Retail Loans and Economic Development
(An Inquiry into the Impact of Various Retail Loans on Economic Development in India)

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Abstract
The Retail Loan Sector in banking industry in India has been on a growth trajectory during the current decade. It has come to form a major part of Gross credit in India. Retail loans also known as personal loans are different loan products offered by the banks to fund the personal expenditure of households and families for buying goods and services and to enjoy a better lifestyle and standard of living. These loans are offered for purchase of consumer durable goods, housing, vehicles and education and also as credit cards outstanding, advances against fixed deposits etc. The present study has been undertaken to empirically determine the impact of each of these loans on economic development of India during the current decade. The study has been carried out for the period of 11 years from 2007-08 to 2017-18. Regression analysis has been used to determine the impact of various retail loans on the economy's GDP. The results indicate that each component of retail loans has a significant positive impact on India's economic development.

Key Words: retail loans, personal loans, growth, economic development, GDP, consumption

Introduction
The Retail Loan Sector in banking industry in India has been on a growth trajectory during the current decade. It has come to form a major part of Gross credit in India. Retail loans also known as personal loans are different loan products offered by the banks to fund the personal expenditure of households and families for buying goods and services and to enjoy a better lifestyle and standard of living. The main factor which drives the economic growth is the generation of demand in the economy. Retail loan products thus provide a tool in the hands of banks to fuel the demand in the economy. The purpose of corporate loans is also the same or even better as they serve the investment needs of the business houses however the focus of

the banks in current times has shifted from mere corporate lending to retail lending also because of the rising non-performing loans problem in the banking sector. Retail loans which are available for purpose of buying consumer durable goods, vehicles, houses, and services like education etc. thus serve as an additional tool to cause macro-economic changes in the economy.

Review of Literature

The personal loan portfolio has been the major driving force of the banking sector in India during the past few years. This is because of the bad corporate exposure of the banks due to rising non-performing assets. The retail loan sector has seen a compound annual growth rate of 16.2% over the period from year 2012-13 to 2017-18. The low level of Indian indebtedness with respect to GDP as well as the increasing repaying capacity (because of increasing incomes of people) holds huge opportunities of growth for this sector (www.theasianbanker.com, 2018). Another study indicates that retail lending is the main driver behind credit disbursement in India and the personal loans have contributed to the extent of 48.6% in the incremental credit growth in the country (www.financialexpress.com). In an old study conducted by Mohua Roy (2006), he had concluded that retail credit in India which started growing in India from a very low base had expanded further. According to him though consumption led growth could help to improve the growth rates of the economy, yet it would also contain increased risks for the banks. According to a recent study (www.business-standard.com, 2018) the retail credit market is today one of the most dynamic markets among emerging economies. During the last three years it has grown at a compound annual growth rate of 15.7 percent in dollar terms whereas the average growth rate for the emerging and markets has been 11.9 percent. This has made retail banking one of the most emerging and active markets in India. A study conducted on time series data from 1973 to 2007 revealed that there was an impact of 5.59 percent on gross domestic product due to 1 percent credit to the private household sector (pdfs.semanticscholar.org). In a study conducted by Ioana Madalina (2013) in the wake of the global crisis of 2007-2008 which also affected Romania, it was found that even though sub-prime credit was one of the main factors which triggered the financial crisis, it was also found that without credit it would have been difficult to revive the Romanian economy. It was also noticed that there was a strong connection between household credit and GDP. Daniel, Carmen, Dorina and Andrea (2015) have tried to study the extent to which credit impacts the economic growth. This has been calculated by gauging the effect of credits given to legal entities, individuals, and public organisations on the various components of Gross Domestic Product (GDP) such as gross fixed capital formation, private and government consumption, exports, wage and payroll costs and operating surplus. Though the period of study from 2007-2013 is quite a short one and is also subject to external shocks like global financial crisis and recession, the results show that the influence of credits granted to legal entities is higher than that of credit granted to individuals. The methodology used includes Grangers causality test besides Regression analysis. Using a Multivariate Cointegrative Approach K.Sreerama Murty, K.Sailaja, Wondaferahu Mullugeta Demissie (2012) have tried to examine the long run impact of bank credit on economic growth in Ethiopia. Using a 40-year time series data ranging from year 1971-72 to 2010-11 the results reflected a positive and significant relationship between bank credit and economic growth. Bank services of mobilizing resources through deposits also show a positive and statistically significant relationship between the two variables. In a study undertaken by Usuf Dinc (2017) on impact of retail loans on banking sector in Turkey it has been seen that retail banking is seen as an important tool for sustainability of demand and consumption. Retail banking has shown positive effects on Net Interest Margin in Participative banks where as it showed negative results in case of Conventional banks in Turkey. According to Srinivas (2014), retail banking today offers huge opportunities for growth in India. However, it requires continuous innovation to flourish and at the same time is besotted with challenges. Its contribution to GDP in India is around 7%. However, he also cautions that the banks should avoid predatory lending such as charging interest on credit card balances. Evica and Andovski (2016) have tried to study and evaluate the effect of retail loan trends on consumption and GDP in Macedonia post 2008 i.e after the global crisis period. According to them the main reason for growth in Macedonia post financial crisis can be attributed to non-financial loans i.e. the retail loans. The shifting focus of bank strategies towards retail loans acted as the main driver of the Macedonian economy. According to Bank of International Settlements India stood at fourth position as far as retail credit is concerned among the emerging markets. At the end of December 2017, the aggregate retail credit of India stood at 281 billion dollars preceded by economies of China, Brazil and Thailand. The three compound average growth rate of India stood at 15.7% during this period. According to Rebecca Keats (2015), expansion of credit leads to an expansion of GDP and contraction of credit causes recession. It means that the credit policy adopted by an economy is also one of the reasons of the varying economic cycles in aa economy. The expansionary period leads to positive economic growth, decreasing unemployment and inflation. It promotes more consumer spending and therefore more demand. Credit is therefore a very important part of an economy. Based on her study of

