

FIRST LIGHT

28 February 2023

RESEARCH

BOB ECONOMICS RESEARCH | CREDIT TRENDS

Is credit growth tapering off?

SUMMARY

INDIA ECONOMICS: CREDIT TRENDS

Credit growth in India has seen a sharp revival in FY23. On a YoY basis, from just 9.9% at the start of Apr'22, credit growth picked up pace and peaked at 17.8% in Oct'22. This coincided with the festive season where the pent up demand for both goods and services showed. Thereafter, there were some signs of moderation with growth in credit eventually decelerating to 14.9% in the last fortnight of Dec'22. While there has been some revival in credit growth since then, it does beget the question of whether trend is sustainable. The RBI has been increasing the repo rate which has been transmitted to a large extent in lending rates. The main goal of increasing the repo rate is to slow down the pace of activity to control inflation. In this study, we analyze the trends in credit growth this year and its main drivers.

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

Daily macro indicators

Ticker	23-Feb	24-Feb	Chg (%)
US 10Y yield (%)	3.88	3.94	7bps
India 10Y yield (%)	7.39	7.42	3bps
USD/INR	82.74	82.75	0.0
Brent Crude (US\$/bbl)	82.2	83.2	1.2
Dow	33,154	32,817	(1.0)
Hang Seng	20,351	20,010	(1.7)
Sensex	59,606	59,464	(0.2)
India FII (US\$ mn)	22-Feb	23-Feb	Chg (\$ mn)
FII-D	85.9	13.0	(72.8)
FII-E	(7.5)	(120.7)	(113.3)

Source: Bank of Baroda Economics Research

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CREDIT TRENDS

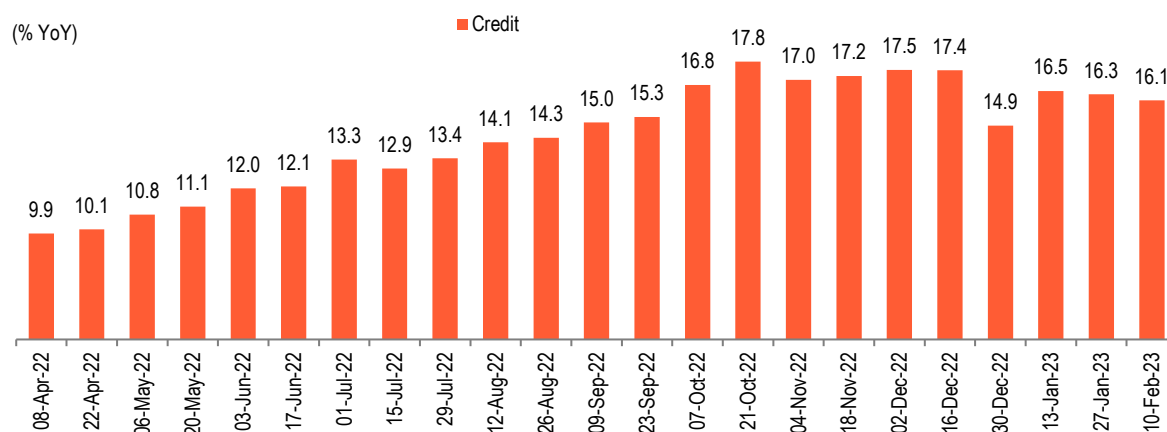
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Is credit growth tapering off?

Aditi Gupta
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Figure 1: Credit growth has been robust



Source: CMIE, Bank of Baroda Research | Fortnightly data as of 10 Feb 2023

Figure 1 provides trends in growth in credit on a y-o-y basis for all the fortnights of the year. The trend has been upwards in the growth rate which peaked in October and then remained in the 17-18% range for the next 4 fortnights before coming down to 14.9% in the last fortnight of December. Subsequently there has been a recovery to the 16-17% range though the growth rate has been coming down. In a way policy has slowed down the growth in credit though not in a commensurate manner.

Credit growth in FY23 has been driven by increased credit demand in the personal loans and services segment (Figure 2). Demand for agricultural credit has also shown traction. On the other hand, credit to industry though improving, has remained muted as credit demand has moderated sharply from 13% in Nov'22 to 8.7% in Dec'22. Retail credit which has been driving majority of credit growth this year, has continued to accelerate and registered a solid growth of 20% YoY in Dec'22 as well. Credit growth from the services sector despite moderating a bit in Dec'22, continues to grow at a robust pace.



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BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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