Bank credit: is it growing, and where’s it going?

Posted at: 17/12/2018

Bank credit: is it growing, and where’s it going?-Lenders have loosened purse strings, but some sectors are monopolising bank loans. Hence the clamour for more credit

- Credit flow to industry, or the lack of it, has been a bone of contention between the Centre and the Reserve Bank of India (RBI).
- While RBI and its supporters assert that bank lending is now growing at a brisk pace, the government and industry lobbies insist that the credit taps remain shut.

Credit flow accelerates

- RBI data shows that Indian banks’ non-food credit growth, which had slumped to 7-8% in the three years to October 2017, got back to double-digit growth in the last one year (October 2017 to October 2018) at 13%.
- Historically, bank credit in India has either matched or grown ahead of nominal GDP.
- Absolute numbers on net credit flow make it even clearer that banks have stepped up their lending.
- In fact, in absolute terms, net bank credit flow in the past year has been at its highest level in a decade.
- This suggest that RBI is right to take the view there’s no systemic problem impeding bank credit, despite its sweeping a few public sector banks into the Prompt Corrective Action framework.

Services pips industry

- Within the priority sector, though services MSMEs, agriculture and housing saw brisk growth, exporters were starved of credit, with their credit flow in negative territory for the last three years.
- In fact, the above shifts in bank credit flows have been evolving for some time.

- Loans to services have grown at 12% and those to agriculture at 11%.
- Industry has given up its share of the pie, with bank credit to it growing at just 3% a year.
- Banks' strong appetite for retail loans and their parsimony with industrial loans could be the result of the risk aversion brought on by their terrible lending experience with corporate loans during the previous economic boom.
- But at this juncture, it is important for the Centre and the RBI to allow banks to make their own decisions on allocating credit, instead of driving it to specific segments.
- For banks to regain their appetite to lend to riskier borrowers, they must first digest the mountain of bad loans that today account for over 11% of their loan books.

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