

## **Banking sector update-Oct'24**

*RBI's monthly data showed a moderation in credit growth across sectors in Oct'24. At 11.5%, credit growth eased to a 31-month low. While industry credit picked up on a YoY basis, credit growth to retail and services sector moderated. RBI's regulatory crackdown on NBFC credit and unsecured lending was reflected in a slowdown in retail and services sector. Housing loans, vehicle loans and education loans also witnessed some slowdown. Going ahead, we can expect some pickup in credit growth as economic activity is expected to rebound. The government is also likely to step-up its capex spending in the remaining part of the year to meet its budgeted target, which will have a multiplier effect across industries. Hence, we can expect a revival in credit growth in the coming months. We expect credit growth in the range of 13-14% in FY25.*

### **Trends in sectoral credit growth:**

Growth in bank credit moderated sharply from 20% in Oct'23 to 11.5% in Oct'24. Even on a sequential basis, credit growth eased from 13% in Sep'24. Barring industry, credit growth slowed down across all sector in Oct'24 vis-à-vis Oct'23. Agriculture credit growth decelerated (15.5% in Oct'24 compared with 16.7% in Oct'23), but continued to grow in double-digits. However, credit growth to industry was higher at 7.9% in Oct'24 versus just 5.4% in the same period last year. Within industry, credit growth to medium and large industries noted a pickup on YoY basis. On the other hand, credit to micro and small enterprises dipped to 10% compared with 16.5% in Oct'23.

**Table 1: Credit growth across sectors in FY25**

Sector	Oct-23	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24
Non-Food Credit	20.1	19.1	19.8	17.4	13.7	13.6	13.0	11.5
Agriculture and Allied Activities	17.4	19.8	21.6	17.4	18.1	17.7	16.4	15.5
Industry	5.4	7.4	9.4	8.1	10.2	9.7	8.9	7.9
--Micro and Small	16.5	15.5	15.5	11.0	13.3	13.4	13.4	10.0
--Medium	12.0	13.3	15.5	12.6	17.2	19.2	20.5	19.6
--Large	2.1	4.7	7.1	6.9	8.6	7.7	6.5	6.0
Services	24.0	22.0	23.2	17.4	14.5	13.9	13.7	12.7
Personal Loans	29.6	26.7	28.7	25.6	13.9	13.9	13.4	12.9

Source: CEIC, Bank of Baroda Research

Within industry sectors which saw a sharp contraction in credit growth in Oct'24 include, ports (-20.1%), telecommunications (-12%), mining and quarrying (-6.3%), edible oils (-4.3%) and gems and jewellery (-3.2%). Credit to cement sector moderated sharply to 0.4% in Oct'24 versus 13.5% in Oct'23. However, credit to the construction sector remained steady at 7% in Oct'24.

### **Credit growth to services sector:**

Credit growth in the services sector also eased to 12.7% in Oct'24 from 24% in Oct'23. This was led by a sharp slowdown in credit to NBFCs which dipped to a 34-month low of 6.4% in Oct'24. This can be attributed to RBI's regulatory intervention in terms of increased risk weights on NBFC lending by banks. In fact, banks' credit growth to NBFCs has moderated sharply from a peak of 35.6% in Oct'22 to just 6.4% in Oct'24. On the other hand, certain segments of services such as shipping, computer software and professional services continued to see healthy demand for credit. Credit growth to the tourism and hotels segment also moderated on a YoY basis due to base effect.

**Table 2: Credit growth in the services sector**

Sector	Oct-23	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24
Services	24.0	22.0	23.2	17.4	14.5	13.9	13.7	12.7
--Transport Operators	22.9	19.5	23.7	18.7	19.7	18.1	17.0	15.0
--Computer Software	-1.8	-0.8	5.7	13.1	20.0	21.9	23.2	24.0
-- Tourism, Hotels and Restaurants	11.5	10.4	14.1	11.2	8.6	9.0	3.9	5.4
--Shipping	-11.1	2.4	5.1	-3.7	1.4	10.4	7.9	17.6
--Aviation	68.8	52.4	46.9	9.1	12.5	14.8	13.4	17.1
--Professional Services	19.3	23.4	27.9	14.7	16.8	16.9	16.7	21.6
--Trade	20.7	14.8	17.7	14.8	15.5	15.5	14.3	12.4
-Wholesale	20.6	16.3	18.3	15.1	15.0	17.8	17.6	14.4
-Retail	20.8	13.3	17.1	14.4	15.9	13.1	10.9	10.2
--Commercial Real Estate	42.2	42.2	45.3	40.7	10.8	13.1	12.5	13.9
--NBFCs	18.3	15.3	16.0	8.5	12.7	11.9	9.5	6.4
-HFCs	2.0	4.0	3.8	-1.6	0.6	3.4	5.1	-0.3
-PFIs	12.1	30.5	29.0	2.3	11.0	9.8	5.2	4.1
--Others	32.1	35.4	32.3	27.6	17.0	14.5	19.7	20.7

