ECOWRAP

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'Be the Bank of Choice for a Transforming India'

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CREDIT TO MICRO ENTERPRISES INCREASED POST GST

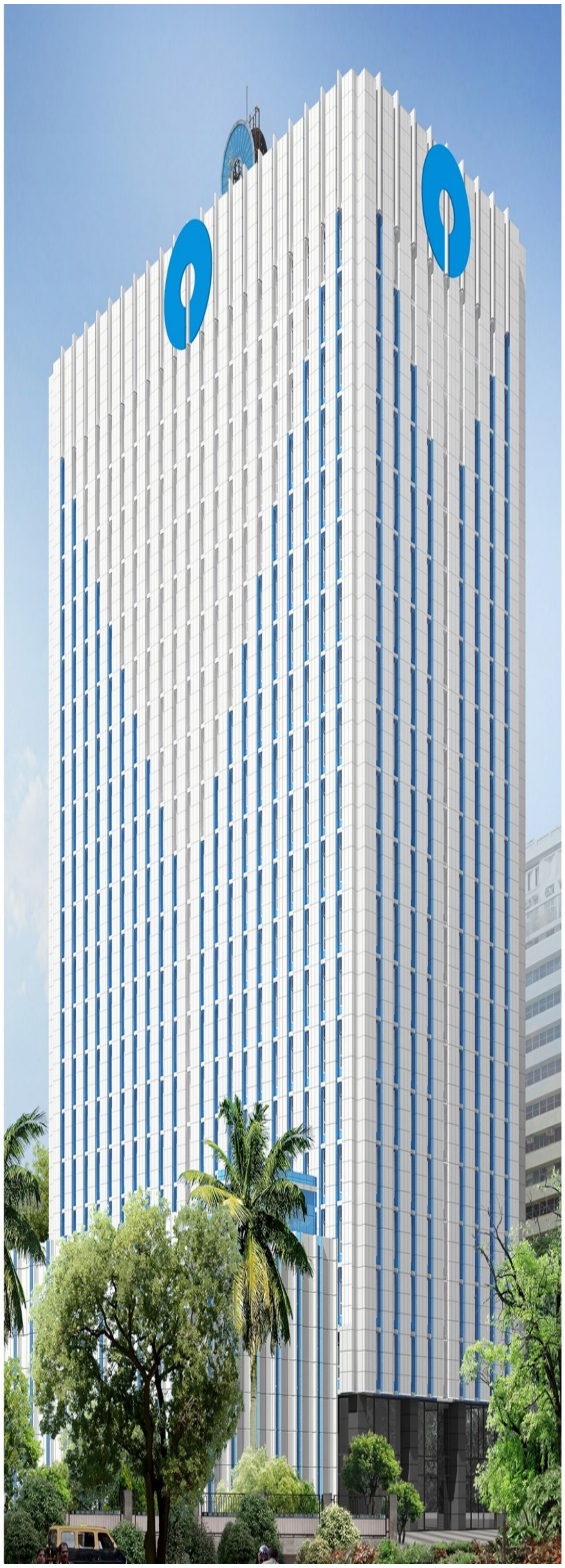
Even as the hullabaloo over the recent jump in credit growth continues, the latest sectoral credit data indicates that that the m-o-m incremental non-food (NF) credit growth in Oct'18 has declined significantly from Sep'18. The good thing is that the decline in incremental credit growth is seasonal and may not still be a matter of concern as the positive growth is still a departure from the negative growth in FY18 and FY17 after a big jump in September (such big jumps in either direction could be troublesome as it can be unsustainable). However, on the flip side, the decline in credit growth needs to be seen (1) against the backdrop of a weak Q2GDP number and (2) the continued slowdown in sale of automotive segments in November and (3) as well as a slowdown in retail loan in October.

Further, contrary to market observations (55% y-o-y jump in credit to NBFC), more relevant is credit growth rate on an incremental basis to NBFC that has jumped by 23.6% in Sep'18, but it is much lower against 49.5% in Sep'17. The positive thing however is incremental credit to NBFCs has continued to expand in October 2018 as against a negative Oct incremental credit growth in FY18 & FY17.

The myth is however regarding the credit growth to Micro and Small Enterprises (MSEs). Interestingly, the credit growth to Micro & Small Enterprises (MSEs) is quite stupendous post-GST. For the fifteen month period ended post GST, the incremental credit to MSEs (under priority sector) has increased by 5 times to Rs 1.23 lakh crores compared to Rs 25,700 crores during corresponding period pre-GST. The deceleration in credit in pre-GST period was partly due to overall slowdown in economic activity, rising NPAs and reclassification of food and agro-processing units from MSME category to agriculture sector (as per the revised priority sector lending guidelines, 2015).

The jump in credit to MSE sector bodes well regarding the formalization of the Indian economy and hence the ensuing benefits. According to International Finance Corporation (IFC) estimates, the potential demand for India's MSME finance is about US$ 370 billion as against the current credit supply of US$ 139 billion, resulting in a finance gap of US$ 230 billion. Hence much needs to be done.

