

Quickonomics

December 10, 2019

Odd number

Consumer behaviour in the past 18 months throws up an unusual trend: spending has slowed, but borrowings remain robust.

Private consumption decelerated to 4.1% in the first half of this fiscal, nearly halving on-year.

Indeed, for a while now, indicators have been suggesting consumers have turned chary of spending.

Then why are they borrowing?

Data shows that in the first half, retail credit of banks grew 16.6%, or twice the speed of overall bank credit growth, and apace with the average growth of the past three years.

Of the incremental retail loans disbursed by banks, a chunk was to buy 'pools' of loan receivables of non-banks*.

Such pools – or packages of receivables from retail loans disbursed by non-banks – are sold to investors. These are called retail securitisation transactions.

So why would that bump up retail credit numbers, especially since money wasn't being on-lent to consumers?

Ah, blame the tyranny of taxonomy.

Securitisation transactions involving retail loan receivables get classified as retail bank credit.

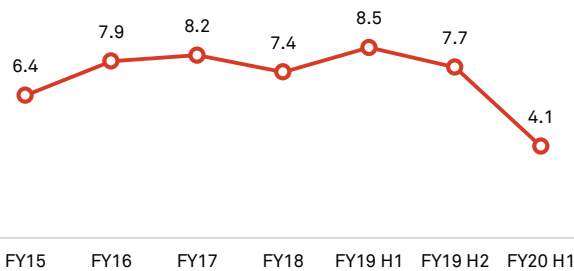
And thereby hangs the tale.

With conventional sources of funding (bank loans, bonds and commercial paper) becoming difficult to access, many non-banks have been rushing to securitise their receivables, especially after a credit event in September 2018 (see CRISIL's press releases on securitisation volumes for last fiscal and the first half of this fiscal).

*Non-banking finance companies + housing finance companies

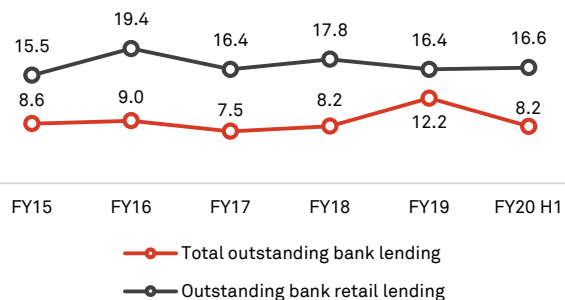
Consumption has slowed...

Private consumption (% y-o-y)



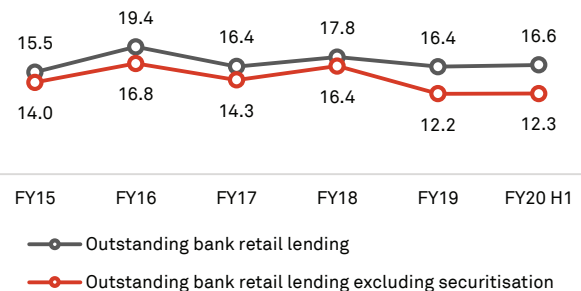
...yet consumers are on a 'borrowing spree'... or are they?

(% y-o-y)



Spot the difference

(% y-o-y)



Source: National Statistical Office, RBI, CRISIL

Consequently, the retail securitisation volume doubled last fiscal, and has soared 39% in the first half.

Overall, lending for securitisation darted up to 31% of incremental bank credit last fiscal, compared with 17% in 2017 and 11% in 2015.

In the first half of this fiscal, that number climbed to 37%.

About half of the securitisation transactions was home-loan receivables, while a quarter was vehicle-loan receivables and ~11% microfinance-loan receivables.

So, to arrive at the true picture of bank retail credit growth, we removed the lending-for-securitisation data, and...

Voila! The decline in retail lending growth emerged in sharp relief.

The growth in lending after deducting securitisation flows shows a fall from 16% in fiscal 2018 to around 12% in 2019 and first half of this fiscal. This is also the slowest growth in the last five years.

That corroborates with the situation on the ground – sales of automobiles have been plummeting, while those of consumer durables, housing and several other consumer-oriented sectors have been sluggish.

Postscript: *The slowdown in retail credit growth reflects both macroeconomic challenges (which have constrained loan demand) and fewer loan sanctions by banks (because of risk aversion).*

Quickenomics will take a look at odd data points and try to explain the reasons behind it

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