

## RISK AVERSION AND UNCERTAINTY IN BANK'S CREDIT GROWTH DURING THE 1ST WAVE OF COVID-19 PANDEMIC

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### ABSTRACT

*The Covid-19 pandemic has impacted every sector of the economy; the magnitude of impact is different in each sector. This pandemic has badly impacted the Indian banking sector. The credit growth has been declined in various bank's credit segments, which resulted in pressure on net interest margins and the bank's profitability. The present paper is an attempt to highlight the sector-wise trends in the credit growth of Indian banks. This paper highlights the banker's psychological biases developed due to uncertainties caused by the Covid-19 pandemic. The sectors like logistics, international trade, and manufacturing are showing negative credit growth, whereas the demand for consumer credit and loan against shares, bonds, fixed deposits has been increased. RBI has infused Rs. 8 lakh crores to Rs. 9 lakh crores liquidity into the system, but these measures are not adequate to boost the bank's credit growth due to risk averse behaviour of bankers. The paper concluded that the banker's risk-averse behaviour has resulted into sluggish credit growth.*

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**Keywords:** Risk-Aversion, Bank's Credit, Covid-19 Pandemic.

**JEL Classification:** G2, G4, G53

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### Introduction

The banking sector is an engine for the economy; the bank credit is fuel for economic activities. The banking sector is divided into public sector banks, private sector banks, and foreign banks in India. In India, overall reliance on bank credit is relatively high as compared to other emerging economies. Bank credit denotes the investments and consumption of high-value items in any economy, which are the critical parameters to measure the economic health of any country. The present Covid-19 pandemic has severely impacted economic activities. The Covid-19 lockdown measures have played a crucial role in low demand and weak spending; further, the weak spending has affected the bank's credit disbursements in various segments, e.g., Retail, MSME (Micro, Small, and Medium Enterprises), Corporates and Agriculture). The uncertainty that arises due to the present pandemic has made lenders risk averse. The recent sluggish growth in bank credit disbursements results from weak demand in the economy and bankers' risk-averse behavior. Even after the announcement of unlocking by the government authority, banks are showing weak growth in bank credit. The bankers are risk averse due to uncertainty in the economy as recent GDP falls by 23.9 percent, so; they are picking up only those credit portfolios which are backed by good asset quality.

The Reserve Bank of India has been putting efforts to maintain credit growth by reducing the policy rates, and the government has also introduced measures to encourage lending activities. Nevertheless, the bankers still show risk-averse behavior, which is clearly evident from the declining credit-deposit ratio (CD Ratio). The weak credit growth impacts the overall credit-deposit ratio (CD Ratio) of banks, which is another indicator of weakened economic activities. Further to boost the credit growth government has taken specific measures like credit guarantee schemes for micro, medium, and small

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enterprises and interest waiver. However, these efforts are not resulting in a favorable credit boost because bankers are feared that these efforts will not enhance the credit disbursement; instead, this will increase the litigation. Recently the government has amended the relief plan that allowed the borrowers to skip their monthly repayment for six months. After six months, the "interest-on-interest" on the delayed installments will increase the debt on borrowers, impacting the balance sheet of banks. Many borrowers will fall into a debt trap, which will increase the banks' stressed asset size.

**Effect of Covid-19 on CD Ratio**

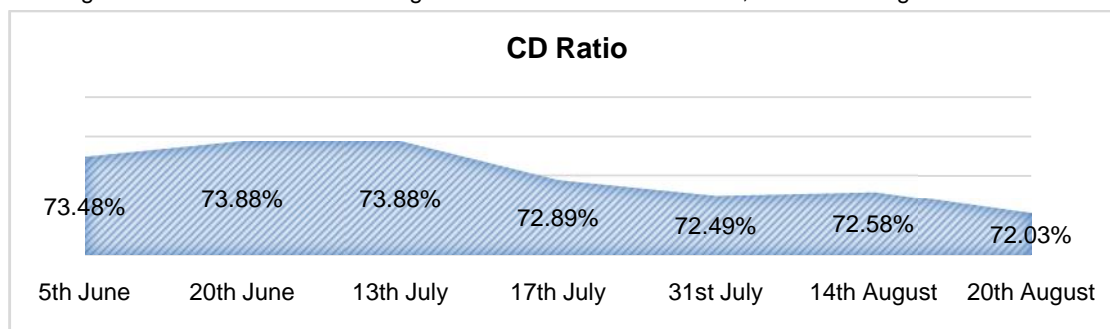
The credit-deposit ratio of any bank is a significant indicator of utilizing available resources with a bank. The CD ratio denotes how much a bank lends out the total deposits. The Reserve Bank of India does not mandate any threshold to it, but a very high ratio defines the excessive pressure on resources, and alternatively, a meager CD ratio describes that banks are not utilizing their available resources (Ramchandani and Jethwani, 2018). In recent times banks were able to mobilize the deposits, but low spending and low demand for credit have impacted the credit disbursements in banks, which caused the decline in CD ratio, as indicated in table-1.