Even as credit growth still remains in comfort territory though slowing down, we are now more concerned over a growth slowdown. We now cut our FY19 GDP forecast for FY19 to 7.2% from 7.4% earlier. We believe, the repo rate hike by RBI in conjunction with the recent surge in oil prices and liquidity deficit may have shortened the monetary policy lag on consumption growth, which has slowed down significantly in Q2FY19.



THE MANY FACETS OF CREDIT GROWTH

- The latest sectoral credit data indicates that that the m-o-m incremental non-food (NF) credit growth in Oct’18 has declined to Rs 251 billion from Rs 2071 billion in Sep’18. The decline in incremental credit growth may not still be a matter of concern, as the positive growth is still a departure from the negative growth in FY18 and FY17 after a big jump in September. However, the decline in credit growth needs to be seen (1) against the backdrop of a weak Q2GDP number and (2) the continued slowdown in sale of automotive segments in November as well as a slowdown in retail loan (it indeed slowed down in FY18 and FY17 when credit growth turned out to be weak) and (3) in some years October credit growth has been (much) higher/ equivalent to / than September, though it is difficult to establish whether this has any definitive trends on year end credit numbers.
- Further, contrary to popular perception, credit growth rate on an incremental basis to NBFC has jumped by 23.6% / Rs 565 billion though in Sep’18. However, in September 17, it had increased by much faster pace at 49.5% to Rs 457 billion. Hence high incremental credit growth in Sep month was more broad-based. The positive thing is incremental credit to NBFCs has continued to expand in October 2018 as against a negative October incremental credit growth in FY18 and FY17.

ASCBs Sector-wise Incremental Credit growth (MoM Variation in Rs bn)									
Year	Non-food Credit			Credit to NBFCs			Personal Loans		
	Sep	Oct	Nov	Sep	Oct	Nov	Sep	Oct	Nov
FY19	2071	251	...	565	160	...	275	186	...
FY18	2553	-1086	561	457	-247	-12	693	-100	183
FY17	2040	-1316	-877	306	-356	-180	453	25	-10
FY16	437	1111	299	12	223	-59	218	310	190
FY15	285	1186	29	-15	173	-48	117	362	65
FY14	1037	-95	295	236	-159	-40	94	52	133
FY13	426	362	1171	22	-43	93	69	149	208
FY12	358	413	342	75	37	102	58	46	-18
FY11	599	473	689	130	54	34	174	84	116
FY10	706	-68	289	48	-22	-11	18	-77	57
Source: RBI & SBI Research									

CREDIT TO MSE SECTOR POST-GST

- The myth is however regarding the credit growth to Micro and Small Enterprises (MSEs). Interestingly, the credit growth to Micro & Small Enterprises (MSEs) is quite stupendous post-GST. For the fifteen month period ended post GST, the incremental credit to MSEs (under priority sector) has increased by 5 times to Rs 1.23 lakh crores compared to Rs 25,700 crores during corresponding period pre-GST. Such a large jump indicates that post GST a significant segment of MSEs are now able to tap the banks for credit.
- The deceleration in credit in pre-GST was partly due to overall slowdown in economic activity, rising NPAs and reclassification of food and agro-processing units from MSME category to agriculture sector (as per the revised priority sector lending guidelines, 2015).
- Further, the share of NBFCs in MSME credit is increasing and is around 10% now.
- According to International Finance Corporation (IFC) estimates, the potential demand for India’s MSME finance is about US$ 370 billion as against the current credit supply of US$ 139 billion, resulting in a finance gap of US$ 230 billion in comparison to a finance gap of US$ 5.2 trillion for the group of developing countries.

Incremental MSEs Credit growth under Priority Sector (MoM Variation in Rs bn)				
Month	FY16	FY17	FY18	FY19
Apr	-342	-26	-271	-438
May	448	31	-21	-23
Jun	-64	15	5	69
Jul	-71	7	-7	145
Aug	-57	-109	15	165
Sep	206	351	338	64
Oct	77	-276	-213	16
Nov	-96	-267	87	-
Dec	178	-6	112	
Jan	63	121	95	
Feb	35	122	15	
Mar	96	582	788	
Memo:				
Total credit in 15 Months Pre-GST (Apr'16 to Jun'17)				257
Total credit in 15 Months Post-GST (Aug'17 to Oct'18)				1236
Source: RBI & SBI Research				

ABOUT US

The Economic Research Department (ERD) in SBI Corporate Centre is the successor to the Economic and Statistical Research Department (E&SRD). The latter came into being in 1956, immediately after the State Bank of India was formed, with the objective of "tendering technical advice to the management on economic and financial problems in which the Bank has interest and which required expert analysis".

After the first reorganization of the Bank, when specialized departments like Management Science, Management Information Systems, Planning and Market Segment Departments took over the statistical work of E&SRD, the Department was renamed as ERD.

However, with the ERD team now taking on multidimensional functionalities in the area of risk management , corporate analytics, strategy and so on, who knows, the time may have come to rename it again!

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CONTACT DETAILS

Dr. Soumya Kanti Ghosh
Group Chief Economic Adviser
State Bank of India
Corporate Centre
Madam Cama Road
Nariman Point
Mumbai - 400021

Email: soumya.ghosh@sbi.co.in
gcea.erd@sbi.co.in
Phone: 022-22742440

: @kantisoumya