

Construction powers Growth in Credit to Private sector

Construction driving credit growth

Despite raising the Statutory Reserve Ratio (SRR) in December 2015 and key policy rates in February, private sector credit has continued to grow at strong levels so far this year. Credit growth in May came in at 28% YOY with an absolute growth of about Rs 60bn. The detailed breakdown of the sources of private sector credit shows that much of the credit demand is driven by an increase in credit granted to the industrial sector; the key driver here being credit demanded for construction activities.

Credit granted to construction activities have amounted to about 25% of the absolute growth in total private sector credit over the past two years. This also could be an indication that despite the transition from the previous regime which was popular for large scale construction activities, the construction sector of the country continues to perform strongly.

Here are some of our key observations;

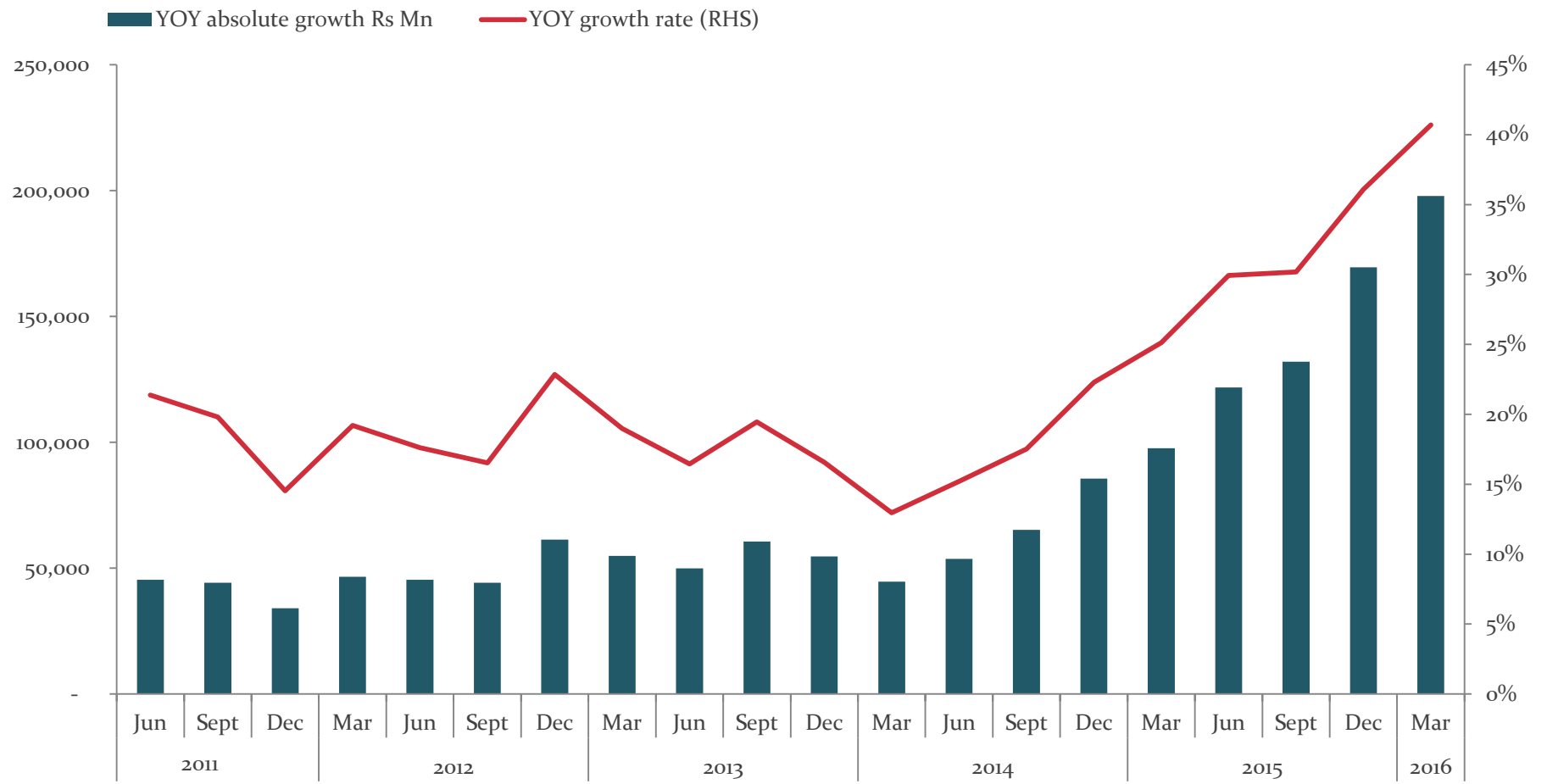
- Construction related credit growth has seen a steady increase in recent months peaking at 41% YOY growth in the March quarter this year. In 2015 alone, quarterly construction credit growth has averaged at 30%. These growth rates are well above the levels seen in 2011-2014 period. [See [page 05](#)]
- Another tell-tale sign that construction activities remain strong is the growth in building material imports. Despite overall imports recording a contraction of 2.8% in the Jan-May period this year (with both consumer goods and intermediate goods imports declining on a YOY basis as well), imports of building materials used in construction activities such as cement, iron and steel have recorded a healthy increase of 22%. [See [page 06](#)]
- The number of housing approvals granted in the last two years has also seen a steady increase. [See [page 14](#)]

