

Retail, MSMEs push credit growth rate to near double-digits

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Written by [George Mathew](#) | Mumbai |
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Credit growth to micro and small industries accelerated to 19.9 per cent to Rs 4.84 lakh crore from 3.1 per cent and credit to large industries recorded a marginal growth of 0.5 per cent against a contraction of 0.6 per cent during the same period. (File)

Credit growth in the banking sector is set to hit the double digits with offtake by borrowers rising by 9.6 per cent as on March 25, 2022, signalling the economy could be showing signs of a comeback on the back of a big capital expenditure push by the government. With Covid pandemic hitting the economy, credit growth had dipped to 5.6 per cent in the same period last year, according to the latest Reserve Bank data.

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The last fortnight of March 2022 witnessed credit offtake of Rs 1.78 lakh crore. Normally the last fortnight of the financial year shows substantial rise in growth as banks release the credit in the last few weeks of the fiscal, said a senior banker. Further, the RBI decision to keep the main policy rate – repo, the interest rate at which it lends to commercial banks – at four per cent is expected to boost lending activity. “Investment activity may gain traction with improving business confidence, pick up in bank credit, continuing support from government capex and congenial financial conditions,” RBI Governor Shaktikanta Das said while unveiling the monetary policy last week.

The central bank said credit to agriculture and allied activities continued to perform well, registering an accelerated growth of 10.4 per cent to Rs 14.48 lakh crore as of February 2022 as compared to 8.6 per cent growth in February 2021. Credit growth to industry accelerated to 6.5 per cent in February 2022 from 1 per cent in February 2021. Size-wise, credit to medium industries registered high growth of 71.4 per cent to Rs 2.35 lakh crore in February 2022 as compared to 30.6 per cent last year as the Emergency Credit Line Guarantee Scheme (ECLGS) was introduced as a part of the government’s Covid-19 financial relief package.

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Credit card outstanding increased by 9.9 per cent to Rs 1.44 lakh crore from 6.8 per cent last year as consumer spending rose with the ebbing of the pandemic. Vehicle loans rose 10.3 per cent to Rs 3.29 lakh crore from 7.5 per cent growth last year.

However, gold loan growth came down to 26.2 per cent at Rs 71,408 crore from 75.9 per cent growth last year when households pledged gold jewellery to meet healthcare and other expenses.

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“The loans linked to MCLR are likely to enjoy the ultra-low rates for an extended period, making the environment conducive for reviving and fostering demand. Though there are expectations of upward pressure to emerge in the coming months with expectations of rate hike as early as Q1FY23,” a Bank of Baroda official said.

According to an ICICI Securities report, March quarter being seasonally strong in terms of disbursements and impact of third wave of pandemic being minimal, we believe after two years we would witness full-fledged business activity in the fourth quarter of FY22. Operational numbers should also show improvement with various parameters like asset quality, margins, etc, witnessing improvement.

Advances growth is expected to be driven by retail and MSME segments as they have been in the past few quarters. However, corporate loans, which used to be a negative drag on overall industry credit growth have started moving in the positive territory. Overall retail and MSME focused lenders (banks, NBFCs) should do well while the MFI segment should see better collections with a revival in economic activity.

Suman Chowdhury, Chief Analytical Officer, Acuité Ratings & Research, said, “ECLGS has not only pushed up credit growth in the medium enterprise category but has certainly helped in alleviating the financial stress in the MSME segment during the pandemic. In our ratings portfolio, we have noted that over 50% of the rated companies with a turnover of less than Rs 250 crore have availed the ECLGS facility. This has helped to ease the liquidity scenario for MSMEs apart from lowering the cost of borrowings to an extent.”

Further extension of ECLGS till March 2023 with an aggregate coverage of Rs five lakh crore, with an increased guarantee cover Rs 50,000 crore for the hospitality sector announced in the Union Budget FY23, will help meet the working capital requirement of small to midsize businesses. On a sectoral basis, some big-ticket disbursements have started to be visible in industries such as textiles, petroleum, chemicals, electronics, and infrastructure, especially roads and airports.

The government’s thrust on capital expenditure coupled with initiatives such as the production linked incentive (PLI) scheme should bolster private investment activity, amidst improving capacity utilisation, deleveraged corporate balance sheets, higher offtake of bank credit and congenial financial conditions, the RBI’s Monetary Policy Committee said last week.