Consumer goods, vehicle loans surge on public sector pay hike

By *Gayatri Nayak*, ET Bureau | Updated: Sep 15, 2016, 11.44 AM IST

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MUMBAI: Loans for durable products such as cars and two-wheelers and consumer goods are surging past all other segments in an uptick attributed to the implementation of the seventh pay commission award.

Vehicle loans disbursed by banks increased 20.7% in July this year compared with that a year ago, when the growth rate in July 2015 was 16.6% over the previous year's figure. The total vehicle loan portfolio of commercial banks is pegged at `1.57 lakh crore as of July end.

Consumer durable loans, on a small base of Rs 19,000 crore, increased 18% in July this year compared with 13% in July 2015.

The overall credit growth in July was 7.7% over the previous year's figure while loans to industry remained almost flat. Very few segments such as credit card outstanding and unsecured loans, with a much smaller base, recorded higher growth.

While most private banks have been pushing vehicle loans as part of their retail strategy, even some state-run banks are devising special schemes. "We have announced a vehicle loan carnival to meet the consumption demand that will come as the government implements the recommendations of the new pay commission," said Ashwani Kumar, chairman of Dena Bank.

Besides offering attractive rates, the bank has waived off processing fees for a limited period and has organised a credit camp to push such loans.

The government approved the seventh pay commission proposals and raised public sector wages and pensions by 16% and 23.6%, respectively . The revised pay is credited from August onwards.

"As witnessed during the past pay commissions, demand for consumer durables (automobiles, clothing and footwear) and non-durables (recreational services) is likely to improve.Demand was notably stronger during the Sixth Pay Commission in 2008-09," Radhika Rao, India economist at DBS said in a report.

The demand was stronger the last time round due to the accompanying fiscal stimulus packages implemented to cushion the economy from the global financial crisis, she said. Incomes are also under pressure this time from a weak manufacturing or industrial sector, sluggish external sector and excess capacity, the DBS report said.