- However, public and private investments in construction activities in 2015 only show a slight increase compared to 2014. Overall investment in 2015 also remains below 2013 which is the highest level of investment in construction seen for the last 6 years. [See [page 07](#)]
- Credit granted to construction activities have amounted close to 1/5th of total private sector credit in recent quarters (18% in the March quarter this year). [See [page 11](#)]

The data available on detailed breakdown of credit growth is only available up to the March quarter of this year and hence, does not fully reflect the effects of the two policy rate hikes in February and July. A closer look at credit growth and interest rate movements (AWPR) shows a pickup in YOY growth in construction credit in response to the low levels of interest rates in the last two years. [See [page 12](#)] With the recent tightening measures as well as the rise in the AWPR we could see a slowdown in the fast pace of construction credit growth in the months to come.

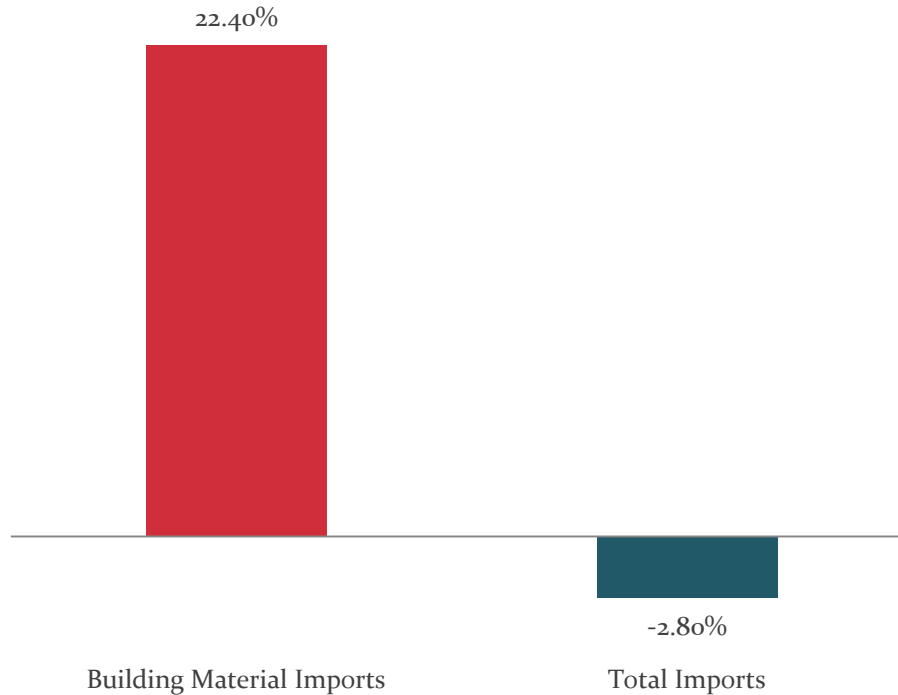
Top 3 charts

Construction related credit has been growing steadily in recent months



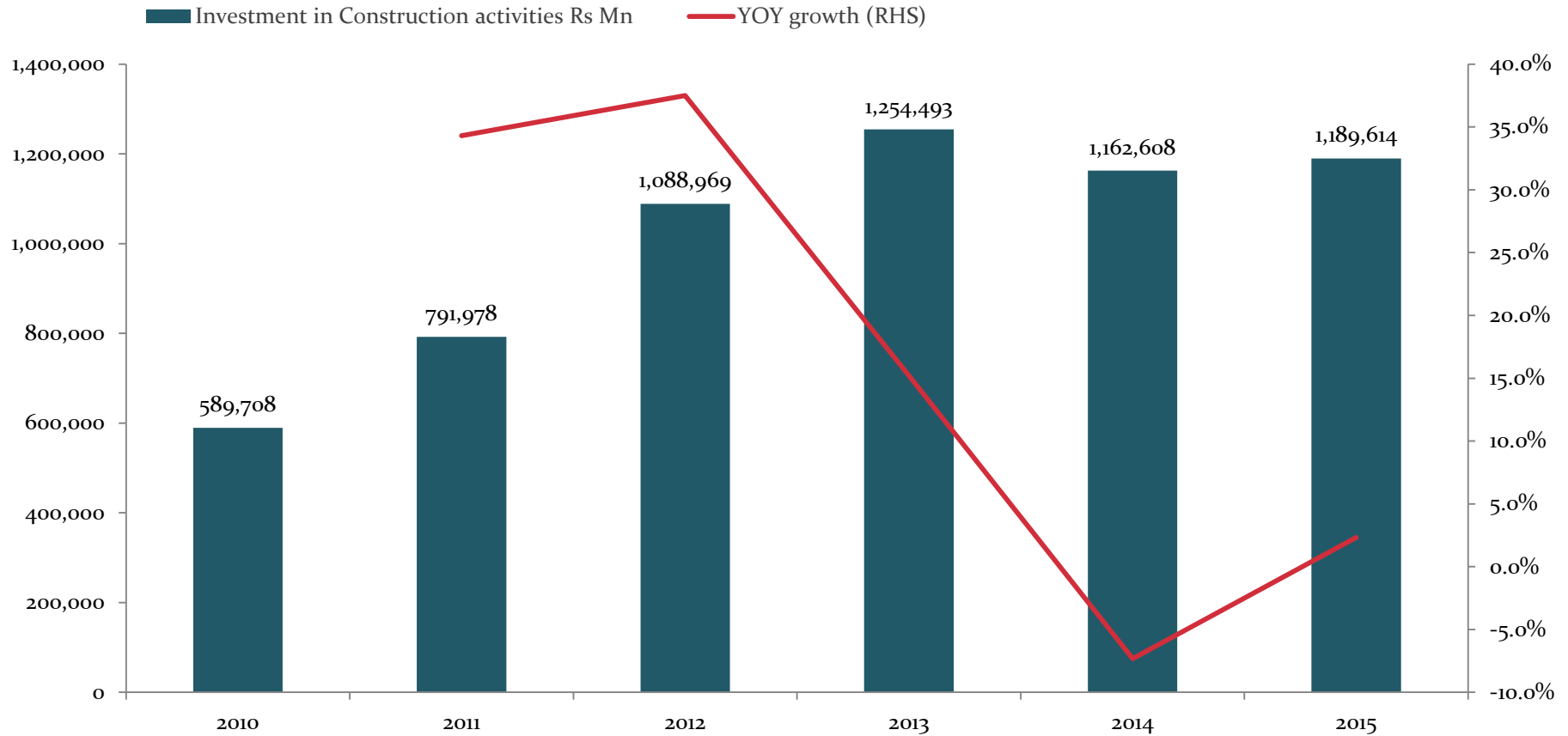
This is apparent in the strong growth in building material imports seen so far this year despite the contraction in overall imports

Jan-May 2016 YOY



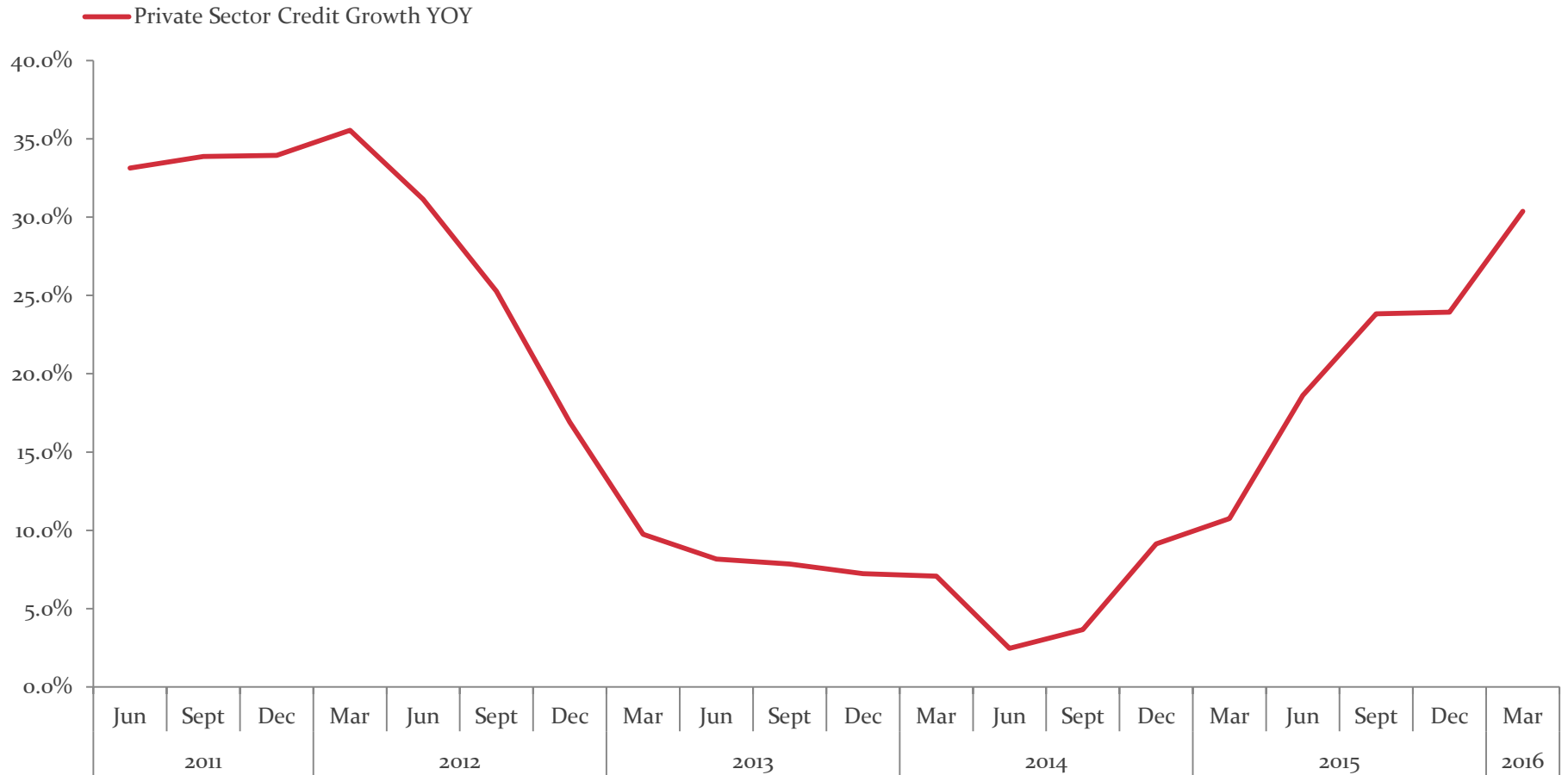
*Building material imports mainly consist of cement, iron and steel, aluminium articles and mineral products.