Source: CEIC, Bank of Baroda Research

### **Credit growth to retail sector:**

Mirroring the trend seen across sectors, retail credit growth also eased to 12.9% in Oct'24 from 29.6% in Oct'23. Within this segment, whereas the demand for unsecured lending through other personal loans/credit car outstanding has moderated, there has been a pickup in gold loans. In fact, advances against gold jewellery have increased from a mere 12% at the start of the fiscal year to 56.2% in Oct'24. While a part of this can be explained by higher gold prices, it is also likely that there has been some substitution from the unsecured segment, especially after RBI's regulatory crackdown in Nov'23. Higher inflation and an increase in living costs can also explain some part of the higher need for credit by households. Traditional segments of retail credit, such as education, housing and vehicle loans have witnessed a significant moderation in Oct'24.

**Table 3: Trends in credit to retail segment**

Sector	Oct-23	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24
<b>Personal Loans</b>	29.6	26.7	28.7	25.6	13.9	13.9	13.4	12.9
--Consumer Durables	7.6	11.0	15.0	7.6	11.3	10.1	8.6	6.6
--Housing	36.6	36.7	38.7	36.3	12.8	13.1	12.6	12.1
--Advances against FDs	17.0	7.8	10.1	4.0	8.9	8.4	9.4	10.9
--Advances against Share, Bonds, etc	-5.6	17.8	21.6	19.3	24.5	26.8	22.9	16.0
--Credit Card Outstanding	28.0	23.0	26.2	23.3	22.0	19.9	18.0	16.9
--Education	20.7	22.8	24.2	20.0	19.0	18.4	17.6	17.6
--Vehicle	20.0	16.9	17.9	14.9	14.0	13.9	13.3	11.4
--Loans against Gold Jewellery	13.1	12.0	29.7	30.5	39.0	40.9	51.0	56.2
--Others	25.5	18.0	19.3	15.2	12.8	12.5	11.4	10.9

Source: CEIC, Bank of Baroda Research

### **Movement in interest rates:**

There has been an increase in WALR across banks in Oct'24 vis-à-vis Sep'24, even as deposit rates have declined. For SCBs, the WALR has increased by 17bps to 9.54%, a 6-month high. This has been led majorly by PSBs which saw a 14bps increase in WLAR to 8.71%. For PVBs, the increase was modest at 4bps. However, PVBs continue to charge a higher WALR than PSBs. In FYTD25, WALR across banks has increased even as transmission of RBI's rate hike is still lagged.

**Table 4: Trends in credit to retail segment**

Rate on Fresh loans/deposits	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24
<b>WALR</b>							
--PSBs	8.85	8.60	8.46	8.55	8.60	8.57	8.71
--PVBs	10.13	10.13	10.31	10.34	10.19	10.33	10.35
--SCBs	9.55	9.39	9.32	9.40	9.41	9.37	9.54
<b>WADTDR</b>							
--PSBs	6.72	6.77	6.85	6.94	6.97	7.02	6.90
--PVBs	6.57	6.51	6.44	6.44	6.40	6.52	6.48
--SCBs	6.48	6.47	6.46	6.48	6.46	6.54	6.44

Source: RBI, Bank of Baroda Research

For deposit rates, there has been a decline in WADTDR on fresh rupee term deposits across banks in Oct'24 on a sequential basis. WADTDR for SCBs has declined by 10bps sequentially, led by PSBs which have noted a 12bps decline. On the other hand, PVBs have only lowered the WADTDR by 4bps to 6.48%. In FYTD25, there has been an 18bps reduction in SCBs' WADTDR, led by PVBs (lower by 13bps). On the other hand, PSBs have only lowered WADTDR by 7bps. However, in terms of transmission of rate hikes, the transmission is complete for PSBs, even as PVBs have been lagging.

### **Concluding remarks:**

The slowdown in credit growth reflects a moderation in economic activity. However, we expect a pickup in growth in the next few months. Festive demand and a pickup in government capex are likely to fuel the economic recovery in H2 FY25. Consumption demand is also likely to improve as

inflation recedes. Overall, we expect credit growth in the range of 13-14% in FY25 compared with 20.2% in FY24.

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