

**ASSOCHAM**

**ECO**

**PULSE**

Credit Growth in Second Quarter

**November 2007**

## **High interest compel credit growth to slowdown in second quarter, says AEP**

High interest rate regime has not only impacted the growth of loans and advances extended by the commercial banks but has also dented the rate at which banks were able to improve their asset quality by cutting NPAs level, an Assocham Eco Pulse Study (AEP) has said.

The AEP Study based on the second quarter results announced by nine major commercial banks in FY2007-08 and FY2006-07, has shown that the average growth in advances extended by these banks has slowed down to 45 per cent in Q2 of FY08 as against the 53 per cent growth recorded in the corresponding period of the previous year.

“The decline in the credit growth, evident from the AEP analysis of quarterly results of the banks, remains one of the major factors responsible for the slowdown in industrial production in second quarter of this fiscal”, said Mr. Venugopal Dhoot, President, Assocham.

He further said that the consumer goods and consumer durable industry which is highly dependent on bank credit for production activities has taken maximum hit. The average monthly growth during July-September period in consumer goods sector has reduced at an alarming rate from 14.6 per cent in FY06-07 to 1.7 per cent this year. Growth in Durable goods production has slowed from 15.6 per cent in second quarter of previous fiscal to 5.6 per cent in the current year.

Though the commercial banks have significantly reduced their credit disbursements during the first half of this fiscal, the pace of asset quality improvement of the banks is hurt. Average decline in NPAs of the major SCBs is 8 per cent in the second quarter of FY 2007-08 as compared to 25 per cent reduction in NPAs in Q2 of the previous financial year.

In view of the tight monetary policy followed by the Central Bank, the State Bank of India and the ICICI Bank, two largest banks have seen a sharp decline in credit growth in the second quarter. Growth in advances of SBI and ICICI Bank has reduced to 33 per cent and 26 per cent in three month period of July-September 08 as compared to 45 per cent growth recorded by both the banks during the corresponding period of last year.

The AEP stated that whereas the gross advances of the nine banks at 6 lakh crore increased by 40 per cent in the second quarter of fiscal FY06-07, the growth was lower at 30 per cent in Q2 of current fiscal with aggregate advances at 8 lakh crore.

Consumer credit disbursement witnessed a slowdown this fiscal. In the current fiscal, it is growing in the range between five and ten per cent as compared to thirty and forty per cent in the past five years. One of the primary reasons for this slowdown in the credit growth could be the interest rate hike. Interest rates in India have risen by about 400 basis points since 2006, as a result of the Reserve Bank of India's measure to curb inflationary pressures in the economy.

IDBI bank has registered a slowdown in advances growth from 17 per cent in the Q2 of previous year to 14.8 per cent in second quarter this year. The credit growth of Axis (UTI) Bank slowed from 58 per cent to 50 per cent.

(in Rs. Crore)

PARAMETERS	ADVANCES					
	30 <sup>th</sup> Sep.07-08	30 <sup>th</sup> Sep.06-07	Change (in per cent)	30 <sup>th</sup> Sep.06- 07	30 <sup>th</sup> Sep.05- 06	Change (in per cent)
Centurion Bank of Punjab	13984.90	8385.00	66.78	8385	5113.00	63.99
HDFC Bank	62278.04	42779.33	45.58	42779	31705.00	34.93
ICICI Bank	207121.07	155403.49	33.28	155403	107071	45.14
IDBI Bank	62353.00	54309.00	14.81	54309	46413	17.01
ING Vysya Bank	12565.00	10041.00	25.14	10041	9368	7.18
UTI (AXIS) Bank	44701.00	29121.00	53.50	29121	18431	58
Yes Bank	7515.90	3730.50	101.47	3730.5	1346.4	177.07
State Bank of India	363591.00	288078.00	26.21	288078	198674	45
Vijaya Bank	26811.00	19629.00	36.59	19629	15608	25.76

ICICI Bank topped the list in increasing its NPAs by 40 per cent in Q2 of the current fiscal as against a drop of 10 per cent in the corresponding period in the previous year. Others in the pack include Centurion Bank of Punjab with a rise of 18.66 per cent in the second quarter of FY2007-08 as against a reduction of as much as 50 per cent a year earlier.

State Bank of India registered a decline of meager 2.40 per cent this fiscal against 26 per cent in the corresponding period last year. Vijaya Bank too recorded a decline of 22.81 per cent in the Q2 of FY 2007-08 as compared to a decline of 41.24 per cent a year earlier.

The possible reasons for the diminishing asset quality could be that the markets are buoyant and excessive optimism reigns and customers are misguided into overstressing themselves. The race for market share among banks who feel compelled to justify the high market capitalisation may also contribute to a phenomenon of rising bad loans.