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A study on the gross deployment of bank credit to various sectors in the economy

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Abstract
A wide range of financial institutions exist in the country to provide credit to various sectors of the economy. They provide a variety of credit facilities such as short-term working loans to corporate, medium and long-term loans for financing large infrastructure projects and retail loans for various purposes. Unlike other segments of the financial market, the credit market is well spread throughout the country and it touches the lives of all segments of the population. One of the clearest indicators of whether economic growth has picked up or not is the growth (or degrowth) in the bank credits. There are various factors that influences the growth of bank credit. Some of the factors are: Gross domestic factor, interest rates on lending by banks, financial performance of banks (NPAs of banks, asset quality, capital adequacy ratio etc.), commodities prices and propensity to consume has also a role to play. Also, shifting in demand to other forms of credit too influences the growth in the bank credit. Today, various other credit sources such as commercial papers, bonds etc. are available with lucrative borrowing rates.

Keywords: Degrowth, NPAs, credit

Introduction
Financial institutions have a huge role to play in generating growth within the economy. Various sectors within the economy are striving on various forms of credit to finance their growth. The credit market in India has played a dominant role in meeting the financing needs of various segments of the economy. The credit market structure in India has evolved over the years. A wide range of financial institutions exist in the country to provide credit to various sectors of the economy. These include commercial banks, regional rural banks (RRBs), cooperatives [comprising urban cooperative banks (UCBs), State co-operative banks (STCBs), district central co-operative banks (DCCBs), primary agricultural credit societies (PACS), state co-operative and agricultural rural development banks (SCARDBs) and primary co-operative and agricultural rural development banks (PCARDBs)], financial institutions (FI) (term-lending institutions, both at the Centre and State level, and refinance institutions) and non-banking financial companies (NBFCs). Commercial banks, given their preeminent position in the regulated financial sector, dominate the credit market. They provide a variety of credit facilities such as short-term working loans to corporate, medium and long-term loans for financing large infrastructure projects and retail loans for various purposes. Unlike other segments of the financial market, the credit market is well spread throughout the country and it touches the lives of all segments of the population. One of the clearest indicators of whether economic growth has picked up or not is the growth (or degrowth) in the bank credits. There are various factors that influences the growth of bank credit. Some of the factors are: Gross domestic factor, interest rates on lending by banks, financial performance of banks (NPAs of banks, asset quality, capital adequacy ratio etc.), commodities prices and propensity to consume has also a role to play. Also, shifting in demand to other forms of credit too influences the growth in the bank credit. Today, various other credit sources such as commercial papers, bonds etc are available with lucrative borrowing rates.

Literature review
Commercial bank plays a pivotal role in the economic development of a country. Economic development involves investment in the various sectors of economy. The banks collect

saving from the people and mobiles saving for investments in various sectors. Various sectors mostly rely on commercial banks credit to finance growth. The trend of credit deployment by banks is changing now. Sahu and Rajasekhar (2005) [8], in their research paper, analyzed the trends in credit flow to agriculture by scheduled commercial banks during 1980-81 to 1999-2000. They observed that the share of credit to agriculture in total bank credit for all the bank groups declined significantly, especially after banking sector reforms in spite of many efforts. Today, more focus is placed on priority sector lending. Uppal, R.K. (2009) [9], "Priority Sector Advances: Trends, issues and strategies", evaluated the performance of public, private and foreign banks in India and analyzed the target achievement by them during 2006-07. He found that priority sector advances of public and private sector banks were higher than foreign banks. He observed that public sector banks were unable to achieve the target of priority sector, while private sector banks have achieved the target. Moreover, various factors affect the banks credit lending strength. Factors affecting commercial bank's performance are broadly categorized into two factors; internal and external factors, (Sehrish *et al*., 2011) [10]. Internal factors are mainly influenced by a bank's management decisions and policy objectives (Staikouras and wood, 2004) [11], whereas external factors focus on industry-related and macroeconomic variables reflected in the economic and legal environment where banks operate (Athanasoglou *et al*., 2006) [12]. Most importantly, the banks NPAs are on a rise. Studies were made in this respect. Alamelu and Devamohan (2010) [14], in their study titled, "Efficiency of Commercial Banks in India" calculated the business ratios, such as interest income to average working funds, non-interest income to average working funds, operating profit to average working funds, return on assets, business per employee and profit per employee for public sector banks, private sector banks and foreign banks for the 45 period 2004-05 to 2008-09. It was observed that the foreign banks and new generation private banks have superior business ratios. GDP of the country too affects the credit deployment of the banks in India. S.L. Shetty (1976) [13]. "Deployment of Commercial Bank and other institutional Credit: A note on Structure changes assessed the dimensional changes in credit deployment during the first five years of nationalization in relation to changes in output and prices. The rationale for his analysis was the fact that, in any accepted model of demand for money, one common variable is the gross national product or some other variant of it in real terms. Consequently, he hypothesized that credit for any sector or industry over a period has to have some relationship with its performance in real terms, particularly output.

