

RESERVE BANK STUDY: SECTORAL DEPLOYMENT OF BANK CREDIT

Agri sector credit stagnates, bad loans surge over 40%: RBI

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MUMBAI, FEBRUARY 13

THE SHARE of distressed agriculture sector in non-food credit off-take has remained stagnant and the banks' exposure declined even as non-performing assets in the sector zoomed by over 40 per cent as of September 2018, a Reserve Bank of India (RBI) report has said.

Credit growth to the farm sector fell to a low of 3.8 per cent during the fiscal ended March 2018 and improved marginally to 8.4 per cent, which is much lower than the overall non-food bank credit growth of 12.8 per cent as of December 2018. However, NPAs in the farm sector have crossed Rs 1,00,000 crore by September 2018 as against around Rs 70,000 crore in September 2017, a rise of over 40 per cent in a year.

"Notwithstanding the volatility in growth, the share of agriculture (including farm credit, loans for agricultural infrastructure and ancillary activities) in total non-food credit has remained broadly unchanged at around 13 per cent over the years, which could be largely attributed to priority sector lending (PSL)," the RBI said in a study on 'Sectoral Deployment of Bank Credit'. "Despite targeted lending, credit disbursement to agriculture in 2017-18 has deviated from the trend, reflecting

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E Loan waivers turn banks averse to agri lending

BAD LOANS in the agriculture sector have touched the Rs 1 lakh crore mark as the distressed farming community has failed to get reasonable prices for the produces.

On the other hand, the central bank says banks are wary of lending to the sector in the wake of rising loan waivers. The government and the central bank may have to do much more to boost the agri sector, the lifeline of the country, rather than restricting the incentives to loan waivers and the proposed income support scheme.

drought in some states in the southern region, while expectations of announcement of farm loan waivers have made banks generally averse to lending to this sector. Consequently, exposures of both public and private sector banks has been falling," the RBI said. NPAs in farm sector were less than Rs 40,000 crore in March 2015. In 4 years, it has more than doubled as farmers failed to get realistic returns and defaulted on loan repayments. The farm sector showed good performance between 2008 and 2010 when credit off-take by the sector was between 19 per cent and 22.7 per cent.

The farm sector's outstanding credit has remained at Rs

10,82,100 crore in November 2018 as against Rs 10,30,200 crore in March 2018, according to the RBI data. Finance Minister Piyush Goyal had announced a farmers support scheme of Rs 6,000 per annum in the interim Budget on February 1. Many states had also announced loan waiver schemes for farmers. Banking experts say governments will have to do much more, especially on the structural front, to put the farm sector back on the rails.

During periods of fiscal adjustment, like the one that is bound to arise due to farm loan waivers, capex (capital expenditure) becomes a soft target for deficit control. This has already been wit-

nessed in the case of Maharashtra, Rajasthan and Karnataka, which had announced farm debt waivers outside the Budget in FY18. Despite revenue receipt surpassing the budgeted amount, these states could not keep the revenue deficit at the budgeted level, as the farm loan waivers led to a rise in revenue expenditure, India Ratings said in a report.

According to the RBI, NPAs have depressed credit to major sectors, while sector specific issues have also driven the direction of credit. "Empirical analyses further show industry's growth crowding out the credit to agriculture," it said.

Meanwhile, the nascent recovery, which set during the second half of 2017-18, has continued into 2018-19, supported by several factors - uptick in fixed asset formation and easing stress in infrastructure, the RBI study said. Within industries, credit off-take by the medium and large segments has returned to positive territory in recent months, but remained insipid. Credit flow to micro and small industries continues to be negligible, with growth still in the contraction zone. According to the RBI's latest data, bank credit showed a growth of 14.5 per cent at Rs 94.29 lakh crore and deposits grew at a tepid 9.63 per cent to Rs 121.22 lakh crore for the fortnight ending February 1.