**Table 1: Credit Deposit Ratio from June'2020 to August'2020**

Rs.(Trillion)	June 5	June 19	July 13	July 17	July 31	August 14	August 28
Deposits	138.55	138.67	140.75	140.2	141.61	140.8	141.76
YoY (%)	11.3%	11.0%	11.0%	10.8%	11.10	11.0	10.9
Credit	102.54	102.45	102.91	102.19	102.65	102.19	102.11
YoY (%)	6.2%	6.2%	6.1%	5.8%	5.5%	5.5%	5.5%
CD Ratio	73.48 %	73.88%	73.12%	72.89%	72.49%	72.58%	72.03%

Source: RBI Monthly Data

The CD ratio has a significant relationship with the bank's profitability and overall economic growth (Biswal and Gopalkrishna, (2014). The declining CD ratio indicates the bank's net interest income decline because Ramchandani (2017) revealed that the CD ratio has a statistically significant relationship with the bank's net interest margin (NIM). After lockdown, there was a decline in the CD ratio of Indian banks as the bankers were showing risk-averse behavior. The banker's psychological biases developed due to uncertainties caused by the Covid-19 pandemic and the sudden announcement for complete lockdown on 23rd march, 2020. The lockdown has severely hampered consumer spending as it impacted the jobs and salaries too. The weak spending in the economy resulted in the weak demand for credit and investments, resulting in a decrease in bank's credit growth and a decline in CD ratio, as shown in figure-1.



**Figure 1: Trend of CD Ratio during Covid-19 Period**

Source: Authors Compilation

**Credit Growth during the Covid-19 Period**

- **Food-Credit**

The decline in credit outstanding was different in the non-food credit and food credit segments. The food credit defines as "The loan provided by banks to the Food Corporation of India (FCI) and state government agencies for procurement of food grains from farmers is a part of the gross bank credit." The food credit has significantly increased in the first quarter of the financial year 2020-21. The livelihood of many citizens got affected by sudden lockdown measures. The burden of ensuring the primary livelihood was shifted to central and state governments. State-run agencies ensured the supply of essential food items, it has increased the demand for food credit from banks. The food credit constitutes 1 percent of gross bank credit. The credit growth in food credit is 53.2% in FY 2020-21 so far (as indicated in table-2).

**Table 2: Credit Growth in Food and Non-Food Credit in FY 2020-21 so far  
(Outstanding amount in Rs. Crores)**

	Gross Bank-Credit	(A) Food Credit	(B) Non- Food Credit
Outstanding as on 27 <sup>th</sup> March 2019	9263134	51590	9211544
Outstanding as on 31 <sup>st</sup> July 2020	9148074	79023	9069051
Credit Growth (%)	-1.2 %	53.2%	-1.5 %

