The Good Side Of Fall In Credit Growth

Hidden in the falling overall credit offtake is a massive rise in credit to small businesses from job-creating sectors

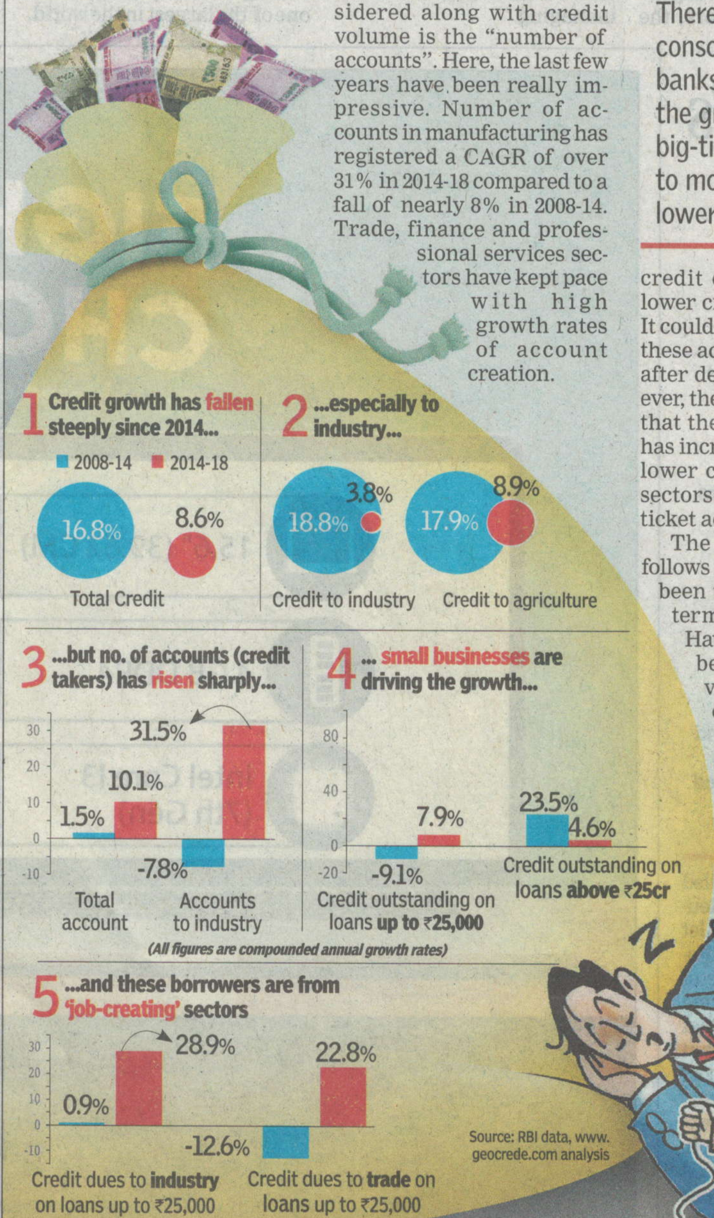
viewpoint

L Somasundaram
Research director, Akara Research & Technologies

Credit growth has been a contentious issue between the government and the Reserve Bank of India. Differences over credit offtake have been accentuated by the increase in non-performing assets (NPAs) of banks. Recent reports have shown that the growth rate of industrial credit has fallen with the share of industry in total credit outstanding coming down by nearly 7% between 2014 and 2018.

Another aspect that's in focus is the slowdown in credit offtake during the NDA period compared to the UPA regime (*see charts*).

However, in the Indian situation, the credit growth in volume terms is just one side of the story. In many cases, financial inclusion — even through small amounts of credit — means a lot. Therefore, an important parameter that needs to be considered along with credit volume is the "number of accounts". Here, the last few years have been really impressive. Number of accounts in manufacturing has registered a CAGR of over 31% in 2014-18 compared to a fall of nearly 8% in 2008-14. Trade, finance and professional services sectors have kept pace with high growth rates of account creation.



This leads us to the next question: Has the increase in accounts been that of small borrowers? There has been a perceptible shift in banking growth towards small and medium sectors, particularly in opening new accounts. Data show that the focus of banks has shifted to generating accounts and credit expansion through lower credit limit accounts. It could also be that many of these accounts were created after demonetisation. However, the noteworthy point is that the credit outstanding has increased faster in these lower credit limit account sectors compared to large-ticket accounts.

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The next question that follows is which sectors have been the beneficiaries in terms of credit growth? Have the new accounts been created in relevant sectors of the economy, particularly in manufacturing and trade — the key sectors that drive employment and self-employment? The answer is an unequivocal yes.

In the first period 2008-14, credit growth in industry, trade and agriculture has been negative in lower credit limit accounts, while the credit growth in large accounts has been consistently high across sectors. There is a significant shift in the second period, where the growth rate in lower credit limit is higher in almost all sectors across the lower size credit limit accounts. The highest growth is seen in lower credit limit categories across sectors.

Similarly, in terms of number of accounts too, there is a perceptible change in the bank's lending activities between 2008-14 and 2014-18. While the period 2008-14 saw a decline in number of accounts in the manufacturing sector, accentuated by a sharp fall in the lower credit limit categories, there has been a huge growth in 2014-18. Indeed, the highest growth has been registered in the under-Rs 25,000 credit limit with a growth rate of more than 60% during 2014-18, compared to a negative growth in 2008-14. The pattern of negative growth in trade and industry sectors' accounts suggest that many had to shut shop, indicating an industrial distress.

These trends are suggestive of many micro-economic changes happening in the economy, that warrant further and deeper research studies. One immediate argument could be the success of schemes such as Mudra. There could also be a conscious decision by banks, hindered by the growing NPAs in big-ticket lending, to move towards lower-ticket accounts.

Illustration: Ram

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