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# Bank lending finds a big boost in shadow banks

BY [ATMADIP RAY](#), ET BUREAU | MAR 20, 2019, 08.38 PM IST

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KOLKATA: The growth in [bank](#) credit has a veritable non-bank link.

Non-banking finance companies' (NBFC) dependence on bank credit has grown a massive 48% year-on-year till January, reflecting a shift in focus from money markets to banks for funds amid tighter liquidity condition.

This is the highest growth in any loan segment reported by banks, while credit to manufacturing fell 0.7%, according to [Reserve Bank of India](#) data. Personal loans to buy consumer durables suffered a 75% plunge. Overall bank lending has grown 14.6% year-on-year.

"The recent liquidity issues have increased the cost of raising funds for [NBFCs](#) from the market. This has also been cited as one of the reasons for NBFCs shifting from the corporate bond market to banks for their financing needs," [CARE Ratings](#) said in a report.

At the end of January 18, bank loans to NBFCs stood at Rs 557,600 crore as against Rs 376,000 crore a year ago. On April-to-January basis, the growth was recorded at 12%, compared with a 3.8% fall a year ago.

This was despite the fact that lending to NBFCs slowed in October as several banks had gone into a shell following the IL&FS crisis.

Banks had, however, offered support to the shadow-banking entities by purchasing their loan portfolio in securitisation deals to help them tide over in liquidity mismatches after the crisis. Securitisation of loans is not considered as exposure to NBFCs, but to the specific sectors where the original loans belong.

CARE Ratings said that although the cost of borrowing dipped between October 2018 and February 2019, there has been an increase in borrowing costs across all categories (barring housing finance companies) during February vis-à-vis January 2019. The 10-year average G-sec yields rose to 7.37% in February from an average of 7.35% in the preceding month.

"This could be one of the reasons for cost of borrowings not coming down for the corporates as the G-sec rates have remained more or less unchanged at best," the rating company said.

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