2015 saw a slight increase in investments (private & public) in construction activities, however it remains below 2013 levels

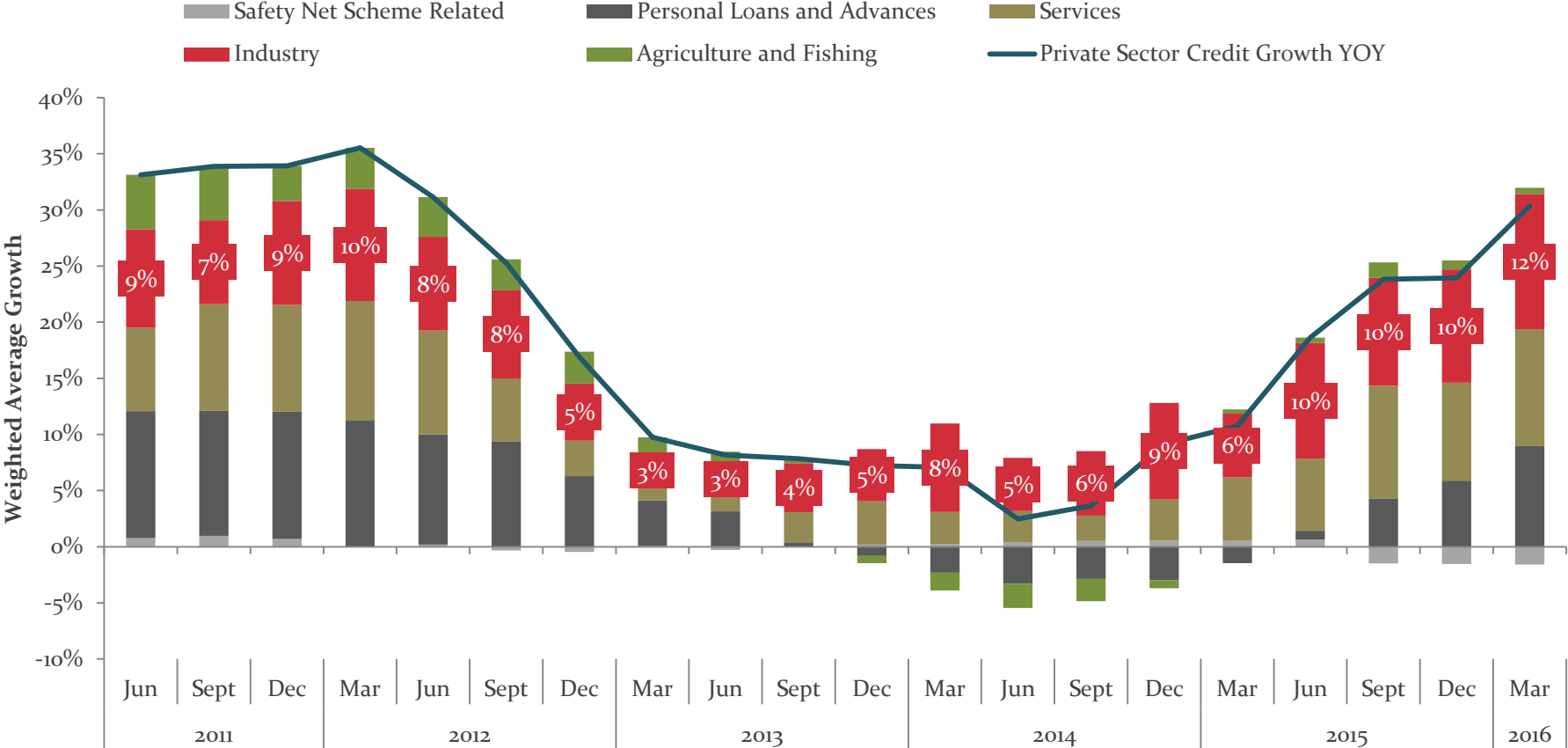


Supplementary charts

Private Sector Credit growth over time

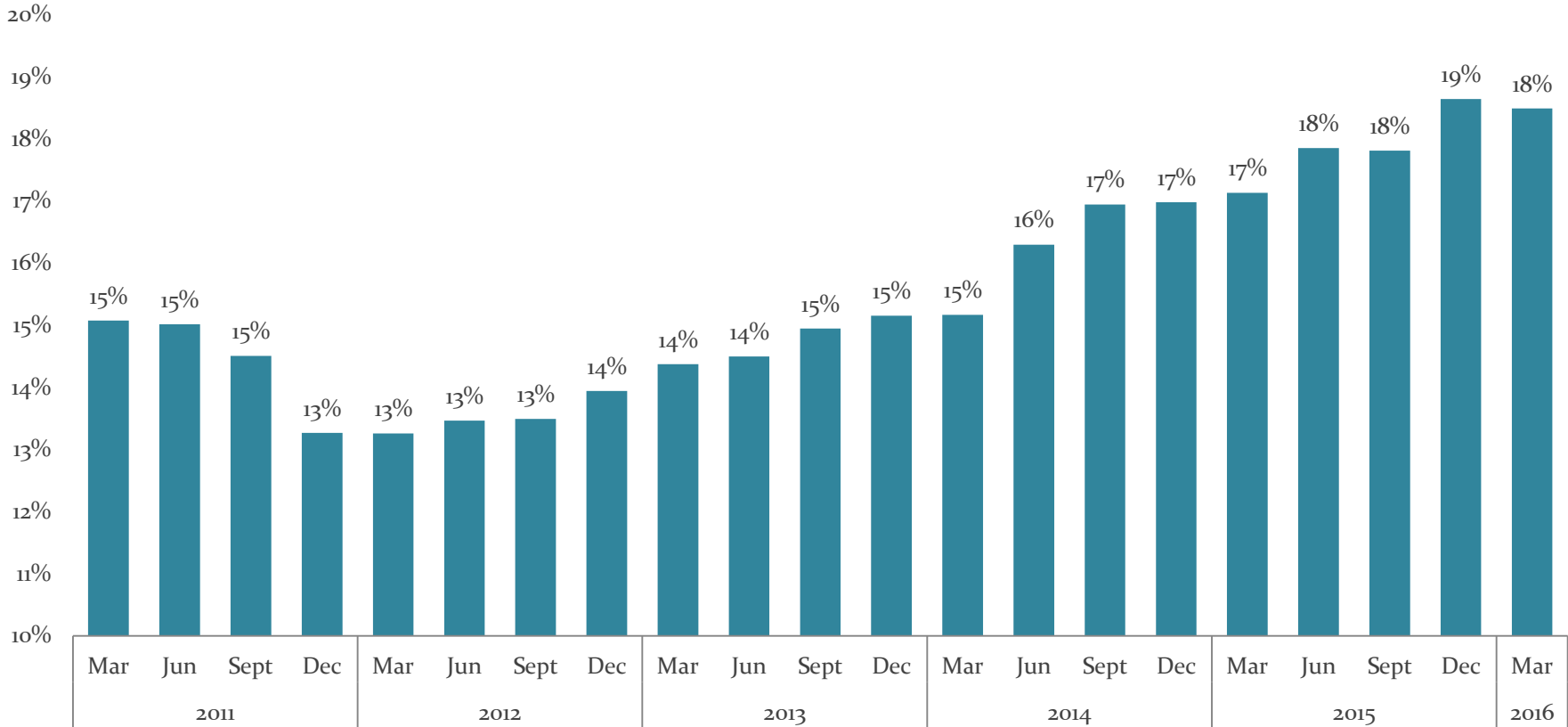


Industrial Sector has become a key driver of credit growth driven by demand for Construction related credit