Source: RBI Quarterly Report, September 2020

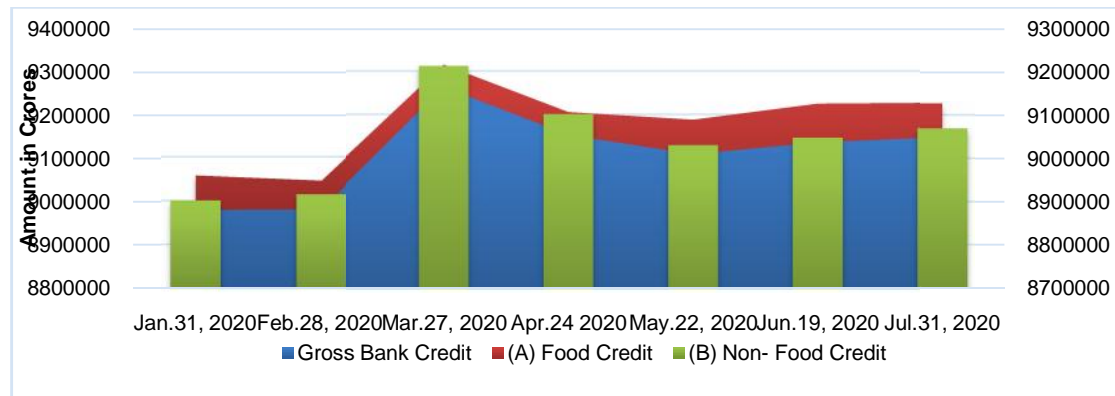
The first case of COVID-19 in India was reported in the month of January 2020, the below table-3 indicates the trend in bank's credit growth.

**Table 3: Bank credit growth since first Covid-19 case reported in India in January, 2020  
(Outstanding amount in Rs. crores)**

	Gross Bank Credit	(A) Food Credit	(B) Non- Food Credit
Jan.31, 2020	8978800	78664	8900136
Feb.28, 2020	8980095	65384	8914711
Mar.27, 2020	9263134	51590	9211544
Apr.24 2020	9153122	52474	9100648
May.22, 2020	9108882	79135	9029747
Jun.19, 2020	9136004	88990	9047014
Jul.31, 2020	9148074	79023	9069051

Source: RBI Quarterly Report, September, 2020

The data are indicating that before the announcement of complete lockdown in March'2020, the food credit segment was declining; on another side, non-food credit was increasing. So, overall, bank credit growth was positive from January to March'2020. After the lockdown measures, there is positive credit growth in the food credit segment and negative growth in the non-food credit segment. The trend indicates that after the lockdown, most of the economic activities got shut down, which resulted in a decline in non-food credit growth, as shown in figure-2.

**Figure 2: Trends in credit growth during covid-19 from January to July, 2020**

Source: Authors Own Compilation

### Non-Food Credit

The non-food credit includes credit disbursements to (A) Agriculture and allied activities (B) Industry (C) Services (D) Personal loans/consumer loans (E) Priority sector advances. The non-food credit constitutes 99 percent of gross bank credit. The table-4 is indicating negative credit growth in the non-food credit segment. Agriculture and allied activities have achieved positive credit growth among the non-food credit segment. The agricultural activities were relaxed from the strict lockdown guidelines, so the demand for credit was there. The agriculture credit is backed by the various government subsidies and guarantee schemes which have resulted in positive credit growth. The highest negative growth has been reported in industrial credit (-2.9%) followed by priority sector advances (-2.4%), services (-1.8%), and personal loans (-0.9%) as illustrated in table-4.

**Table 4: Credit growth in various non-foods credit segments in FY 2020-21 so far**  
(Outstanding amount in Rs. crores)

	(a) Agriculture and Allied Activities	(b) Industry	(c) Services	(d) Personal Loans	(e) Priority Sector
Outstanding as on 27 <sup>th</sup> March 2019	1157796	2905151	2594945	2553652	2897461
Outstanding as on 31 <sup>st</sup> July 2020	1169273	2821316	2547228	2531234	2828526
Credit Growth (%)	1.0%	-2.9%	-1.8%	-0.9%	-2.4%

