



# Return to normalcy will be the norm in 2022

**2022 will mark a return to more familiar patterns of growth and the beginning of a new round of innovation for all players in the financial system**

**Sanjiv Chadha** January 02, 2022 Last Updated at 23:37 IST



The year 2022 will be an inflection point for the banking system as significant changes play out over the next year.

First, the economy is likely to gather pace, resulting in higher credit demand. While the GDP growth for FY22, which is likely to be in the range of 9-11 per cent, represented a smart recovery, it would still translate to not more than 1.4-2.5 per cent growth over FY20 and was, therefore, not fully reflected in the corresponding credit demand. Thus, while we may expect growth to be in the region of 7-7.5 per cent next year, this should push growth in credit to the double-digit range of 10-12 per cent.

Second, given the trends in other economies as well as inflation, the days of extraordinarily cheap money will be over. The central bank may start reversing the interest rate cycle and increase the repo rate by between 25-50 bps in 2022, which in the first stage could be triggered by the reverse repo rate being increased. In this new era of higher interest rates accompanied by a higher demand for credit, banks will seek to rebalance their portfolios, with corporate loans becoming progressively more important relative to retail loans, driven by better demand, improved margins as well as a favourable credit cycle.

Third, the issue of liquidity will come into the frame, as the government will continue to run a higher fiscal deficit compared with the normalised 3 per cent now permitted by the Fiscal Responsibility and Budget Management Act (2003), even though we expect it to be restricted to a lower scale, more likely in the region of 4.5-5 per cent for FY23. The relatively higher deficit alongside the buoyant demand for commercial credit will put pressure on liquidity.

So far, banks have been happy with modest deposit growth, so as to not have to invest in a negative carry reverse repo rate transaction. There will, therefore, be even more value to the assurance from the Reserve Bank of India (RBI) that liquidity will be available through different measures.

Last, it does look likely that support to borrowers from various covid-related schemes of credit guarantee provided by the government as well as the restructuring of loans would be behind us.

On the structural side, several stories are going to play out. First, the



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government has already spoken of privatisation of two public sector banks and the progress will be of enormous interest. Second, the idea of digital banks has been floated and its fructification will be something that could take place. Third, the RBI has in place the guidelines for more banks as well as conversion of cooperative and payments banks to small finance banks. This will be another interesting development to watch out for.

New institutions will also be the focus in the context of the announcements as part of the budget for FY22. First, the new National Bank for Financing Infrastructure and Development would be in operation. While the scale of operations will be small to begin with, it would be setting the rule book for long-term finance, especially for infra projects.

The other is the operation of the National Asset Reconstruction Company, which will probably be the final step in addressing the issue of bad loans. We have had a series of attempts to resolve bad loans, and while the Insolvency and Bankruptcy Code (IBC) made giant strides to begin with, progress has been gradual once the low hanging fruits have been picked.

Therefore, 2022 will on the one hand mark a return to more familiar patterns of growth and liquidity. It will also mark the beginning of a new round of innovation and change for all players in the financial system.

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*The writer is managing director and chief executive officer, Bank of Baroda. This column has been edited for space*