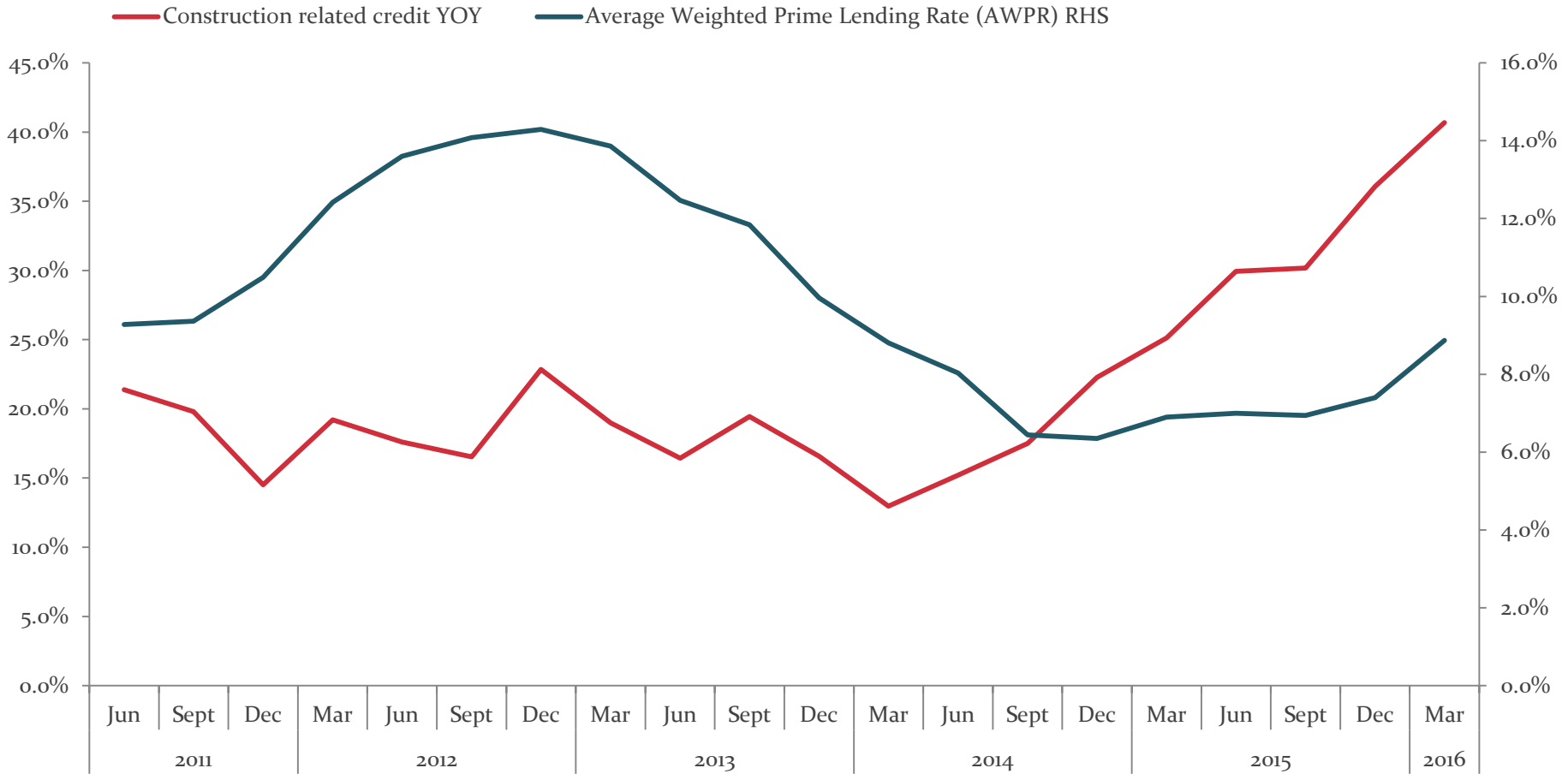


Construction related credit amounts to about 18% of Total Credit granted to the Private Sector by commercial banks

