IC Value 2016 : 61.33| SJIF Impact Factor(2017) : 7.144| ISI Impact Factor (2013): 1.259(Dubai)|UGC J No :47335

Research Paper | Volume - 6, Issue- 3, March 2018 | e-ISSN : 2347 - 9671| p- ISSN : 2349 - 0187

EPRA International Journal of Economic and Business Review

CREDIT STRUCTURE AND GROWTH PATTERN IN INDIA

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ABSTRACT

A well functioning financial system is essential for a vibrant and advancing economy. All the sectors of the economy need an equitable quantum of credit for a balanced development. The structural pattern of credit flow would indeed determinate the direction of growth of the economy. Agriculture sector of India need special attention from the financial institutions as majority of the rural population depends on agriculture for employment. The Industrial sector which has advanced over the years have received substantial quantum of credit for its growth. The service sector evolution needs support from the banking system to enhance its employment prospects. The priority sector initiatives of the Reserve Bank of India were able to reap some fruits but more needs to be done it this stream to uplift the weaker sectors.

KEYWORDS: *Agriculture, Credit, Financial Institutions, Growth, Priority Sector.*

INTRODUCTION

A strong financial system is imperative for the advancement of a country's economy and its growth. Financial institutions are the backbone of the economy to strengthen the various sectors of the economy in attaining the end of overall development of the nation. Commercial banks act as the catalyst for the progress of the country through the credit creation process is unique to them. Banks provide credit to various types of organization small or big, for goods or service, for productions or distribution and innumerable economic activities through loans and advances and various products of the financial institutions. The loans and advances could be short term or long term in nature. There are funding mechanism for banks such bill discounting and certain non fund based exposure such as letter of credit and bank guarantee that promote business and trade in a growing economy and transforming them into an vibrant one. Banks should support all the three sectors of the economy in a balance manner to bring about overall development. In a country like India where more than sixty percent of the population depends on agriculture it is essential that sufficient credit flows to the primary sector. It also strengthens the food security of the nation and self dependency. The industrial sector has been the engine of growth of many developed nations and a volume of credit streamed towards industry would transform a developing country like India towards advancement in all dimensions of development. The contribution of the service sector has been growing and contributes to more than sixty percent of the gross domestic product. It's essential that the banking industry caters sufficient funds to this segment to sustain its growth for the comprehensive growth of the economy.

OBJECTIVES

1. To study the trend in the growth pattern of credit of the commercial banks.
2. The understand the structural pattern of credit to the various sectors of the economy

STATEMENT OF THE PROBLEM

A vibrant banking sector is essential for the growth of the economy. In this context is would be worth enough to have a look at the growth of loans and advances over the years and its evolving structural pattern. This would through light into the contribution of the banking sector towards the growth of the various sectors of the economy and its development. This would lead to ways in improve our financial system for better credit management and spurt the growth of the economy.

RESEARCH METHODOLOGY

The study uses mainly secondary. The growth and structural pattern of credit over the period of seven years from 2009-10 to 2015-16 is used for the study. The data is collected from Reserve bank of India bulletins and basic statistical returns of various years. The study uses simple tools like percentage, average and graphs to analyze and interpret the data.

RESULT AND DISCUSSION

The gross credit by banks is mainly classified into three segments by Reserve bank of India. Loans and advances to the primary sector including agriculture and allied activities, to the secondary sector involving industries and the tertiary sector comprising of services and trade related activities. These is also a separate classification for food credit in the gross credit by the banks as it is the most basic need of the human and information on the quantum of credit to this niche market to boost the availability of food items in the country and thus help in the reduction of starvation and poverty.

Primary Sector

The primary sector is the most important sector of the economy providing employment more than sixty percent of the population. At the same time the contribution towards gross domestic product is rather reduced to less than sixteen percent which is rather a precarious situation prevailing in India. The government of India has always been providing special attention to agriculture with many schemes and subsidies to develop agriculture. But the efforts have been in vain as the growth rate of the agriculture has been stagnant over the years.

Item	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Food Credit	691	786	816	946	912	994	1,031
Agriculture and allied activities	4157.41	4806.34	5466.26	5899.14	6659.79	7658.8	8829.42

Table 1, Source: Basic Statistical Return, Reserve Bank of India, various publications

A look at the credit allocation towards the agriculture sector is rather dismal. Table 1 shows that growth of the credit towards agriculture and allied activities. The share of food sector is rather minimal and its growth has remained almost stagnant over the years. The advances towards agriculture have shown a gradual progress over the years but its share of the total credit is very low contributing just twelve to fourteen percent over these years and has been revolving in this range. The lack of demand for credit towards agriculture from formal sources could be a reason for such stickiness in the credit share for agriculture. Another striking feature of agriculture credit is that there is similarity in the percentage share of gross domestic product of agriculture and the percentage share of credit towards agriculture. Thus it is important to increase the flow of credit towards agriculture to improve its performance and augment it share in the overall gross domestic product.

