

Decline in Sectoral Deployment of Bank Credit

Why in news?

\n\n

RBI has released data on sectoral deployment of bank credit.

\n\n

What is the status of total non-food credit deployed?

\n\n

\n

- From 2003 to late 2008, bank credit increased at a very fast clip, at around 20-30% per annum.

\n

- Due to the Global Financial Crisis and its fallout India put a brake on that expansion, so that the rate of growth fell in October 2009 to just under 10%.

\n

- It revived until late 2013 and bank credit continued to expand at a healthy pace, generally at annual rates of more than 15%.

\n

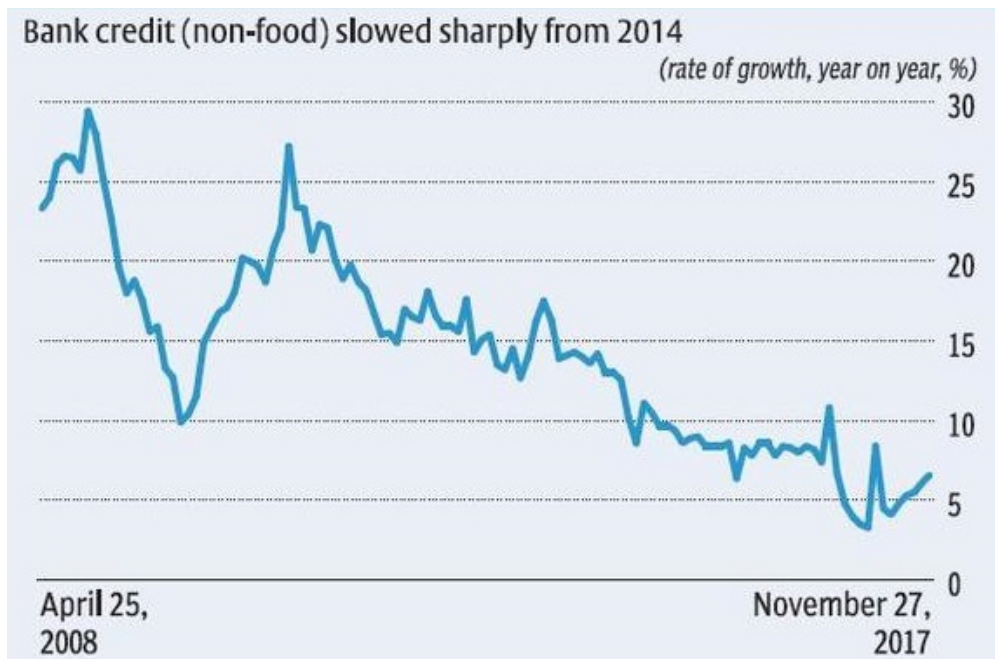
- But from early 2014, a prolonged deceleration set in, with continued slowing down of credit deployment, this slowdown clearly preceded the demonetisation.

\n

- Credit that had expanded by nearly 11% in September 2016 fell to rates of 3.3% in February 2017.

\n

\n\n



\n\n

What is the status of credit deployment to industries?

\n\n

\n

- Credit to the services sectors has been volatile and the deceleration of bank credit directed to agriculture has been more evident since April 2017.

\n

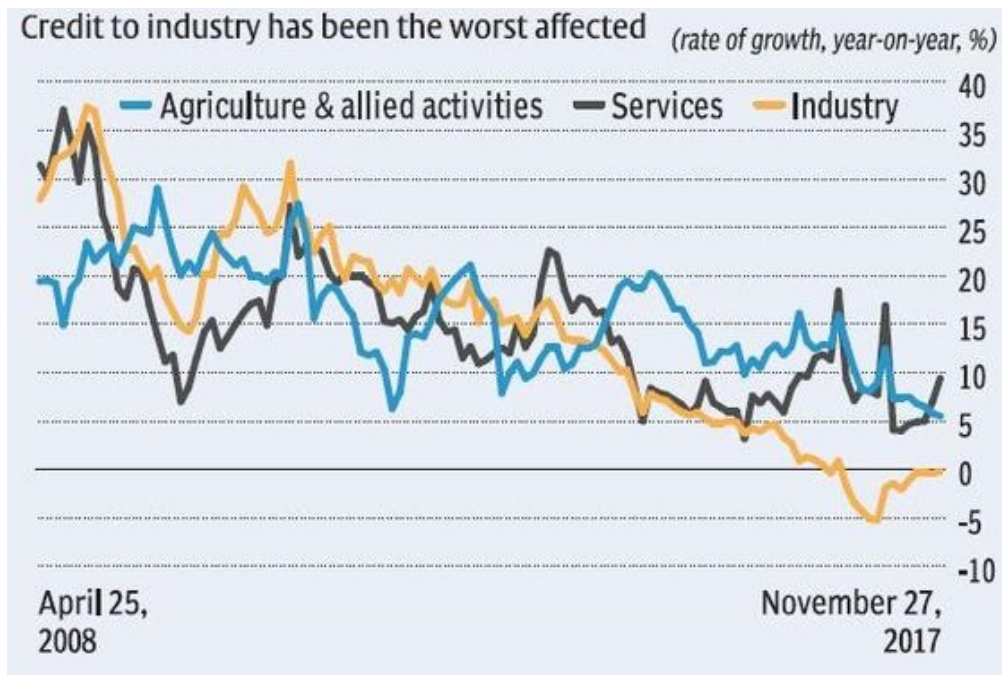
- Credit to industry had recovered strongly after the shock of 2008-09, such that it was growing at annual rates of 20-30% in the period 2010-12.