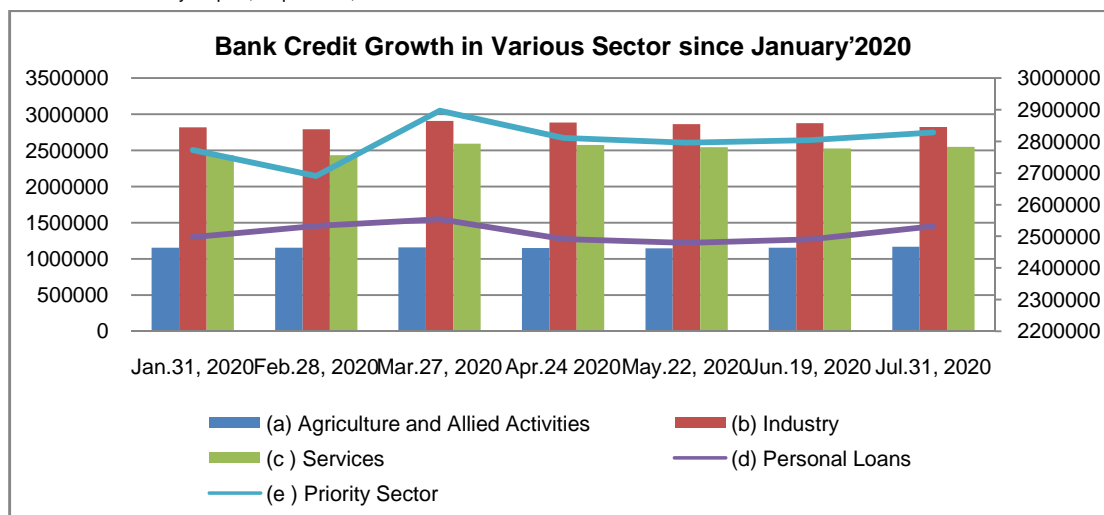
Source: RBI Quarterly Report, September, 2020

Table-5 indicates that after the announcement of the lockdown, the bank's credit disbursement in all segments was declined in immediately following months, e.g., April and May 2020. From 27th March, 2020 to 19th June 2020, the biggest fall in bank credit disbursement was reported in priority sector advances of Rs. 101915 crores (-3.5%) followed by personal loans (74789 crores (-2.9%), services (51875 crores (-2.0%)), industry (29941 crores (-1.03)), agricultural and allied activities (11588 crores (-1.0%)). The data are indicating that the strict lockdown measure has adversely impacted the bank's credit growth. Further, when the government's unlock measure has been taken at the end of May month; the positive growth in bank credit has been reported from 22nd May 2020 to 31st July 2020. The highest credit disbursement has been reported in the personal loans segment (52371 crores (2.11%)) followed by agriculture & allied activities (23066 crores (2.01%)) and priority sector advances (32980 crores (1.17%)). On the contrary, the manufacturing sector/industries and services are struggling for recovery, as shown in figure-3.

**Table 5: Credit growth in various sectors since first Covid-19 case reported in India in Jan, 2020**  
(Outstanding amount in Rs. crores)

	(a) Agriculture and Allied Activities	(b) Industry	(c) Services	(d) Personal Loans	(e) Priority Sector
Jan.31, 2020	1153386	2817525	2431975	2497250	2772197
Feb.28, 2020	1155990	2792812	2433858	2532051	2690428
Mar.27, 2020	1157795	2905151	2594945	2553652	2897461
Apr.24, 2020	1151330	2884372	2574155	2490791	2811116
May.22, 2020	1146207	2861607	2543070	2478863	2795546
Jun.19, 2020	1152934	2875210	2528489	2490381	2803776
Jul.31, 2020	1169273	2821316	2547228	2531234	2828526

Source: RBI Quarterly Report, September, 2020



**Figure 3: Trends in bank credit disbursements in various sectors during Covid-19 Period**

Source: Authors Own Compilation

- **Personal Loans**

After the unlock measures, the highest credit growth has been observed in consumer credit, including advances for consumer durables, housing loans, advances against fixed deposits, shares, bonds, credit card, education, vehicle loans, and other personal loans. The table-6 is indicating the sharp increase in credit card outstanding and other personal loans. The growth in the consumer loan segment is the outcome of job losses and salary cuts during the COVID-19 pandemic because to meet out the day-to-day needs, individuals' reliance on bank credit has been increased instead of their salary or wages.

There is a significant increase in advances against shares, bonds, etc., indicating the risk averse behavior among the investors and bankers. The individual investor is uncertain about the returns on their existing investment in shares, bonds, etc., and they are willing to pledge their investments to avail the immediate consumer credit. The increase in loans for consumer durables is again indicating the individual reliance on bank credit instead of their savings. Because consumers are more risk averse due to uncertainty, and they tend to save more for future contingencies (Dreze and Modigliani, 1970).