Objectives of the study

The study is conducted to achieve the following objectives:

1) To highlight the growth in sectoral deployment of bank finance.
2) To put forth the reasons for this trend in growth.

Significance of the study

Banks have become an essential part of economic life in every field. Development of various sectors or segments depends on the credit extended by the commercial banks. Economic activities in the fields of consumption, production, distribution and other branches of economics cannot be carried on properly without banks. Government also cannot effectively use various monetary and fiscal measures without banks for the accomplishment of various socio-economic objectives. So the deployment of bank credit to various sectors has a direct impact on their growth.

Methodology of study

The study has been done to throw light on the growth rate in the deployment of bank credit to various segments of the economy. The study is based on secondary data collected from various websites such as rbi.org, central statistical organization, PRIME (primary market monitor) site. Various reports such as annual reports of RBI etc. are consulted to dig out data on the actual scenario. Data collected are tabulated and help of scatter diagram is taken is clearly demonstrate the data.

Findings and analysis

Following is the data on the sectoral deployment of credit collected from select 47 scheduled commercial banks accounting for about 95 %. (RBI data) for the three years 2013, 2014 and 2015.

Table 1: Sectoral deployment of bank credit for the year 2013 and 2014

Sectors/ Months	Non-food credit 2013	2014	Agriculture and allied activities 2013	2014	Industry 2013	2014	Services 2013	2014	NBFCs 2013	2014	Personal loan 2013	2014
JAN	15.1	15	17.1	13.2	17.2	13.6	10.6	17.3	15.8	13.4	14.5	16.5
FEB	15.4	14.7	15.9	13.1	17.4	13.1	12.0	17.1	10.8	14.7	14.6	16.5
MAR	13.5	14.3	7.9	13.5	15.1	13.2	12.6	16.1	11.6	13.2	14.7	15.5
APRIL	14	14.2	10.6	14.8	15.6	12.3	11.3	17.1	3.9	19.3	15.6	14.5
MAY	15.3	13	11.7	16.8	15.9	11.4	14.5	13.6	1.9	19.7	17.1	14.0
JUNE	13.5	13	10.0	18.8	14.2	10.3	12.0	13.8	16.2	14.6	16.2	14.6
JULY	14.8	12.6	10.5	19.5	15.9	10.1	13.3	12.3	5.7	11.5	17.0	14.5
AUG	17	10.2	12.1	18.8	17.3	7.6	18.4	8.9	18.0	4.1	17.8	12.8
SEPT	18.2	8.6	13.2	18.8	17.6	6.0	22.1	5.3	26.6	4.4	17.9	13.0
OCT	17	11.1	13.2	20.3	15.9	7.8	21.7	8.9	22.1	7.0	16.4	16.3
NOV	14.7	11.0	11.0	20.2	13.7	7.3	18.1	9.9	15.9	6.2	15.2	15.4
DEC	14.8	9.8	11.5	18.3	14.1	6.8	17.4	6.9	15.1	3.3	15.8	15.1

From the above table of sectoral deployment of bank credit, we can draw a comparison between the years 2013 and 2014. In the non- food credit, except for the months march and april, the growth in the bank credit is lower than that in the year 2013. In the agriculture and allied activities, initially the growth in deployment of bank credit was slow in 2015 but it began to rise as compared to the year 2013. In the year 2015, the industry sector saw a decline in the bank credit and towards the end the growth in the deployment of bank credit came down to single digit. In the service sector, the deployment of credit was high initially but the segment saw a decline in the growth towards the end of the year as compared to the year 2013. The NBFCs saw an overall decline in its share of bank credit similar to the personal loan segment as compared to 2013. However, it's worth noting that the decline in the growth in deployment of bank credit to personal loan segment was as sharp as in case of NBFCs.