U.S banks she opines that banks like Wells Fargo, JPMorgan Chase, Bank of America and Citigroup have benefitted from rising demand for credit. The consumer credit in U.S banks has been growing at an average rate of 6.67% since 2013. Kimberly Amadeo (2018) in his article writes that most of America's largest banks as mentioned above consist of a separate retail banking division. Fifty to sixty percent of the bank's revenue comes from retail banking activities.

Objectives and Research Methodology

The retail lending in India has gone through 3 different phases. A study related to the same has classified these phases as the Acceleration period (1996-97), the Deceleration period (2007-2010) and the Moderation period (2011 onwards) (www.mbaskool.com, 2012). Both the public and private sector banking have been focussing on the retail aspect for raising resources and lending. This has also attracted the interest of global financial institutions. The main objectives of the study include:

1. To measure the contribution of retail loans in the Gross Non-Food Credit disbursement
2. To study the growth rates of various retail loan products
3. To study the impact of various retail loan products on the Gross Domestic Product of the economy.

As stated above the focus of the paper is on the study of contribution, growth and impact of retail loans distributed by the banking sector in the economy. Retail loans help in fulfilling the consumption needs of the household sector by enhancing their purchasing power. Thus they help in the growth and development of the economy. The study has been carried out for the period of 11 years from 2007-08 to 2017-18. This is because the data is available in a uniform format during this period only. Regression analysis has been used to find the impact of various categories of retail loans on the economic development of the country. GDP of the economy has been used as a variable for economic development. The data is secondary in nature. The quantitative data has been particularly collected through RBI website from its various publications.

Table No: 1 Retail loans as a percentage of Non-Food Gross credit

Particulars	Outstanding as on last reporting Friday in March (Rs.Billion)							
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Non-food Gross Credit	36673.54	42897.45	48695.63	55296.01	60029.52	65469.03	70944.90	76884.23
Retail Loans	6879.44	7828.35	8975.84	10096.89	11663.48	13922.16	16200.34	19084.69
% of Personal Loans to Gross Non-Food Credit	18.76	18.25	18.43	18.26	19.43	21.27	22.84	24.82

Source: Self calculated (www.rbi.org.in)

Table No.1 depicts the percentage of retail loans in the gross non-food credit disbursed by the banking sector in India. It can be observed that since 2014-15 the percentage has been increasing. From 18.26% in 2013-14 it has surged up to 24.82% in 2017-18. On an absolute basis also it can be seen that since 2010-11 the amount of outstanding retail loans has almost trebled in 2017-18 from Rs. 6879.44 billion to Rs.19084.69 billion. This shows the growing demand for retail loans in the economy.

