

Slowdown in credit growth due to stress in public sector banks: Rajan

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RBI Governor Raghuram Rajan

RBI chief says policy rate cuts alone cannot fix the problem; balance-sheet of banks needs to be cleaned-up

Mumbai, July 26:

Reserve Bank of India Governor Raghuram Rajan said on Tuesday that the slowdown in credit growth has been largely because of stress in public sector banks stemming from past mistakes in lending.

This will not be fixed just by a cut in policy rates. Instead, what is required is a clean-up of the balance sheets of public sector banks, which is under way and needs to be taken to its logical conclusion, Rajan said at the 10th Statistics Day Conference here.

The Governor said there is a slowdown in lending by public sector banks *vis-à-vis* their private sector counterparts.

Strong growth

“...the real rates of credit growth from private sector banks to different sectors are extremely high, and private banks typically do not charge lower interest rates than public sector banks. This suggests strong demand for loans from them at prevailing interest rates. The obvious conclusion one should draw, therefore, is that the slowdown is because something is affecting credit supply from the public sector banks specifically,” he explained.

Rather than an across-the-board shrinkage of public sector lending, the Governor felt that there seems to be a shrinkage in certain areas of past high credit exposure, specifically in loans to industry and to small enterprises. Additionally, the fact that the credit slowdown dates from early 2014 suggests that the bank clean-up, which started in earnest in the second half of fiscal year 2015, was not the cause.

Indeed, the slowdown is best attributed to overburdened public sector bank balance sheets and growing risk aversion among public sector bankers.

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