Table 2: Sectoral deployment of bank credit for the year 2014 and 2015

Sectors/ Months	Non-food credit 2014	2015	Agriculture and allied activities 2014	2015	Industry 2014	2015	Services 2014	2015	NBFCs 2014	2015	Personal loan 2014	2015
JAN	15	9.7	13.2	16.6	13.6	6.6	10.6	7.5	15.8	5.3	14.5	15.8
FEB	14.7	9.4	13.1	16.5	13.1	6	12.0	7	10.8	7.1	14.6	16.0
MAR	14.3	8.6	13.5	15.0	13.2	5.6	12.6	5.6	11.6	6.4	14.7	15.4
APRIL	14.2	8.9	14.8	14.1	12.3	6.4	11.3	7.5	3.9	3.3	15.6	13.3
MAY	13	9.0	16.8	11.0	11.4	5.2	14.5	9.1	1.9	5.6	17.1	16.6
JUNE	13	8.4	18.8	11.1	10.3	4.8	12.0	6.9	16.2	2.0	16.2	17.1
JULY	12.6	8.4	19.5	12.2	10.1	4.8	13.3	6.4	5.7	1	17.0	16.8
AUG	10.2	8.4	18.8	12.1	7.6	5.0	18.4	5.9	18.0	-	17.8	17.3
SEPT	8.6	8.6	18.8	12.8	6.0	4.9	22.1	5.9	26.6	-	17.9	18

From the above table of sectoral deployment of bank credit, we can draw a comparison between the years 2014 and 2015. In the non- food credit, the growth in the bank credit is lower than that in the year 2014. In the year 2015, initially the growth in deployment of bank credit began to rise in the agriculture and allied activities segment but it witnessed a decline towards the end of the year as compared to the year 2014. In the year 2015, the industry sector saw a decline in the bank credit and towards the end the growth in the deployment of bank credit came down to single digit and to as low as 4%. In the service sector saw a decline in the growth of bank credit in the year 2015 as compared to the year 2014. The NBFCs also saw an overall decline in its share of bank credit. But the personal loan segment saw a sharp increase in the growth in its share of bank credit as compared to 2014.

- So, the data clearly highlights that, except for the personal loan segment the overall growth in credit deployment by banks is on a declining trend.

- **Reasons for the current growth in the deployment of bank credit**
- Firstly, a lot of credit demand has been shifted to the alternative sources of credit such as private placement of bonds, commercial paper market because of their lower interest rates vis-à-vis bank interest rates. The commercial paper interest rates as on October 31st 2015 was between 7.02 – 11.55 whereas banks base rate ranged from 10.00 – 10.25.Rajat Monga, chief financial officer (CFO) at Yes Bank ltd. said that companies, particularly the higher rated ones, preferred commercial paper just because it was cheaper. Higher rated companies find it easier to raise funds through the commercial paper markets because the perceived risk of default is lower. Following data clearly highlights the credit demand shift from bank credit to alternative sources.

