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Market Watch

Bank credit growth continues to be tepid

BY [GAYATRI NAYAK](#), ET BUREAU | FEB 27, 2020, 10.15 PM IST[Post a Comment](#)

MUMBAI: [Bank credit](#) growth continues to be tepid as the slowdown continue to grip the economy. The latest numbers released by the Reserve Bank of India show that loans grew by just 6.3 per cent year-on-year during the latest fortnight ended February 14. The fiscal year is expected to end with a credit growth of 6-7 per cent, which will be the lowest in 58 years.

Total bank credit amounted to Rs 100.4 lakh crore, up 6.3 per cent (year-on-year), according to the latest figures released by the [Reserve Bank of India](#). Incrementally credit was contracting until September. Several government initiatives pushed the growth rate in the positive zone subsequently. But it has failed to see the double digit growth of the past several years.

A shift of large borrowers such as non-banking financial companies (NBFCs) and [housing finance companies](#) (HFCs) to the banking system for their funding requirements, had boosted bank credit growth in FY2019. However, factors such as muted economic growth, lower working capital requirements, as well as risk aversion among lenders, have compressed the incremental credit growth in FY2020, according to ratings firm [Icra](#) in a recent note. Icra has fore cast FY'20 growth at 6.5 to 7 per cent.

Incremental net domestic credit this fiscal up to December 2019 is just a fifth of what it was a year ago according to ratings form [Crisil](#). Lending to the retail segment and non-banking financial companies (NBFCs) showed good growth, while credit to corporates (ex-NBFC) and micro, small, and medium enterprises (MSME) declined.

Crisil has estimated that credit growth may touch 6 per cent this fiscal. But it adds that the prolonged slowdown in [bank lending](#) may be

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bottoming out this fiscal, with gross credit offtake set to rise 8-9% on-year in fiscal 2021, a good 200-300 basis points (bps) over the likely growth of ~6% this fiscal, it said in a research note released earlier this week. As for this fiscal, some growth momentum is expected in the fourth quarter, after a subdued three quarters – due to traditional fiscal year ending growth, it said.

A gradual pick-up in economic activity, continuing demand for retail loans, and strong growth in lending by private sector banks should drive the uptick. Recent policy moves announced in the Union Budget, and by the Reserve Bank of India (RBI) are also expected to provide spur.

RBI's move to exempt banks from cash reserve ratio (CRR) requirement for incremental credit to certain sectors for up to five years, will also support lending, Crisil said.

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