Components of Personal loans and their growth

Retail Credit in the banking sector is granted in the form of loans for consumer durables, housing, education, vehicles, advance against fixed deposits, advances against shares and bonds etc., credit cards outstanding and other loans of personal nature. Among the retail loans granted, the housing loans amount to more than 50% loans. The growth and descriptive statistics of all the variables used in the study is as given in Table No.

Table No: 1 Types of Retail Loans

(Descriptive Statistics and Growth rates for the period 2007-08 to 2017-18)

Rs. in Billion

	Aggregate Personal Loans	Consumer Durables Loans	Housing (Including Priority Sector Housing)	Advances against Fixed Deposits (Including FCNR (B), NRNR Deposits etc.)	Advances to Individuals against share, bonds, etc.	Credit Card Outstanding	Education loans	Vehicle Loans	Other Personal Loans	GDP at Current prices
Mean	10122.75	122.23	5266.20	582.86	40.18	320.07	513.57	1092.07	2185.57	102774.38
Maximum	19084.69	207.91	9745.65	724.93	64.19	686.28	700.88	1897.86	5080.26	167731.45
Minimum	5217.99	62.87	2603.06	450.41	22.87	180.98	205.32	586.22	966.97	49870.90
Std.Dev	4622.26	53.23	2463.23	91.13	13.49	154.73	172.02	458.35	1289.50	39692.84
Coefficient of variation	45.66	43.55	46.77	15.63	33.58	48.34	33.50	41.97	59.00	38.62
Average Growth Rate %	12.09	5.02	12.32	4.53	-0.69	7.27	11.09	10.79	14.83	11.40

Source: Self calculated (www.rbi.org.in)

From Table No.1 one can see that housing comprises a major amount of retail loans followed by other personal loans and vehicle loans. Advances against shares and bonds constitute the least component among the aggregate retail loans disbursed during the 11-year study period. Also all the categories of retail loans are showing a growth over the study period. The highest growth rate of 14.83% has been achieved by ‘other personal loans’ followed by housing loans (12.32%), education loans (11.09%) and vehicle loans (10.79%). This can be taken as a clear indication of more people seeking education in the country and also increase in the number of vehicles in the country. Credit cards outstanding and loans for consumer durables also show a moderate growth rate of 7.27% and 5.02% respectively during the 11-year period. It is noteworthy that this period has witnessed two very distressful periods of global financial crisis in 2008 and demonetisation in 2016. Another important observation from above is that the average rate of growth for retail lending by the banks during the study period has been more than the average rate of growth of GDP.

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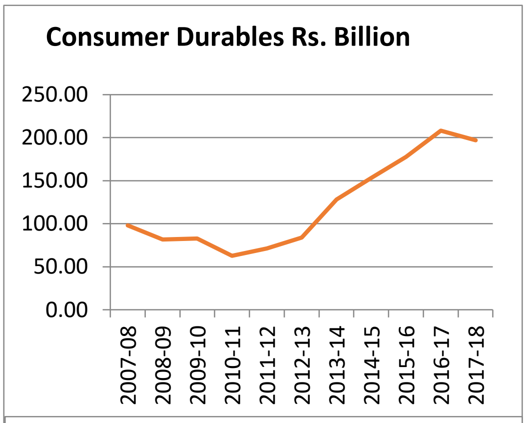
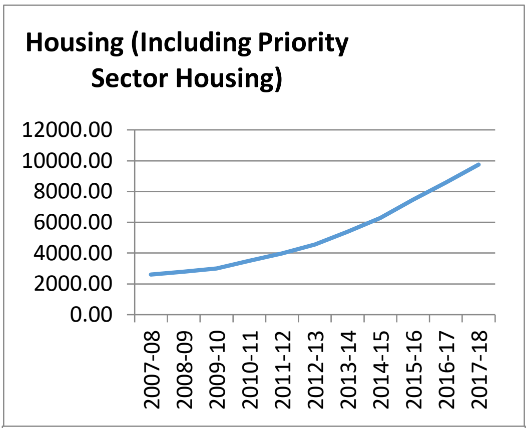
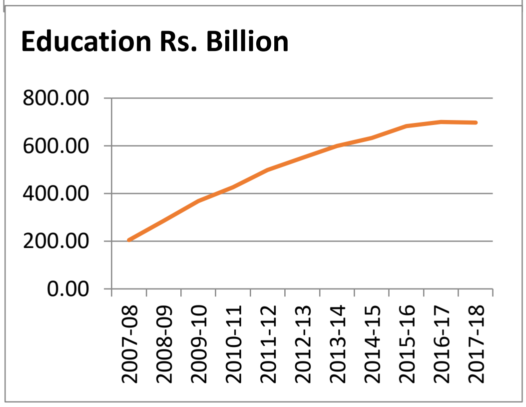
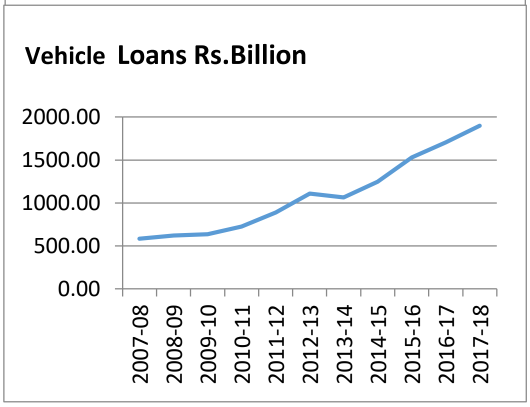
Graphical Trend of various Retail Loans