Table 3: No. of issues and amount for private debt placement

Year	Amount outstanding (in crores)	No. Of issues
2005-06	81,847	366
2006-07	93,891	506
2007-08	115,423	612
2008-09	174,342	800
2009-10	189,830	812
2010-11	202,590	862
2011-12	259,229	1430
2012-13	352,759	1888
2013-14	287,893	1683
2014-15	464,723	2216
2015-16	277,483	1621

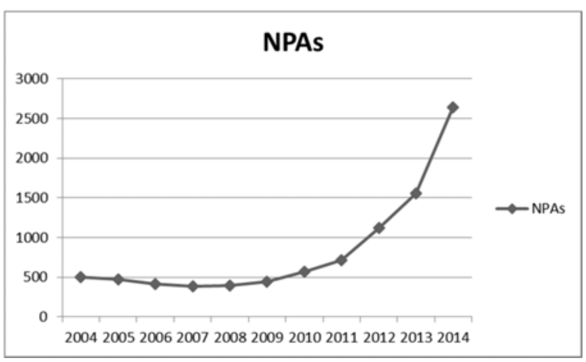
Table 4: No. of issues and amount for commercial paper

Year	Amount outstanding (in crores)	No. Of issues
2008-09	51,666	1013
2009-10	98,673	1431
2010-11	181,639	2842
2011-12	293,627	4465
2012-13	411,816	5341
2013-14	417,729	4546
2014-15	589,412	4976
2015-16 (as on 1/12/15)	379,646	2807

- Secondly, the banks poor performance is another reason from decline in the growth in the bank credit to various segments of the economy. Non-Performing Assets of banks particularly scheduled commercial banks are constantly on a rise. With the rise in the NPAs exerting pressure on their profitability, Indian banks Capital-Adequacy ratio has fallen. Public sector banks have been the worst hit. The decline in growth of credit to Industry (excluding Infrastructure) and Services, on the other hand, was because of slowdown in demand, weakening of the financial positions of some large corporate entities (given their tight liquidity position), lack of new project announcements, and banks' cautious approach to lending in the face of a rapid increase in gross non-performing assets (NPAs) and standard restructured advance

Following is the data on the NPAs of total of the SBI group and Nationalized banks

Year	Amount
2004	501.48
2005	468.17
2006	413.78
2007	383.05
2008	396.00
2009	440.32
2010	572.93
2011	710.80
2012	1124.89
2013	1558.90
2014	2642



Above data highlights that the NPAs of banks are on a rising trend. This is one important reason why banks credit deployment growth has decreased.

- Slow growth in industrial production, as shown in the following table, is also a prime reason for slow growth or decline in deployment of bank credit.

INDEX NUMBERS OF INDUSTRIAL PRODUCTION -GROWTH RATES- (BASE: 2004-05)				
	mining & quarring	manufacturing	electricity	general
weights	14.16	75.53	10.32	100
2006-07	5.2	15	7.3	12.9
2007-08	4.6	18.4	6.3	15.5
2008-09	2.6	2.5	2.7	2.5
2009-10	7.9	4.8	6.1	5.3
2010-11	5.2	9	5.5	8.2
2011-12	-2	3	8.2	2.9
2012-13	-2.3	1.3	4	1.1
2013-14	-0.6	-0.8	6.1	-0.1
2014-15	1.5	2.3	8.4	2.8

Source: CSO, Govt. of India

- Marginal propensity to consume which is change in the level of consumption spending following a change in income level. In the recent years, the propensity to consume has been moderated.
  So, as result the derived demand for investment, i.e. demand for a commodity as a consequence for demand for something, has slowed down.
- Commodity prices have seen some softening in oil prices globally. So the demand for bank credit has also gone down. So this has also caused a decline in the growth of bank credit disbursement to different segments of the economy.
- But bank credit to the personal loan segment has showed a upswing. Bankers said data from credit bureaus and stringent underwriting norms have giving them confidence to grow these segments. Moreover, stiff competition in the secured lending space also prompted banks to explore opportunities in the area. Loan growth was subdued in others.

Conclusion

Growth of an economy is closely related to the growth in bank credits. All the sectors of the economy is largely dependent on bank credits to finance their investments. But the growth in the deployment of bank credit cannot improve if the reasons for its slow growth stated above are not paid immediate heed. Banks should try to bring changes in its policy measures to bring down its NPAs and improve the quality of its assets. Moreover, the interest rates charged by banks should be more appealing to the corporations so that they refrain from shifting to alternative sources of finance. One of the reason for slow growth in credit slowdown is the decline in the industry production. So that needs to be taken care of.

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