What a Slowdown in Retail Loans Tell Us About a Slowing Economy

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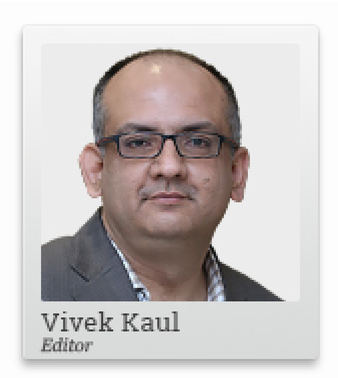

In the recent past a lot has been written about the overall slowdown in bank lending. Take a look at Figure 1. It essentially tells us about the loans given out by banks during the period between May 2016 and May 2017, and May 2015 and May 2016, before that.

Let's start with non-food credit. These are the loans given out by banks after we have adjusted for food credit or loans given to the Food Corporation of India and other state procurement agencies, for buying rice and wheat directly from farmers at the minimum support price (MSP) for the public distribution system.

Figure 1:

Type of Loan	**Total Loans Given Between May 2016 and May 2017 (in Rs Crore)**	**Total Loans Given Between May 2015 and**
Non-Food Credit	4,22,001	
Loans to industry	-56,455	
Retail Loans	1,94,553	

Source: Reserve Bank of India

The total amount of non-food credit given out between May 2016 and May 2017 is down by 33 per cent to Rs 4,22,001 crore, in comparison to the period between May 2015 and May 2016. Hence, there has been a huge overall slowdown in the total amount of loans given out by banks over the last one year, in comparison to the year before that.

Why has that been the case? The major reason for the same are loans to industry. Banks are in no mood to give out loans to industry. During the period May 2016 and May 2017, the total loans to industry actually shrunk by Rs 56,455 crore. This basically means that on the whole the banks did not give a single rupee of a new loan to the industry. During the period May 2015 and May 2016, banks had given fresh loans worth Rs 24,383 crore to industry, overall.

This is happening primarily because banks have run a huge amount of bad loans on loans they had given to industry in the past. As on March 31, 2017, the bad loans ratio of public sector banks when it came to lending to industry, stood at 22.3 per cent. Hence, for every Rs 100 of loan made to industry by public sector banks, Rs 22.3 had turned into a bad loan i.e. the repayment from a borrower has been due for 90 days or more.

Not surprisingly, these banks are not interested in lending to industry anymore. This has been a major reason behind the overall slowdown in lending carried out by banks, as we have seen earlier.

But one part of lending that no one seems to be talking about is retail lending carried out by banks. This primarily consists of housing loans, vehicle loans, consumer durables loans, credit card outstanding, loans against fixed deposits, etc. The assumption is that all is well on the retail loan front.

As far as bad loans are concerned, things are going well on the retail loans front. But what about the total amount of retail loans given by banks? Between May 2016 and May 2017, the total amount of retail loans given by banks stood at Rs 1,94,533 crore. This was down by around 15 per cent to the amount of retail loans given by banks between May 2015 and May 2016. This, despite the fact that interest rates on retail loans have come down dramatically in the post demonetisation era. You can get a home loan now at an interest of as low as 8.35 per cent per year.

A major reason for this slowdown in retail loans are housing loans, which form the most significant part of retail loans. Between May 2016 and May 2017, the total amount of housing loans given by banks stood at Rs 92,469 crore down by 22 per cent in comparison to the housing loans given out by banks between May 2015 and May 2016.

Lower interest rates on home loans haven't helped much. The only explanation of this lies in the fact that high real estate prices continue to be the order of the day across the country. How do things look with vehicle loans which form a significant part of the retail loans? Between May 2016 and May 2017, banks gave out vehicle loans worth Rs 18,447 crore, 26 per cent lower than the vehicle loans given out by banks between May 2015 and May 2016.

What does this tell us? It tells us very clearly that things have deteriorated even on the retail loans front. People take on retail loans only when they are sure that they will be able to continue repaying the EMIs in the years to come (unlike corporates). The fall in the total amount of retail loans lent by banks over the last one year clearly tells us that the confidence to repay EMIs, is not very strong right now.

This is another good indicator of the overall slowdown in the Indian economy, which has happened in the post demonetisation era.