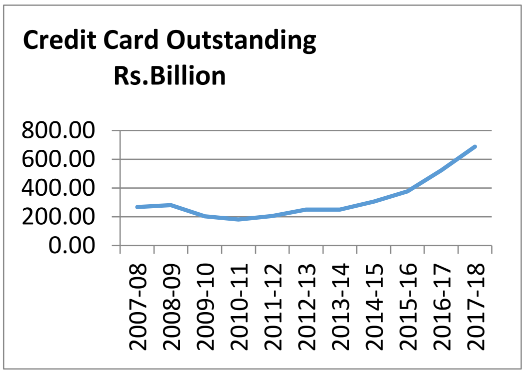
From the graphs given below we can see that all the components of various retail loans granted in the form of Consumer Loans for durables, Housing, Vehicles, Education etc. show a rising trend during the study period. The trend for Housing loans, Education, and Other Personal loans particularly shows a steep rise.

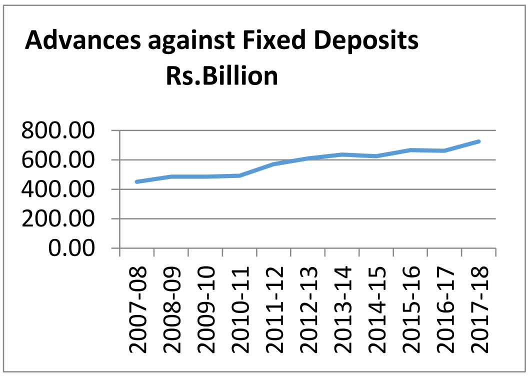












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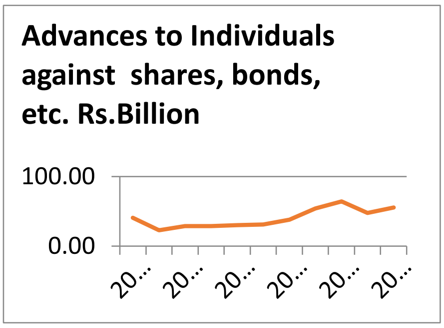

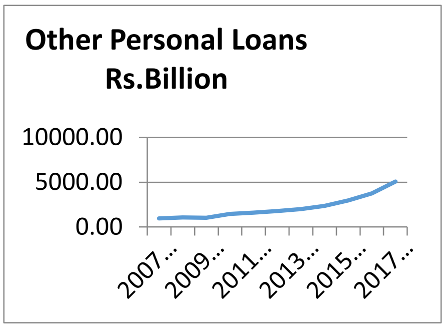

Hypothesis formulation

As stated retail loans are given by the banks under various categories such as loans for purchase of consumer durables, education, vehicles, housing, advances against fixed deposits, shares and debentures, outstanding against credit cards and other housing loans. In all the regression models GDP at Market Price has been taken as the dependent variable and the retail loan category has been taken as the independent variable.

