

RBI's easing of coop banks' lending to housing is welcome

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The RBI hiking the repo rate by 50 basis points was expected as inflation is well above the central bank's tolerance level. Crude oil prices continue to rule high, with the Russia-Ukraine war showing no signs of ending, putting upward pressure on prices.

Most developed countries are tightening the monetary policies creating volatility in emerging markets.

Apart from its focus on curbing inflation, the monetary policy has increased credit flow to the housing or construction sector.

One of the key drivers of growth is investment and India's investment ratio slowed down from 35 per cent in 2007 to 27 per cent of GDP in 2020 (WDI, 2020). The household investment declined from 15.8 per cent in 2011-12 to 11.3 per cent of GDP in 2017-18, and construction activity dipped (around 25 per cent) from 12.8 per cent to 7.8 per cent in the same period.

Increasing credit flow to the household sector is expected to address the liquidity crunch and

pave the way for investment revival in the housing sector, boosting other industries such as steel, cement, power, etc.

Strengthening co-op banks

The RBI has revised upward the limits by over 100 per cent for individual housing loan extended by Urban Co-operative Banks (UCBs). Along with this, the Rural Co-operative Banks (RCBs) will now be allowed to extend finance — up to 5 per cent of their total assets — to commercial real estate or residential housing projects.

Now, the credit limits for Tier I/Tier II cities by UCBs will increase from ₹30 lakh/₹70 lakh to ₹60 lakh/₹140 lakh, respectively. The limits will increase from ₹20 lakh to ₹50 lakh for RCBs with an assessed net worth less than ₹100 crore; and from ₹30 lakh to ₹75 lakh for others.

In India, the structure of co-operatives includes 1,534 UCBs and 96,508 RCBs. The aggregate balance sheet size of these banks stood at ₹18.8 lakh crore in 2020, amounting for the 10 per cent of

the size of scheduled commercial banks' (SCBs). The asset size of CBs is largely dominated by RCBs with 67 per cent of total assets.

The advance to deposit ratio for UCBs is around 60 per cent at aggregate level much below scheduled commercial banks' 72.5 per cent. The possible reason for the lower credit base of these banks can be attributed to the skewed presence of UCBs in leading states

only, duality issues related to the regulation, credit ceilings into potential sector like housing, rising NPAs with compulsion to primary sector lending, and the expansion of banks through banking correspondents and adoption

of FinTech.

UCBs' deposit growth was well above that of banks' before 2016. But this dropped to 6.1 per cent in 2018-19 and further down to 5.2 per cent in 2020-21.

In the past four years UCBs have seen significant decline in loans and advances from 8 per cent in 2018-19 to 2.4 per cent in 2020-21. As of March 2021, UCBs have net NPA ratio of 4.6 per cent and gross

NPA ratio of 11.7 per cent as against the 2.8 per cent and 8.2 per cent, for banks. UCBs with larger deposit base, are in advantageous position to raise low cost funds, however the rural bodies are largely dependent on borrowings (27 per cent of total liabilities compared to 1 per cent of UCBs).

The RBI's policy of raising limits of housing loans by UCBs and allowing RCBs to lend to housing loans is welcome. UCBs have credit exposure of about ₹3.25 billion including one-third to the MSMEs and about 8 per cent towards the housing sector. The RBI's move to boost credit to housing sector will not only ease credit flow but also safeguard banks against rising NPAs through the space for secured loans.

However, UCBs and RCBs need to improve their assets base by improving access through banking correspondents as FinTechs banks have done, and capitalise the current opportunity of credit flow to household sector.

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