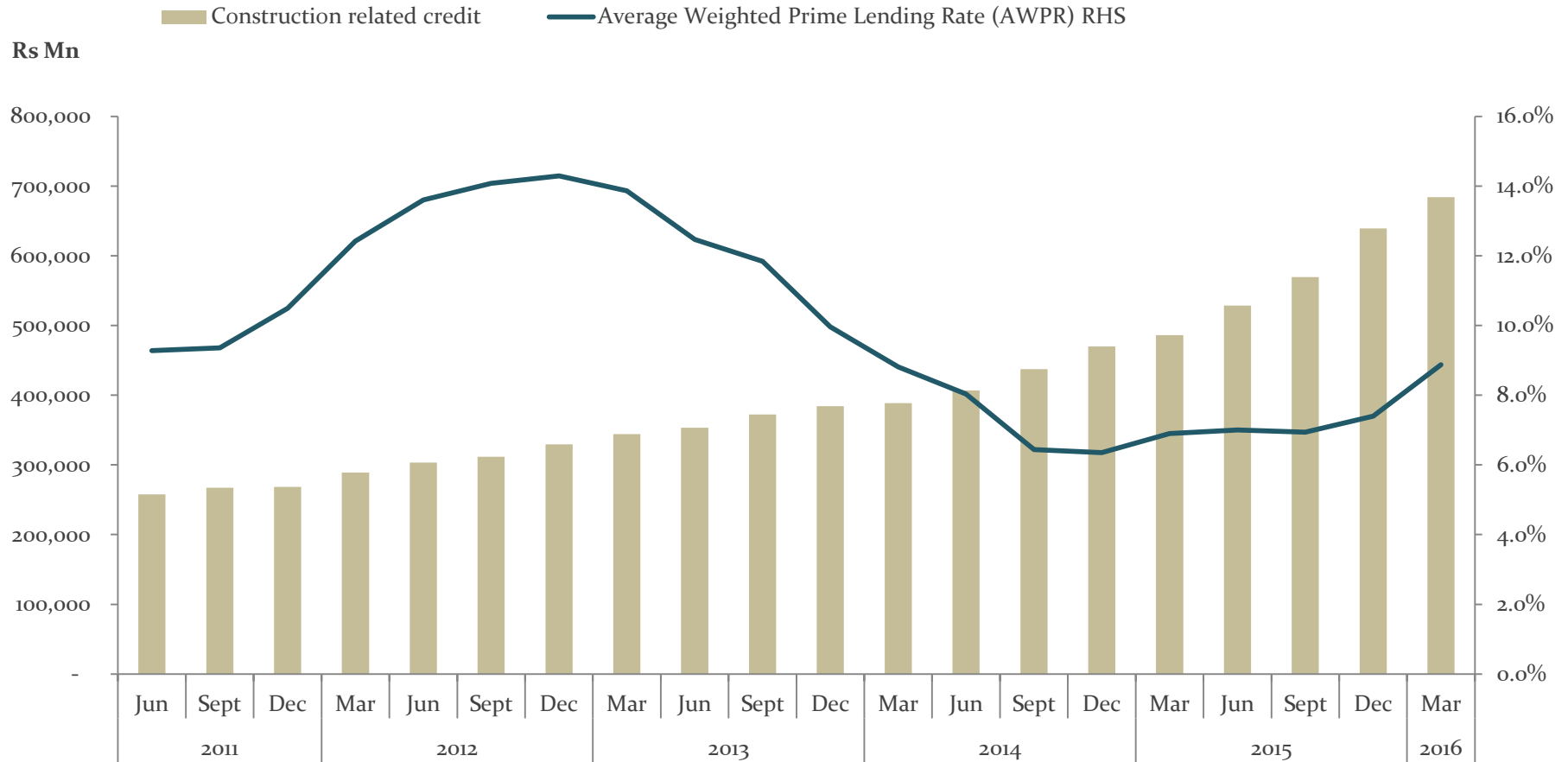
■ Construction % of Total Credit to Private Sector by Commercial Banks



