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Market Watch

RBI warns banks over focus on retail loans

BY ET BUREAU | DEC 25, 2019, 08.05 AM IST

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MUMBAI: The Reserve Bank of India (RBI) has red-flagged banks' reliance of retail loans over slowing economic activity and negative consumer sentiment.

The banking regulator called for a granular lending strategy to offset risk concentration in its annual publication on trends and progress of banking in India.

"Lenders have been shifting their focus away from large industrial loans towards retail loans, as bad loans of the latter have traditionally been low," RBI noted in the report.

"This diversification strategy, while helpful as a risk mitigation tool, has its own limitations: the slowdown in consumption and overall economic growth may affect the demand for and the quality of retail loans."

Household leverage and indebtedness need to be kept in focus in the context of overall financial stability, it further said. With corporate loans rigidly at multi-year lows, risk-averse banks lapped up retail credit. Of late, retail asset quality is showing signs of stress as individual borrowers are delaying payments, especially in auto, two-wheeler and loans taken to buy consumer durable products, data from credit rating CRIF High Mark shows. RBI also said that the need of the hour is to kick-start industrial credit and use that to regenerate a virtuous cycle of capex, investment and growth.

"Some sector-specific pockets of stress will need policy attention. Proper risk pricing in lending is of prime importance so that the health of the banking sector is not compromised while ensuring adequate credit to the productive sectors of the economy," it said. The RBI said that slowing credit growth was an area of concern.

Banks' credit grew 8.07% to Rs 98.47 lakh crore in the fortnight-ended Nov 6. In the previous fortnight ended Oct 25, bank credit had grown by 8.90% to Rs 98.39 lakh crore.

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