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Credit withdrawal during the Pandemic:
The emerging trends in Kerala's Credit-Deposit Ratio

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The world has witnessed once in a century crisis with the outbreak of coronavirus in 2019. The adverse impact of a health emergency from a contagious disease on an economy has resulted in an extra burden on the health. The rampant spread of the pandemic necessitated social distancing to bring it under the command. Social distancing was brought into practice through the declaration of a series of country wide lockdowns corresponding to different waves. The health crisis is one of the situations which demands proactive governmental interventions. Evidence shows that countries with active government intervention have been able to recover faster from the covid crisis as market sef correct itself from the humanitarian crisis such as covid. Government intervention in the economy is facilitated through its two handles, fiscal policy and monetary policy.

The data published by the IMF shows that the nature and the extent of state intervention varied across countries. The advanced countries spent more on fiscal measures instead of monetary measures. The developed countries like the US (25%), the UK (19.3%), Japan (16.7%), Australia (18.4%), Canada (15.9%), Germany (15.3%) invested substantially in fiscal measures. The corresponding investment by the emerging market economist has been at a lower level. When it comes to low-income developing countries, fiscal spending has been rather abysmal. Especially notable is the case of India, among the emerging market economies, with only 4.2% fiscal spending. Instead India relied more on monetary policy measures with 6.2% of GDP. Since March 2020, the Reserve Bank of India (RBI) reduced the repo and reverse repo rates to 4.0 and 3.35 percent, respectively, and announced liquidity measures across three measures comprising Long Term Repo Operations (LTROs), a cash reserve ratio (CRR) cut of 100 bps, and an increase in marginal standing facility (MSF) to 3 percent of the Statutory Liquidity Ratio (SLR) (now further extended to September 30, 2021) and open market operations resulting in cumulative liquidity injections of 5.9 percent of GDP through September. It includes the introduction of moratoriums to individuals and small businesses during the first wave and its extension during the second wave. In addition, it has implemented working capital support for small businesses. All these measures are aimed at ensuring smooth cash flow in the economy.

Since India relied more on monetary policy measures, commercial banks play a crucial role in the economic revival. Necessary credit infusion in the economy could help firms to smooth the production process while the households will be able to meet their demand requirements. In this context, this study analyses credit allocation by the commercial banks during the Pandemic in Kerala in comparison with other south Indian states. The monthly data on credit and deposits of commercial banks published by the RBI is used for the analysis.

1. Deposits and Credit during the Pandemic

Since millions lost employment and livelihood opportunities during the pandemic, the loss of income could manifest in deposits. To analyze the impact of the pandemic on deposits and credit, growth rates for six quarters (2020 Q1 to 2021 Q2) is presented. The trend of the growth of deposits (Table:1) indicates a positive growth rate across all quarters of 2020-21 and the only exception for the same is Karnataka where the deposit growth rate is highly fluctuating and the alternative quarters are showing negative growth rates. The Q1 of 2020-21 which represents the nation-wide lockdown period showed the highest growth across all South Indian states except Karnataka. The deposit growth in four out of five south Indian states is higher than the national average. Among all, Andhra Pradesh and Telangana showed the highest increase in deposits. These high deposits growth during the peak of the pandemic could be attributed to two factors. One, the lockdown measures reduced the consumption of those employed in the formal sector resulting in increase in the value of deposits. Two, states increase in the direct cash transfers especially to people below poverty to smoothen their consumption needs. It may be noted that Andhra Pradesh and Telangana governments provided cash transfers during the pandemic while Kerala relied heavily on in-kind transfers like food-kit. This is perhaps the reason behind Kerala’s low deposit growth in 2020-21 Q1. The growth reduced in subsequent quarters in most of the states. However, 2021-22 shows a negative growth in both the quarters and the decline in high in Andhra Pradesh and Telangana.

Table 1: Quarterly Bank Deposit (Credit) Growth Rate (%) from the Previous Year, 2019-20 to 2021-22