Credit to construction activities vs. movement in the AWPR

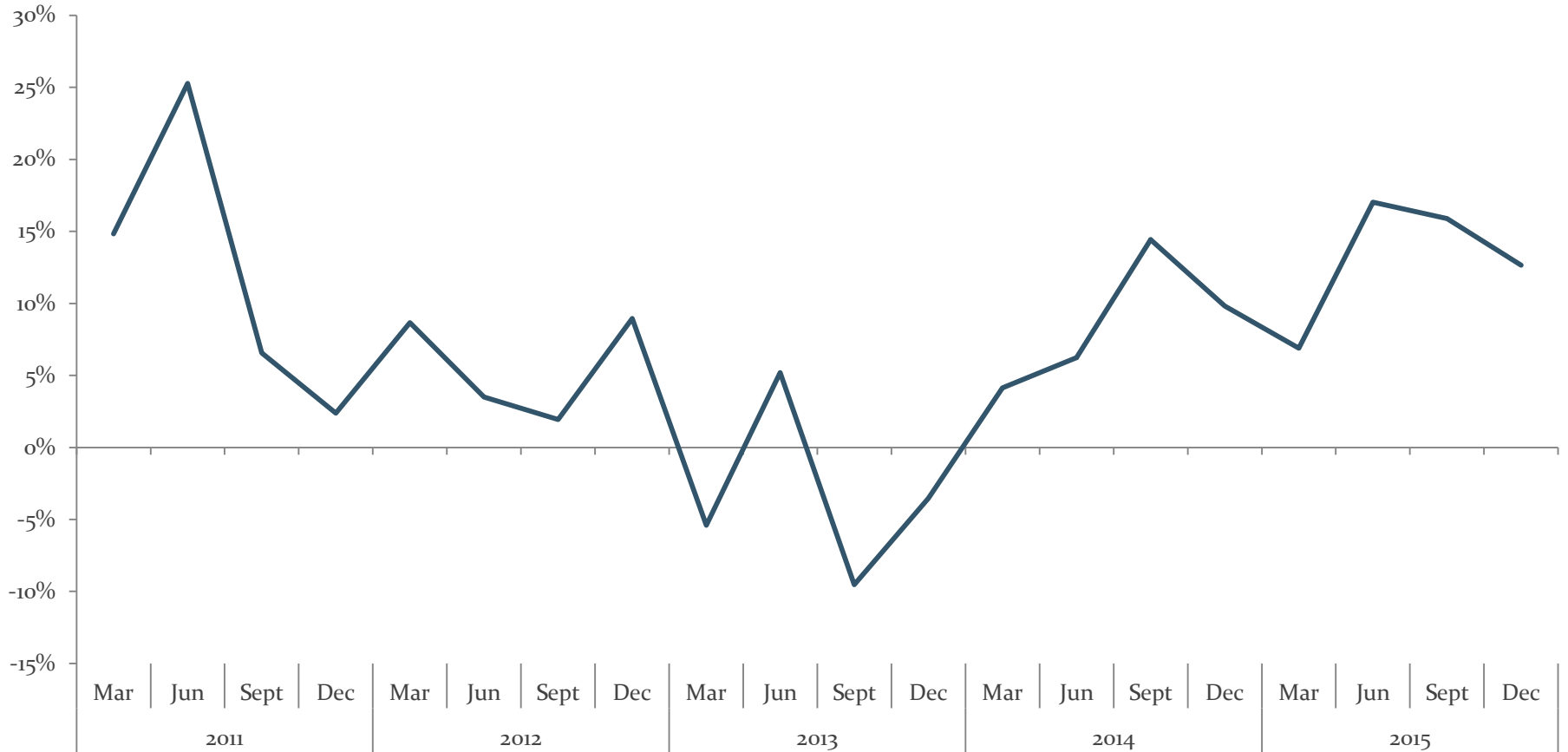


Credit to construction activities vs. movement in the AWPR