The Null hypothesis has been constructed for each type of retail loan as follows:

1. Loans for consumer durables

H_0 = There is a positive impact of loans for consumer durables on GDP

The following empirical model has been used to study the impact of Consumer durable loans on Gross Domestic Product

$$GDP = B_0 + B_1LCD + u$$

Where,

Dependent variable GDP = Gross Domestic Product at Market Price

Independent variable LCD = Loan for consumer durables

2. Housing Loans

H_0 = There is a positive impact of Housing Loans on GDP

The following empirical model has been used to study the impact of Housing loans on Gross Domestic Product

$$GDP = B_0 + B_1LH + u$$

Where,

Dependent variable GDP = Gross Domestic Product at Market Price

Independent variable LH = Housing Loan

3. Education loans

H_0 = There is a positive impact of Education loans on GDP

The following empirical model has been used to study the impact of Educations loans on Gross Domestic Product

$$GDP = B_0 + B_1LE + u$$

Where,

Dependent variable GDP = Gross Domestic Product at Market Price
Independent variable LE = Education Loans

4. Vehicle loans

H_0 = There is a positive impact of Vehicle loans on GDP

The following empirical model has been used to study the impact of Vehicle loans on Gross Domestic Product

$$GDP = B_0 + B_1LV + u$$

Where,

Dependent variable GDP = Gross Domestic Product at Market Price
Independent variable LV = Vehicle Loans

5. Advances against Fixed Deposits

H_0 = There is a positive impact of Advances against Fixed Depositson GDP

The following empirical model has been used to study the impact of Consumer durable loans on Gross Domestic Product

$$GDP = B_0 + B_1AFD + u$$

Where,

Dependent variable GDP = Gross Domestic Product at Market Price
Independent variable AFD = Advances against Fixed Deposits

6. Advances to Individuals against share, bonds, etc.

H_0 = There is a positive impact of Advances to Individuals against share, bonds, etc. on GDP

The following empirical model has been used to study the impact of Consumer durable loans on Gross Domestic Product

$$GDP = B_0 + B_1ASB + u$$

Where,

Dependent variable GDP = Gross Domestic Product at Market Price
Independent variable ASB = Advances to Individuals against share, bonds, etc.

7. Credit Card Outstanding’s

H_0 = There is a positive impact of Credit Card Outstanding’s on GDP

The following empirical model has been used to study the impact of Credit Card Outstanding’s on Gross Domestic Product

$$GDP = B_0 + B_1CCO + u$$

Where,

Dependent variable GDP = Gross Domestic Product at Market Price Independent variable CCO = Credit Card Outstanding's

8. Other loans of personal nature

H_0 = There is a positive impact of Other loans of personal nature on GDP

The following empirical model has been used to study the impact of other loans of personal nature on Gross Domestic Product

$$GDP = B_0 + B_1 OPN + u$$

Where,

Dependent variable GDP = Gross Domestic Product at Market Price Independent variable OPN = Other loans of personal nature

Analysis and Discussion

1. Loans for consumer durables

Regression Table No: 1

	Coefficients	Standard Error	T Stat	P- Value	R Square
Intercept	21549.431	14926.843	1.444	0.183	0.79
Consumer Durables	664.506	112.782	5.892	0.000231	

From the Regression Table No.1 we can see that the Coefficient of determination R^2 for the model is 0.79 i.e.79%. It means that the independent variable in the model is able to explain the variations in the GDP to the extent of 79%. The regression results also show that there is a positive impact of loans for consumer durables of the banking sector on GDP the positive coefficient being 664.506 which means that a 1% increase in consumer durable loans would lead to 664.506% increase in GDP. Thus higher the disbursement of consumer durable loans higher is the GDP of the economy. It reflects that the distribution of consumer durable loans by banking sector in India has impacted the GDP in a favourable way. The results are also highly statistically significant. The null hypotheses thus stand accepted that grant of consumer durable loans has had a positive effect on GDP.

2. Housing Loans

Regression Table No: 2

	Coefficients	Standard Error	T Stat	P- Value	R Square
Intercept	19014.24	4970.76	3.83	0.00	0.97
Housing Loans	15.91	0.86	18.45	0.00	

From the Regression Table No.2 we can see that the Coefficient of determination R^2 for the model is 0.97 i.e.97%. It means that the independent variable in the model is able to explain the variations in the GDP to the extent of 97%. The regression results also show that there is a positive impact of housing loans distributed by the banking sector on GDP the positive coefficient being 15.91 which means that a 1% increase in housing loans would lead to 15.91% increase in GDP. Thus higher the disbursement of housing loans higher is the GDP of the economy. Housing has been accorded the status of infrastructure in the union budget of 2017. Housing loans have accounted for more than 50% share in the aggregate retail loans during the study period. The loan amount is thus much larger than other categories of retail loans. The regression results reflect that the distribution of housing loans by banking sector in India has impacted the GDP in a favourable way. The results are also highly statistically significant. The null hypotheses thus stand accepted that grant of housing loans has had a positive effect on GDP.