Compared to FY 2019-20, bank lending to personal loans has contracted by 2.5 percent, this YoY growth of 10.5 percent. The general demand slump hit all segments of personal loans badly. To give a break-up, growth to durable consumer loans contracted by 5 percent this fiscal year so far (as against a YoY growth of 53 percent). Loan growth to housing, education, and vehicle loans too contracted by 0.2 percent, 1.1 percent, and 2.7 percent, respectively. (RBI Report, 2020)

**Table 6: Bank Credit Growth in Personal Loans  
(Outstanding amount in Rs. Crores)**

Sr. No	Sector	Jan.31, 2020	Feb.28, 2020	Mar.27, 2020	Apr.24 2020	May.22, 2020	Jun.19, 2020	Jul.31, 2020
	<b>Personal Loans</b>	<b>2497250</b>	<b>2532051</b>	<b>2553652</b>	<b>2490791</b>	<b>2478863</b>	<b>2490381</b>	<b>2531234</b>
1	Consumer Durables	6453	6495	9298	8908	8703	8847	9127
2	Housing (Including Priority Sector Housing)	1316481	1328991	1338964	1330709	1329147	1335902	1347565
3	Advances against Fixed Deposits (Including FCNR (B), NRRR Deposits etc.)	67240	75469	79496	67905	63594	61457	62317
4	Advances to Individuals against share, bonds, etc.	5185	5183	5334	4818	4502	5803	6392
5	Credit Card Outstanding	110864	110946	108094	96978	92887	97586	101391
6	Education	67038	66563	65745	65246	65205	65017	65100
7	Vehicle Loans	220240	221129	220609	216968	214548	214602	217697
8	Other Personal Loans	703749	717275	726112	699259	700277	701167	721645

Source: RBI Quarterly Report, September, 2020.

- **Priority Sector Advances**

The positive recovery in priority sector advances is due to credit disbursement to agriculture and allied activities. The bank credit to agriculture & allied activities has been significantly increased by 2.0% after the unlock measures. Apart from the growth in credit disbursement to agriculture, a similar growth is reported in credit disbursement to the weaker section of the society. The weaker section is worst affected by the COVID-19 pandemic, so the Government of India has announced certain specific relief measures to provide them bank credit. The data in table-7 are indicating the significant increase in credit to weaker sections.

**Table 7: Bank credit Growth in Priority Sector Advances  
(Outstanding amount in Rs. Crores)**

Sr. No	Sector	Jan.31, 2020	Feb.28, 2020	Mar.27, 2020	Apr.24 2020	May.22, 2020	Jun.19, 2020	Jul.31, 2020
	<b>Priority Sector</b>	<b>2772197</b>	<b>2690428</b>	<b>2897461</b>	<b>2811116</b>	<b>2795546</b>	<b>2803776</b>	<b>2828526</b>
1	Agriculture & Allied Activities	1142576	1145063	1146624	1145120	1138386	1144499	1155451
2	Micro & Small Enterprises	1100615	1095182	1149394	1100834	1077748	1132391	1100578
2(a)	Manufacturing	373050	371333	381825	358340	352949	352696	354728
2(b)	Services	727566	723849	767568	742494	724799	779695	745850
3	Housing	461089	460496	449945	459911	463004	463729	464437
4	Micro-Credit	36176	36477	38237	35154	34818	35826	32817

5	Education Loans	53101	52692	51906	52003	52088	52035	51434
6	State-Sponsored Orgs. for SC/ST	413	115	388	395	399	399	410
7	Weaker Sections	715057	701304	731409	743790	739806	740428	742426
8	Export Credit	13503	14325	16114	16690	17381	16719	15237

Source: RBI Quarterly Report, September, 2020.

#### • Industrial Credit

The industrial credit was already showing weak growth due to slow economic growth, but the covid-19 pandemic has retarded this more. The year-on-year (YOY) growth in manufacturing (0.8%) was the lowest among all the segments (RBI Report, 2020), and the decline in bank credit is the highest (-2.9%) among all segments (Table-1). The micro, small and medium enterprises are worst affected by the strict lockdown measures from 27th March, 2020 to 19th June, 2020 but the large industries with good ratings have managed to access the loans due to their excellent bargaining power with lenders. The demand for credit by the MSME is sharply declined in these months. The reasons behind the worst performance in the MSME segment are weak bargaining power for loans and strict lockdown where end-users could not avail of the products & services generated by MSMEs. After the announcement of unlocking the slightest recovery has been observed in MSME credit disbursement as shown in table-8.