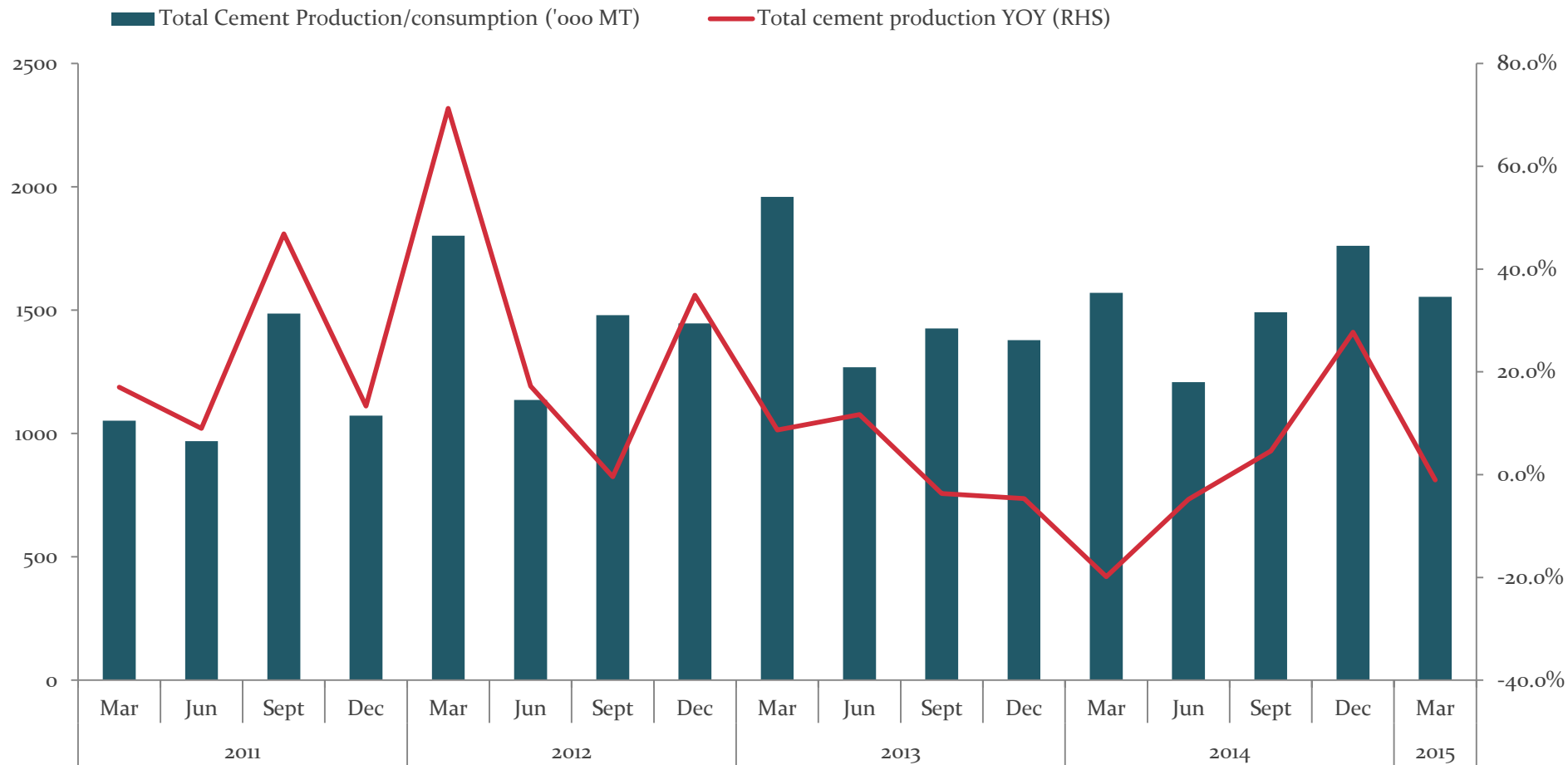


Pick up in housing approvals

YOY growth of number of housing approvals



Total cement production



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