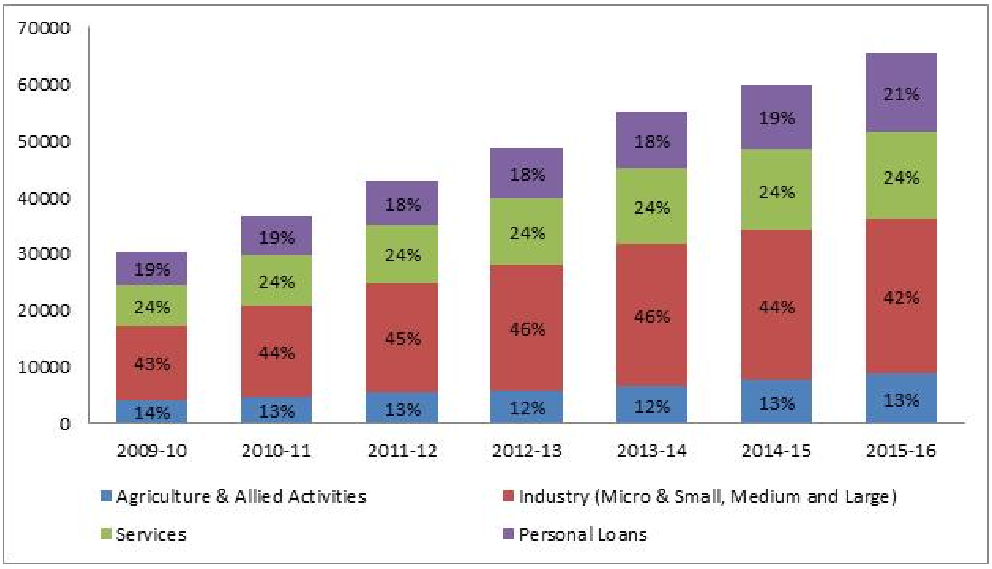

Figure 1: Credit growth and the share of various sectors

Industrial Sector

The engine of growth of the economy is the industrial sector. It is imperative that the industry gets enough funding to expand the economy. The flow of credit towards industry is smoother as the appraisal process and financial statement of the incorporated companies is readily available and the appraisal process is rather systematic and well laid down process flow is in place. The assets mortgaged by the industrial sector are more physical and its value is appreciable in nature and can be easily attached in case of default. The risk perception towards industry exposure is lower compared to agriculture and the return pattern for the investments is more stead in trend.

Industries	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Micro & Small	2064.01	2102.06	2366.57	2843.48	3481.94	3800.28	3714.67
Medium	1326.36	1164.87	1247.89	1247.04	1240.69	1245.36	1148.21
Large	9724.15	12778.82	15758.8	18211.27	20442.2	21530.63	22443.89
Total	13114.51	16045.76	19373.25	22301.79	25164.83	26576.27	27306.77

Table 2, Source: Basic Statistical Return, Reserve Bank of India, various publications

The industry sector seems to grab the lion share of the advances by financial institutions. Table 2 shows the growth of the industrial sector. These is an encouraging progress is the growth of credit towards industry. The share of the industry has been sustained and improving over the years. The reason for such good performance of the industry in attracting funding from commercial banks is mainly due to the organized nature of the industries sector. They command good creditworthiness among financial institutions.

It is worth noting that within the industrial sector the majority share is captured by the large industries. This trend of credit flow towards large industries has steadily grown over the years. At the same time the medium and small scale industries could not attract loan as much as that of large scale industries. The advances towards medium scale industries have shown a downward trend which is a discouraging sign and need serious attention as the medium scale industries loan portfolio is rather the least among them. This shows that large corporate could grow by utilized a large share of public fund through their loan portfolio. The medium scale industries which are rather indigenous firms are at a disadvantage as the low loan volume is hampering their growth and prospects. Even the small scale industries could attract some funding from banks which has shown a gradual progress which is encouraging but the funding requirement could never be meet as there are a large number of small and micro industries spread across the country. The individual share of loans of the small scale and micro industries are very minimal and they find it is difficult in getting loans sanctions for their business activities as the financial institutions is running after large corporate with better creditworthiness and neglecting small and micro industries which have high credit risk thus leading to such poor scenario for availing loans from financial institution leaving them is despair.