**Table 8: Bank Credit Growth in Industry  
(Outstanding amount in Rs. Crores)**

Sr. No	Sector	Jan.31, 2020	Feb.28, 2020	Mar.27, 2020	Apr.24 2020	May.22, 2020	Jun.19, 2020	Jul.31, 2020
	Industry (Micro & Small, Medium and Large )	2817525	2792812	2905151	2884372	2861607	2875210	2821316
1	Micro & Small	373050	371333	381825	358340	352949	352696	354728
2	Medium	106813	107502	105598	99458	99847	95670	101994
3	Large	2337662	2313977	2417728	2426574	2408811	2426844	2364594

Source: RBI Quarterly Report, September, 2020.

#### • Bank Credit to Services

The Covid-19 pandemic has been spread in all major countries. It's affected the various services like transportation, tourism & hospitality, shipping, etc. The data in table-9 reveals that shipping and export-related services are the worst affected segment as the decline in bank credit to these sectors is the highest among all services. On the year-on-year (YOY) basis, bank loans to the services sector had grown by 10.7 percent. The growth in bank lending to the tourism sector was 17 percent on a YoY basis, which has now plummeted to 0.6 percent. (RBI Report, 2020). Banks can perform subsector analysis to understand if the borrower will be in trouble or go in the NPA category in the future.

**Table 9: Bank Credit Growth in Services  
(Outstanding amount in Rs. crores)**

Sr. No	Sector	Jan.31, 2020	Feb.28, 2020	Mar.27, 2020	Apr.24 2020	May.22, 2020	Jun.19, 2020	Jul.31, 2020
	<b>Services</b>	<b>2431975</b>	<b>2433858</b>	<b>2594945</b>	<b>2574155</b>	<b>2543070</b>	<b>2528489</b>	<b>2547228</b>
1	Transport Operators	141293	142127	144466	148733	149290	146715	148727
2	Computer Software	18775	19205	20051	20157	19812	20592	21167
3	Tourism, Hotels & Restaurants	45394	45184	45977	45862	45777	46253	47383
4	Shipping	6682	6527	6557	6491	5249	5155	5178
5	Professional Services	172686	172907	177085	173346	173325	173914	176815
6	Trade	519547	538608	552392	545240	538619	543012	560579
6.1	Wholesale Trade (other than food procurement)	237341	254833	263397	249316	252442	255206	267712
6.2	Retail Trade	282206	283775	288995	295924	286177	287806	292867
7	Commercial Real Estate	227266	228826	229770	229926	227847	229263	233200
8	Non-Banking Financial Companies (NBFCs)	737198	703667	807383	812388	804287	798514	793451
9	Other Services	563134	576807	611264	592012	578864	565071	560728

Source: RBI Quarterly Report, September, 2020

## Conclusion

It is evident that Covid-19 has crumbled the bank's credit growth in all sectors. The small businesses have suffered a lot due to the slowdown in economic activities since March 2020. The drop in GDP has also retarded the bank's credit growth rate. It is expected that the recovery in the bank's credit disbursement will remain slow due to uncertainties. The risk averse behavior of bankers is making them cautious about fresh lending. Banks are preserving capital rather than aggressive credit push.

On the contrary, various government measures clubbed with RBI's liquidity push also tried to mitigate the pessimism in the banking system. RBI has infused Rs. 8 lakh crores to Rs. 9 lakh crores liquidity into the system, but these measures are not adequate to boost the bank's credit growth due to risk averse behavior of bankers. They fear having more non-performing assets (NPAs) shortly, so bankers are reluctant to take risky exposure.

The 20 lakh crores Covid-19 relief package from the union government gives some optimistic hope of recovery in the bank's credit disbursement. On 3rd August, 2020, banks have credit growth soon because the government has extended various credit guarantees on loans to Covid-19 affected businesses. The bank credit growth is a sanctioned 1.37 crores under the MSME loan scheme out of these 92000 crores has already been disbursed. The government is optimistic about the boost bank's accurate reflection of economic condition as this paper has been indicated that present signals are not very encouraging. It requires assurance from the government and an optimistic approach by bankers for recovery in the bank's credit growth.

## Declaration of Conflict of Interest

There is no potential conflict of interest concerning the research, authorship, and publication of this research article. The work is original and does not infringe on any existing copyright.

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