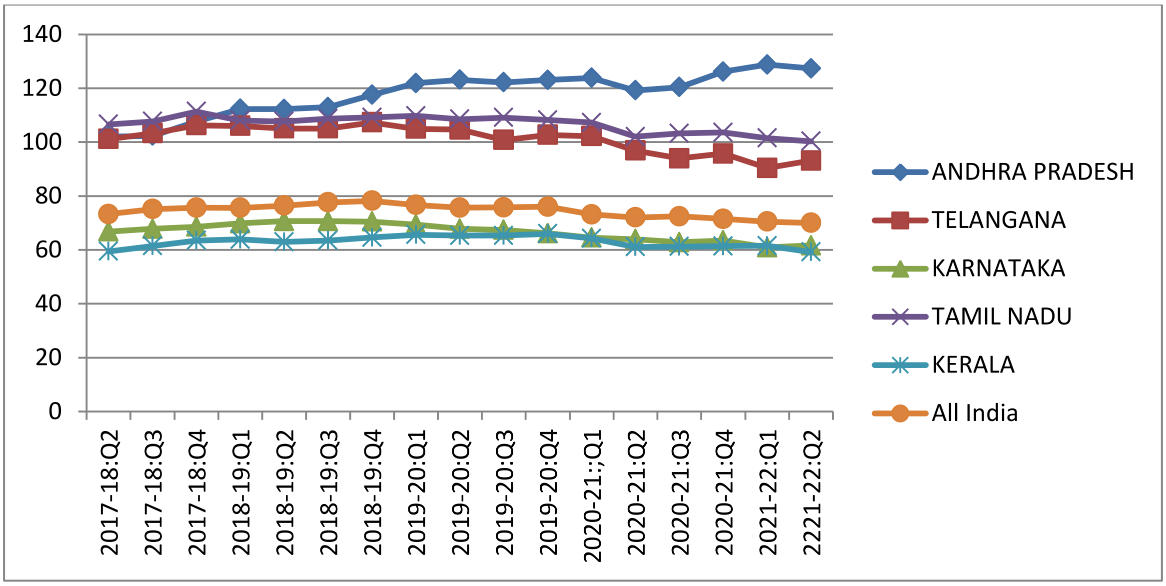
STATES	2020-21				2021-22	
	Q1	Q2	Q3	Q4	Q1	Q2
ANDHRA PRADESH	9.34 (-4.59)	8.77 (-1.64)	5.10 (2.91)	2.75 (5.36)	7.92 (3.07)	-10.88 (0.62)
KARNATAKA	-1.46 (-3.31)	1.63 (-1.06)	-1.95 (0.43)	-2.03 (-0.37)	0.17 (2.52)	-1.90 (1.50)
KERALA	2.93 (-8.58)	2.69 (-7.58)	3.97 (-6.24)	1.01 (-1.46)	-3.16 (0.64)	-4.05 (0.54)
TAMIL NADU	3.62 (-4.18)	2.42 (-4.20)	0.75 (-3.12)	0.63 (-2.92)	-6.77 (-1.68)	-3.82 (-1.81)
TELANGANA	6.38 (-1.81)	3.98 (0.78)	6.79 (3.64)	15.54 (3.96)	-2.07 (2.18)	-1.93 (4.46)
ALL INDIA	**1.35 (-5.34)**	**0.98 (-3.1)**	**1.069 (-1.14**	**2.8 (-0.82)**	**-1.49 (-0.4)**	**-0.95 (1.2)**

Source: Own calculation based on Basic Statistical Returns of Scheduled Commercial Banks in India
Note: The figures in the brackets are Quarterly Bank Credit Growth Rate (%) from the previous year 2019-20 to 2020-21

The bracket figures in Table 1 depict the Year-on-Year growth rate of credits of the South Indian states. In contradiction to the trend of growth of deposits, credit growth has declined from the very first quarter of 2020-21. Kerala and Tamil Nadu are the two states who witnessed a negative growth rate difference throughout all the quarters of 2020-21. This is in tune with the All India figures. When Kerala picked up to positive signs in the first two quarters of 2021-22, Tamil Nadu, being the most industrialized state in India, remained exhibiting negative signs. This is the solitary condition of Tamil Nadu where all the other states have shown improving trends for the corresponding period. An interesting factor which could be observed from the two tables above is that the signs of the difference in the growth rates are just opposite across almost all rows.

The credit-deposit (CD) ratio shows a declining trend during the pandemic in all the states except Andhra Pradesh. The CD ratio was 123 per cent in 2019-20 Q4 and it gradually increased to 127 per cent by 2021-22 Q2. Kerala ranks among the lowest in CD ratio among all the south Indian states. The CD ratio of Kerala declined from 65 per cent before the pandemic (2019-20 Q4) to 59 per cent in 2021-22 Q2. During this period Tamil Nadu experienced a 10 per cent decline and Telangana experienced a 7 per cent decline in CD ratio compared to a 5 per cent decline at all Indian levels. It appears that the decline in CD of four south Indian states is higher than the national average. This has very serious implications on the economic revival. Despite the interventions by the RBI, commercial banks are withdrawing from credit provisioning. For a quick economic revival, it is important that the banks play a proactive role in helping the large micro and medium enterprises through credit provisioning.

Figure 1: Credit-Deposit Ratio of South Indian States



Source: RBI

2. Conclusion

Financial intermediation is an integral requirement of an economy since it facilitates financial flows in the system. We analyzed the trends in the growth of deposits, credit and credit-deposit of Kerala in comparison with South Indian states during the pandemic. The analysis shows that Kerala experienced on of the lowest deposit growth and highest decline in credit growth during the pandemic. This has resulted in a decline in CD ratio during the pandemic. At the same time the Public Sector Banks recorded a net profit of Rs. 31,820 crore in financial year 2021, which the highest during the last five years as per Finance Minister Nirmala Sitharaman. Hence, this study argues that commercial banks have withdrawn from lending instead of scaling up the credit allocation for the business revival.

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