Decline in Sectoral Deployment of Bank Credit

Why in news?

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RBI has released data on sectoral deployment of bank credit.

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

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- From 2003 to late 2008, bank credit increased at a very fast clip, at around 20-30% per annum.
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- 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%.
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- It revived until late 2013 and bank credit continued to expand at a healthy pace, generally at annual rates of more than 15%.
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- But from early 2014, a prolonged deceleration set in, with continued slowing down of credit deployment, this slowdown clearly preceded the demonetisation.
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- Credit that had expanded by nearly 11% in September 2016 fell to rates of 3.3% in February 2017.
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What is the status of credit deployment to industries?

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

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- 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.
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- 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.
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What is the status of credit deployment for MSMEs?

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- Medium-sized enterprises have been very volatileand have faced declining credit for more than two years, since mid-2015.
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- 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.
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What are the reasons behind falling credit rates?

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- Most of the Indian public sector banks are under debt traps and are reluctant to lend until they recover their NPAs.
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- In India there is a large retail lending for personal consumption instead of investments.
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- After all the credit deployment decline became more pronounced with demonetisation.
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- 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.
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- 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.
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- Thus combination of investors unwillingness to borrow and banks reluctance to lend has resulted in decline in sectoral credit deployment.
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Source: Business Line

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