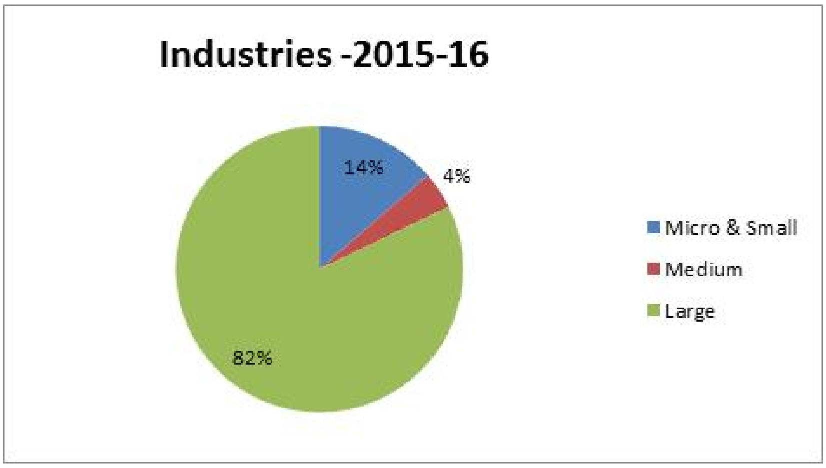

Figure 2: Industrial Sector credit

Service Sector

Services sector is the most encouraging sector in terms of gross domestic product growth and its share as it contributes more than 60 percent of India's gross domestic product. The share of the service sector in terms of loan availed is just about a quarter of the loan portfolio of banks. As service sector does not require large capital expenditure the demand for loan is also on the lower side but the growth rate of credit is appreciable none the less. The service sectors do contribute significantly to the overall growth of the gross domestic product. Considering the fact that, the retarding growth of agriculture sector and the stagnant industrial sector, it is imperative that the growing service sector should be backed by adequate credit support from the financial institutions to enhance the present growth rate of the country.

Services	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Transport Operators	525.16	697.45	762.93	796.3	923.42	915.66	997.43
Computer Software	125.43	138.58	142.97	169.1	185.89	172.14	190.96
Tourism, Hotels & Restaurants	194.1	276.38	323.19	354.41	398.75	370.36	370.53
Shipping	92	79.16	79.44	82.2	102.43	101.17	104.3
Professional Services	434.01	451.88	479.61	564.21	796.49	844.17	1046
Trade	1644.97	1850.41	2249.77	2759.53	3257.77	3656.82	3810.98
Commercial Real Estate	921.28	973.41	1126.52	1260.7	1532.4	1664.61	1776.13
Non-Banking Financial Companies (NBFCs)	1134.41	1902.81	2332.21	2602.57	2937.73	3117.44	3527.42
Other Services	2196.54	2571.94	2732.96	2929.83	3239.63	3288.58	3586.93
Total	7267.9	8942.01	10229.6	11518.86	13374.51	14130.97	15410.67

Table 3, Source: Basic Statistical Return, Reserve Bank of India, various publications

Table 3 depicts the growth pattern growth service sector credit and its components. The overall growth rate of credit towards service sector is encouraging. The service sector involves numerous types of services and a comprehensive classification is exhaustive and thus various miscellaneous services are grouped under the head 'other services' and these 'other services' have received the largest share of credit under services. Trade related services also receive substantial credit which places it second in terms of advances outstanding. Sectors like transport and non banking financial institutions attract credit facility for its business activities to a good extent. The credit growth towards services sector is encouraging as all types of services show an increasing trend. This is indeed reflexive of the buoyant service sector in India.

Priority Sector

The Reserve bank of India has classified certain sectors as priority sectors in order to provide enhanced credit facility to such segments to develop them thus contributing to the overall development of the economy through increased employment and living standards. Priority sector involves agriculture credit, housing loans, educational loans, micro credit and export finance to name a few. As per Reserve bank of India norms forty percent of the total advances of the banks in a financial year should be towards priority sector. Even as many banks fail to meet such targets there is certainly some structured flow of credit towards priority sector to develop the economy.

