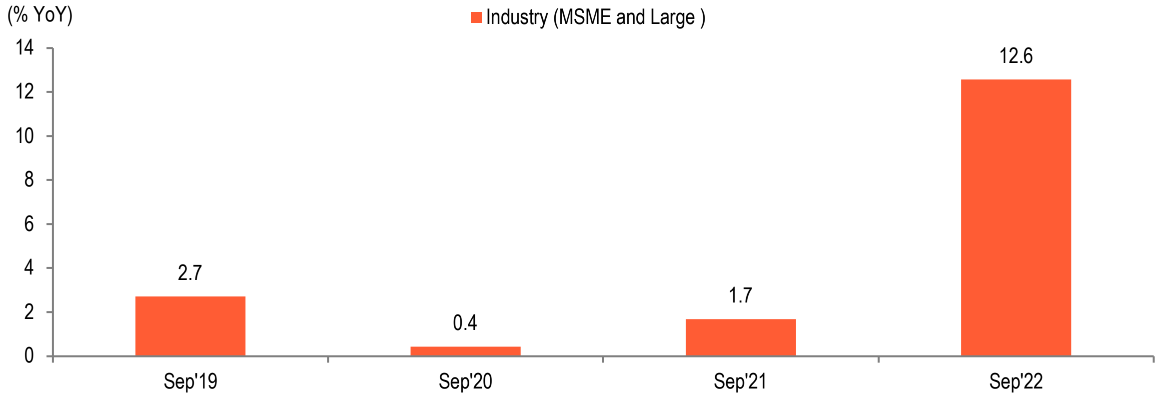


Source: RBI, Bank of Baroda Research

Credit to non-food sector:

Industry: Within the non-food sector, credit to industry and services has improved the most. Credit to industry has picked up by 12.6% as of Sep'22, compared with only 1.7% last year and 2.7% as of Sep'19. Apart from base effect, this has been supported largely by the MSME sector, wherein demand by micro and small firms was up by 27.1% versus 13.1% last year and following (-) 0.7% decline in Sep'19. Similar trend was observed for medium sized firms which recorded 36.2% growth in credit demand as of Sep'22, broadly similar to 37.1% as of Sep'21 and significantly up from (-) 0.3% decline during pre-pandemic period (Sep'19). Larger industries have also contributed to increased demand, as credit to this segment has risen by 7.9% from 3.4% as of Sep'19. On FYTD basis, overall credit to industry turned positive in H1FY23 for the first time since H1FY20.

Figure 2: Credit to industry



Source: RBI, Bank of Baroda Research

While credit to industry was at 12.6% for the first half of the year, it was not uniform across sectors. The segments which witnessed higher than 12.6% growth were wood products, petroleum products, chemicals (including fertilizers), rubber products and engineering goods. Growth was lower at 10.6% for metal products and 10.9% for infrastructure. The auto sector witnessed low growth of just 6%.

Services: Credit to services sector rose by 20% as of Sep'22, from 1.2% in Sep'21 and 7.3% as of Sep'19. While base affect remains at play this year, rebound in consumption demand return to pre-pandemic conditions is also factor contributing to revival in credit demand. Within the sector however there are deviating trends. While segments such as transport operators, tourism/hotels/restaurant, and commercial real estate are yet to see credit demand returning to pre-pandemic levels, segments such as computer software, professional services and trade have seen credit growth in Sep'22 far surpassing growth in Sep'19 (Table 1). On FYTD basis, like credit to industry, credit to services too has returned to positive territory in H1FY23 (6.8%), after declining for three consecutive years since H1FY20. Downturn to credit peaked in H1FY22, when credit to services was down by (-) 3.3% compared with (-) 1.1% decline in H1FY21 and (-) 2.2% decline in H1FY20.

Table 1: Trends in credit to services

Sectoral (% YoY)	Sep'19	Sep'20	Sep'21	Sep'22
Transport Operators	12.6	5.2	4.0	12.1
Computer Software	(2.3)	7.0	(1.7)	10.2
Tourism, Hotels and Restaurants	8.2	24.1	3.5	8.0
Shipping	(9.9)	(14.5)	34.8	(6.7)
Aviation	NA	4.7	12.2	(22.2)
Professional Services	6.1	(32.3)	-6.8	8.9
Trade	5.5	14.9	5.4	21.3
Commercial Real Estate	18.1	5.7	(1.9)	6.7
Non-Banking Financial Companies (NBFCs) of which,	30.5	9.8	(2.8)	30.6
Other Services	(14.8)	19.3	5.3	16.5

Source: RBI, Bank of Baroda Research

Personal loan: Credit growth in the personal loan segment has largely remained buoyant over the years and it rose by 19.6% (YoY) as of Sep'22 from 13.2% in Sep'21 and 16.6% during the pre-pandemic times (Sep'19). In this segment too varied performance is visible. Amongst the sub-sectors, while credit growth for consumer durables and housing (excl. priority sector) has not yet returned to pre-pandemic (Sep'19) levels, it has still picked up pace compared with last year. On the other hand, growth in advances against FDs, advances to individuals against shares/bonds, and education loans has reversed its declining trend and is running higher than Sep'19 levels. Vehicle loans have also gathered momentum.

Table 2: Trends in personal loan segment

Sectoral (% YoY)	Sep'19	Sep'20	Sep'21	Sep'22
Consumer Durables	68.8	14.9	50.8	60.7
Housing (Including Priority Sector Housing)	19.3	8.2	12.2	16.0
Advances against Fixed Deposits (Including FCNR (B), NRNR Deposits etc.)	(12.8)	(10.4)	12.7	34.0
Advances to Individuals against share, bonds, etc.	(19.1)	21.6	(19.2)	17.3
Credit Card Outstanding	25.9	7.1	11.3	27.2
Education	(1.3)	(4.4)	1.0	12.0
Vehicle Loans	4.1	6.0	11.4	19.9
Loans against gold jewelry	NA	42.3	54.4	11.8
Other Personal Loans	20.9	11.4	14.5	24.4

Source: RBI, Bank of Baroda Research

Conclusion:

From the latest data it is clear that RBI's 190bps hike in rates has so far not dented the credit demand. While a low base can be a part of the reason by credit growth seems solid this year in H1, the other key reasons return to pre-pandemic conditions and revival in demand. As our domestic demand is expected to remain fairly insulated from global growth slowdown, and with the onset of festive season (October to December), we believe credit demand to remain steady in H2 as well. Downside risks can emerge from impact on export demand if major economies enter into a recession and consumption demand inflation continues to remain elevated.

Appendix

Sectoral (%)	Apr-Sep'19	Apr-Sep'20	Apr-Sep'21	Apr-Sep'22
Agriculture and Allied Activities	1.5	3.4	3.6	6.8
Industry (MSME and Large)	(3.8)	(4.2)	(1.9)	2.7
Services	(2.2)	(1.1)	(3.3)	6.8
Personal Loans	6.1	0.6	3.1	9.5

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