\n

- Annual growth rates of less than 15% were first evident in November 2013 and by mid-2016, credit to industry was flat or slightly negative.

\n

\n\n



\n\n

What is the status of credit deployment for MSMEs?

\n\n

\n

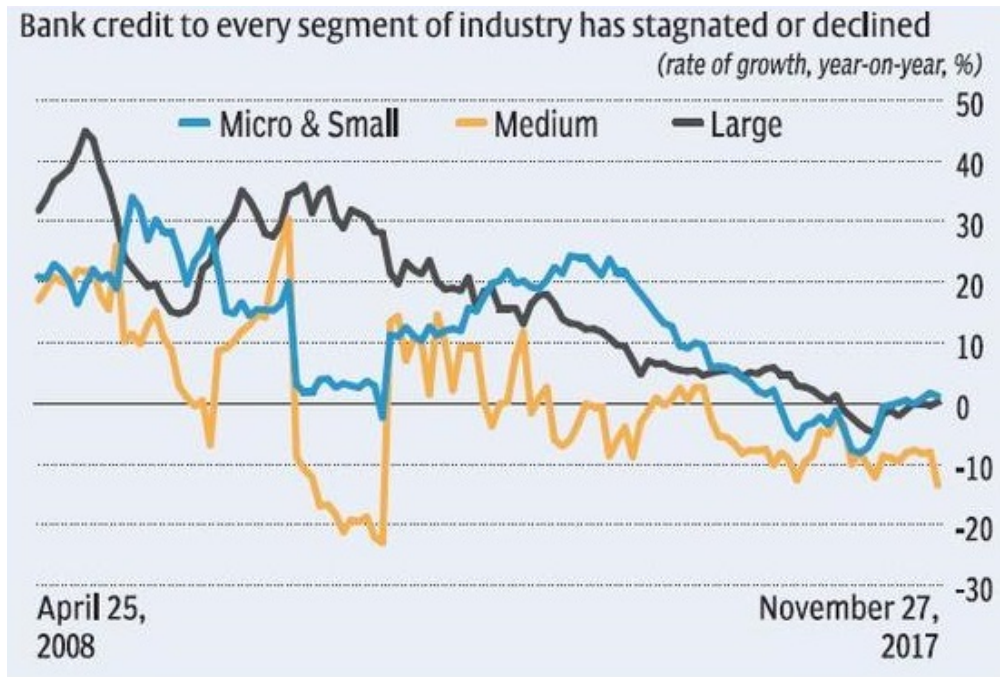
- Medium-sized enterprises have been very volatile and have faced declining credit for more than two years, since mid-2015.

\n

- The Micro-Units Development and Refinance Agency (MUDRA) scheme, which seeks to reach credit to small entrepreneurs aiming to establish or expand small businesses has not been successful either.

\n

\n\n



\n\n

What are the reasons behind falling credit rates?

\n\n

- \n
- Most of the Indian public sector banks are under debt traps and are reluctant to lend until they recover their NPAs.
- \n
- In India there is a large retail lending for personal consumption instead of investments.
- \n
- After all the credit deployment decline became more pronounced with demonetisation.
- \n
- The MUDRA scheme announced by union government to promote MSMEs has no interest rate concessions and the interest rates on the loans are ranging between 9 and 12%, which makes the borrowers hesitant to take such loans.
- \n
- At the same time banks are also more interested in lending to the large enterprises, they receive more than 82% of total bank credit to industry.
- \n
- Thus combination of investors unwillingness to borrow and banks reluctance to lend has resulted in decline in sectoral credit deployment.

\n

\n\n

\n\n

Source: Business Line

\n