Priority Sector	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Agriculture & Allied Activities	4157.41	4806.34	5466.26	5899.14	6659.79	7658.8	8825.9
Micro & Small Enterprises	3735.3	4428.48	4986.25	5622.96	7078.13	8003.43	8475.87
Housing	2178.77	2391.05	2658.51	2672.03	3020.07	3223.86	3422.76
Micro-Credit	217.99	192.31	160.24	165.07	172.13	177.01	188.46
Education Loans	362.47	425.89	480.67	526.12	578.88	591.84	601.37
State-Spons Orgs. for SC/ST	12.34	0.87	1.79	1.24	3.28	3.48	5.14
Export Credit	302	318.21	391	422.34	483.13	426.26	423.82
Total	10966.28	12563.15	14144.72	15308.9	17995.41	20084.68	21943.32

Table 4, Source: Basic Statistical Return, Reserve Bank of India, various publications

Table 4 presents the priority sector lending statistics. The credit towards agriculture is leading in this priority segment and it has grown over the years. This is reflective of the intended policy result of a regulated credit flow to such weak sectors to boost its growth. Micro and small enterprises which are another neglected segment too have received some support through this priority sector policy as there is substantial volume and credit growth in this segment. A home for all the citizens of the country is the vision of government. Thus lending to this segment is of tremendous support in realizing this dream. There is a clear growth in this segment too which is encouraging as well.

India's competitive advantage is its young working force as more that fifty percent of the population is in the 25-40 years age group. This potential needs to be taped through better human resource development through proper education. Education loan for quality education would go long way in achieving this mission. There seems to be low volume of credit to education loans compared to other segments and very weak growth pattern compared to the large and growing population in India. Export credit is another important priority sector that needs attention. It is the strategic way to increase our purchasing power among world nations through higher stock of foreign exchange. This can be achieved only through growing exports backed up by sufficient credit. But the reality is that export credit could not grow as desired which is a matter of worry. The low volume credit and its sluggish growth towards export segment needs critical appraisal even after classifying it under the priority sector category.

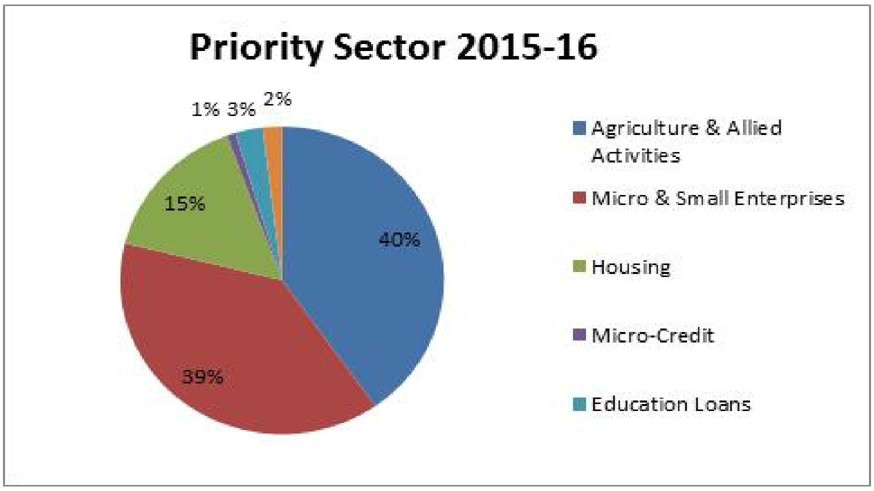

Figure 3: Priority Sector credit

CONCLUSION

The overall credit growth of the financial system in India is worth praises as there is gradual growth in all the sectors of the economy. Even when there is such appreciable growth of credit what is the underpinning factor is that the average inflation in India is on the higher side compared to other developed counties. Thus the probing question in front of the policy makers is that is this credit growth good enough to spurt the growth of the gross domestic product of the country. Another matter of concern is the structural pattern of the credit outflow of the lending institution. Even as government turns much attention towards agriculture and its development the credit share towards agriculture is does not commensurate to this intention. There should be a breakthrough in this pattern in an economy like India in which more than sixty percent of the population depends on agriculture and allied activities.

The industries sector carries away the majority of the advances and loans from the financial institutions. But the matter of concern is that even after such biased credit flow the industrial sector is stagnant in terms of growth and absorption of labour is not as expected. The scarce resource of credit allotted to the industrial sector is in reality not doing its job as expected. The service sector which now contributes more than sixty percent of the gross domestic product gets a lower volume of credit in contrast. A higher credit flow to this sector could increase the employment opportunity in this sector which would avoid the disguised employment in the agriculture sector. The priority sector classification is a widely accepted initiative by the government of India as substantial amount of credit is indeed flowing to the much needed weaker sectors like agriculture and small scale industries. There is substantial scope for improvement in export credit and educational loans which could help meet the priority sector targets. A further push in agriculture credit and advances to small scale industries could boost the employment opportunities and a more balanced growth and development.

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