3. Education loans

Regression Table No: 3

	Coefficients	Standard Error	T Stat	P- Value	R Square
Intercept	-10431.260	12258.563	-0.851	0.417	0.91
Education loans	220.428	22.738	9.694	0.0000046	

Regression Table No.3 shows that Coefficient of determination R^2 for the model is 0.91 i.e.91%. It means that the independent variable of Education loans in the model is able to explain the variations in the GDP to the extent of 91%. The regression results also show that there is a positive impact of education loans of the banking sector on GDP the positive coefficient being 220.428 which means that a 1% increase in education loans would lead to 220.428% increase in GDP. Thus higher the disbursement of education loans higher is the GDP of the economy. It reflects that the distribution of education loans by banking sector in India has impacted the GDP in a favourable way. The results are also highly statistically significant at 5%. The null hypotheses thus stand accepted that grant of education loans has had a positive effect on GDP.

4. Vehicle loans

Regression Table No: 4

	Coefficients	Standard Error	T Stat	P- Value	R Square
Intercept	9560.810	5736.364	1.667	0.130	0.97
Vehicle loans	85.355	4.877	17.502	0.000	

According to Regression Table No.4 the power of the model also known as Coefficient of determination R^2 is 0.97 or 97%. It means that the independent variable of Vehicle loans in the model is able to explain the variations in the GDP to the extent of 97%. The regression results also show that there is a positive impact of vehicle loans of the banking sector on GDP the positive coefficient being 85.355 which means that an increase of 1% in vehicle loans would lead to 85.355% increase in GDP. Thus higher the disbursement of vehicle loans higher is the GDP of the economy. It reflects that the distribution of loans for purchase of vehicles by banking sector in India has impacted the GDP in a positive way. Vehicle loans also help in enhancing the standard of living of the people as they can now own and possess their own two or four wheeler for personal transportation. The results are also highly statistically significant at 5%. The null hypotheses thus stand accepted that grant of vehicle loans have had a positive effect on GDP.

5. Advances against Fixed Deposits

Regression Table No: 5

	Coefficients	Standard Error	T Stat	P-Value	R Square
Intercept	-142650.224	21897.842	-6.514	0.000	0.93
Advances against Fixed Deposits	421.071	37.159	11.332	0.000	

According to Regression Table No.5 the power of the model also known as Coefficient of determination R^2 is 0.93 or 93%. It means that the independent variable of Advances against fixed deposits in the model is able to explain the variations in the GDP to the extent of 93%. The regression results also show that there is a positive impact of Advances against fixed deposits of the banking sector on GDP the positive coefficient being 421.071 which means that an increase of 1% in vehicle loans would lead to 421.071% increase in GDP. Thus higher the disbursement of Advances against fixed deposits higher is the GDP of the economy. It reflects that the grant of Advances against fixed deposits by banking sector in India has impacted the GDP in a positive way. The results are also highly statistically significant at 5%. The null hypotheses thus stands accepted that grant of Advances against fixed deposits have had a positive effect on GDP.

6. Advances to Individuals against share, bonds, etc.

Regression Table No: 6

	Coefficients	Standard Error	T Stat	P-Value	R Square
Intercept	10598.464	25899.677	0.409	0.692	0.60
Advances to Individuals against share, bonds, etc.	2294.282	613.949	3.737	0.005	

According to Regression Table No.6 the power of the model also known as Coefficient of determination R^2 is 0.60 or 60%. It means that the independent variable of Advances to Individuals against share, bonds, etc. in the model is able to explain the variations in the GDP to the extent of 60%. The regression results also show that there is a positive impact of Advances to Individuals against share, bonds, etc. the banking sector on GDP the positive coefficient being 2294.282 which means that an increase of 1% in vehicle loans would lead to 2294.282% increase in GDP. Thus higher the disbursement of Advances to Individuals against share, bonds, etc. higher is the GDP of the economy. It reflects that the Advances to Individuals against share, bonds, etc. by banking sector in India has impacted the GDP in a positive way. The results are also highly statistically significant at 5%. The null hypotheses thus stands accepted that grant of Advances to Individuals against share, bonds, etc. have had a positive effect on GDP.

7. Credit Card Outstanding's

Regression Table No: 7

	Coefficients	Standard Error	T Stat	P- Value	R Square
Intercept	36721.355	17901.036	2.051	0.0705	0.65
Credit cards outstanding	206.371	50.793	4.063	0.0028	

According to Regression Table No.7 the power of the model also known as Coefficient of determination R^2 is 0.65 or 65%. It means that the independent variable of Vehicle loans in the model is able to explain the variations in the GDP to the extent of 65%. The regression results also show that there is a positive impact of Credit cards outstanding of the banking sector on GDP the positive coefficient being 206.371 which means that an increase of 1% in credit cards outstanding would lead to 206.371% increase in GDP. Thus higher the disbursement of credit cards outstanding higher is the GDP of the economy. It reflects that the credit cards outstanding by banking sector in India has impacted the GDP in a positive way.

The use of credit cards has enhanced the purchasing power of the people to a large extent. The results are also highly statistically significant at 5%. The null hypotheses thus stand accepted that outstanding against credit cards have had a positive effect on GDP.

Credit card loans have recorded the highest growth rate of 22.5% during the period 2012-13 to 2017-18 (www.theasianbanker.com)

8. Other loans of personal nature

Regression Table No: 8

	Coefficients	Standard Error	T Stat	P- Value	R Square
Intercept	39126.186	8334.170	4.695	0.001	0.89
Other personal loans	29.122	3.323	8.762	0.000	

According to Regression Table No.8 the power of the model also known as Coefficient of determination R^2 is 0.89 or 89%. It means that the independent variable of other personal loans in the model is able to explain the variations in the GDP to the extent of 89%. The regression results also show that there is a positive impact of other personal loans of the banking sector on GDP the positive coefficient being 29.122 which means that an increase of 1% in other personal loans would lead to 29.122% increase in GDP. Thus higher the disbursement of other personal loans higher is the GDP of the economy. It reflects that the distribution of other personal loans by banking sector in India has impacted the GDP in a positive way. The results are also highly statistically significant at 5%. The null hypotheses thus stands accepted that grant of other personal loans have had a positive effect on GDP.

Limitations of the study

The main limitation of the study is that it relates to a time period of 11 years from 2007-2008 to 2017-18. As the data is available in a uniform format only for this period, the study had to be limited for this period only. Otherwise the study could have been extended beyond this period. Another limitation is that the period covered cannot be treated as an entirely normal period. This is because two hugely disturbing economic events have occurred during this period, the first one being the 'Global Financial Crisis' which occurred during 2008-09 at a global level and second one related to 'Demonetization' which took place at a national level on November 8, 2016.

Suggestions and Policy Implications

Reserve Bank of India (RBI) is the apex banking regulatory body which is responsible for framing the credit and money supply policy (monetary policy) in the country. The banking sector in India has to follow the policy directives of RBI and therefore it can be rightly considered as the backbone of our economy as the growth and development of an economy is largely vested in the policies framed by the RBI. From the above study it can be seen that the advent and distribution of retails loans has had a positive impact on the economy's growth and development. The banking sector can focus more on this and use it for framing and designing more and more retail loan products suitable for the customers. This will not only increase the purchasing power of the people but also drive around the demand for the economy. There is still a scope for lot of innovation in this field which should be tapped by the banking sector.

Conclusion

As stated earlier Indian retail credit is today the fourth largest among the emerging world led by China, Brazil and Thailand and followed by Russia, Malaysia and Mexico. The main reason attributed to Indian growth has been its low base and huge population. This has created a mammoth customer segment demanding vehicles – both two and four wheelers and other consumer products like mobile phones, electronic gadgets, durables and also houses. The demand for education loans has emanated because of growing focus on education for procuring jobs and making oneself more employable. Another reason is the entry of many non-banking financial institutions on the scene. This has greatly led to expansion of retail credit market in the country (Krishnakant, www.business-standard.com, 2018). From the above analysis one can see that every component of retail loan has had a significant positive impact on India's economic development. It means that the banks in India should continue to promote the disbursement of retail loans as it has lead to a positive effect on the growth of the economy. The studies and findings about positive impact of retail lending conducted in Turkey, Ethiopia and Macedonia have found immense relevance in India's context too. Retail loans thus tend to increase the consumption expenditure causing an increase in GDP and a better standard of living for the people of the country.

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