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Household borrowing and credit market access in Kerala during COVID-19

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Introduction

India has experienced a huge and persistent economic impact due to the COVID-19 pandemic. Unexpected demand and supply shocks have resulted in significant reductions in employment and income for many Indian households (HH). Kerala is no exception to this. Families are in dire financial straits. There is a sharp decline in most household financial assets and an increased reliance on borrowing (RBI, 2021). In fact, household credit and its accumulation (i.e., debt) can play a mitigating role in such situations. It allows people to smooth their spending over time, thereby greasing the wheels of the economy. Therefore, borrowing is highly essential, and debt per se is not bad.

Notably, India survived the 2008 crisis on the back of a vibrant state-owned banking sector. In particular, the lending strategy of the banks was judged appropriate. 12 years later, when the pandemic hit the economy hard, consumers could have expected a similar policy intervention. Indeed, sufficient credit growth has the potential to return the economy to pre-pandemic levels. Progress in terms of financial inclusion, particularly through formalization, is a long-term priority for the banking sector as well. Therefore, it is essential to examine whether banks and other financial institutions have been successful in generating credit during the pandemic. Were they effective in implementing the same lending strategies adopted during the 2008 crisis? Is credit growth sufficient to offset this one-off shock? Or has it gone astray?

In India, household debt has been rising long before the pandemic, especially after the 2008 crisis. While some studies reported a recent increase in household debt due to the pandemic (SBI, 2021), some others observed that credit growth was insufficient during the pandemic, primarily due to the higher risk aversion by banks (Dev and Sengupta, 2020). If households do not have adequate access to credit markets during the pandemic, the resulting reduction in household spending could negatively impact the state's economic recovery. Moreover, that credit access and household borrowing reliance has not been uniform across states in India during the pandemic. They differ in terms of factors including motives, availability of credit, rural-urban differences, and socio-economic conditions. According to the All-India Debt and Investment Survey 2019, Kerala topped the list of credit market participants even before the pandemic. It is therefore safe to assert that better access to credit is imperative for the state.

This study examines household indebtedness in Kerala, relative to other high-income and low-income states, since the onset of the Covid-19 pandemic. Data on all-India averages from CMIE's Consumer Pyramid Household Survey (CPHS) is used. In addition, it examines whether the banking sector is withdrawing from its core business of lending to people, especially during time of the crisis. In terms of the latter, how was the state able to maintain its pre-pandemic level of borrowing? What are the key drivers and who are its beneficiaries?

The rest of the chapter is structured as follows. Section 2 explains the pattern of household borrowing during the pandemic. Section 3 presents the main sources of household credit. Section 4 discusses the drivers of household debt. The final section concludes the study.

Pattern of household borrowing during the pandemic

Changes in the level of borrowing dependency and its behavior at the peak of the crisis can be understood by examining trends in household loans. It indicates credit growth or the lack of credit access during the pandemic. Table 1 shows a comparative picture of the average borrowing dependency of a household in Kerala with other high-income states, low-income states and all-India level. In particular, it highlights the wave-wise level of household during the pandemic (January 2020 to August 2021) in comparison to the pre-pandemic (January 2019 to December 2019) period.

It is observed that 52 percent of households in Kerala depended on borrowing to run the household before the pandemic. This suggests that, as reported in AIDS 2019, the state's borrowing dependency was relatively high even before the pandemic. Dependency decreased in the first wave of 2020 (January-April) due to the lockdown and related issues. It increased markedly in the second wave of 2020 (May-August) immediately after the lockdown relaxations. Eventually, it returned to the pre-pandemic level. The picture is different at the national and in high-income states, where the pandemic effect on borrowing is only evident in the first two waves of 2021.

Table 1: Borrowing dependency of the household in Kerala, India, HIS & LIS: % of households with outstanding borrowing

STATE	2019 Jan-Apr	2019 May-Aug	2019 Sep-Dec	2020 Jan-Apr	2020 May-Aug	2020 Sep-Dec	2021 Jan-Apr	2021 May-Aug
Kerala (KL)	49.88	51.81	51.48	38.37	54.31	47.82	48.82	50.07
High Income								
States (HIS)	54.06	58.41	63.13	52.8	45.83	44.75	48.94	52.52
Low Income								
States (LIS)	49.53	44.87	47.38	43.16	45.44	38.95	43.93	48.27
All India	49.53	50.69	52.02	46.93	45.88	41.62	46.14	50.04

Source (Basic Data): CPHS

While almost half of Indians depended primarily on borrowed money during the Covid-19 pandemic, more than half of the Keralites depended on borrowed money. Although borrowing dependency was expected to increase in Kerala, it remained at the pre-pandemic level. This could be due to poor credit market participation of households or inadequate access to the credit market, as a result of either credit constraints of financial institutions or high cost of borrowing. A concern that follows is how the state managed its pre-pandemic levels of borrowing. The following sections explores this.

Does credit access affect household borrowings?

Credit market arrangements can be classified into formal and informal. The former includes organized, institutionalized and regulated arrangements, while the latter is unorganized and non-institutional. Developing countries are characterized by their coexistence and the success of both is essential for the progress of the economy (Rana & Viswanathan, 2019). Formal institutions find their access to credit limited in India. Households are thus forced to rely on alternative sources. Although the ease of credit accrual is more in such cases, they come with very high interest rates. Formal contracts on the other hand have very high transaction costs but are less prevalent. However, it should be kept in mind that banks have become more influential in ensuring the recovery of the economy, especially in 2008.

Borrowing from a formal institution includes: (i) borrowing from a bank,[1] (ii) borrowing from Non-Banking Financial Companies (NBFC)[2], (iii) borrowing from Self Help Groups

[1] Banks include all kinds of banks. Correspondent banking is also included along with banks.
[2] An NBFC includes registered companies engaged in loans and advances, insurance or chit business. They provide certain banking services but do not hold a banking license.

(SHGs)[3] (iv) borrowing from Micro Finance Institutions (MFI)[4], (v) borrowing from credit cards[5], and (vi) borrowing from the employer[6]. However, CPHS data does not provide any exclusive picture on the involvement of cooperatives.

The percentage of borrowing from banks in Kerala has decreased significantly during the pandemic (Table 2). Reliance on banks for borrowing has declined from 70 percent in 2019 to 45 percent in 2021 (second wave), and further falling to 30 percent at the peak of the pandemic (May-August 2020). This implies a significant withdrawal of banks from the state's credit market. A similar trend is observed in other states and at the all-India level, at a lesser degree. Kerala has managed its pre-pandemic level of borrowing.

In Kerala, unlike other states and at the all-India level, the presence of NBFCs and MFIs has been evident during the pandemic. Household dependency increased from 6 percent in 2019 (before the pandemic) to 22 percent at the peak of the pandemic (January-April 2020), and ceased to 12 percent in 2021. This indicates that major NBFCs and MFIs in Kerala (institutions like Muthoot, Manappuram) and other small banking and finance institutions were able expand their market share in the state during the pandemic.

It is noteworthy that the lion's share of formal household credit originates from SHGs. The pandemic witnessed a three-fold increase in the percentage of households dependent on self-help groups from 15 per cent. The same cannot be said for other states or at the national level. During the pandemic, access to formal sources of credit remains elusive in the state. Contrary to what other studies suggest, the so-called formalization in Kerala is not through banks, but through intermediary SHGs and MFIs with some advantages of the informal network in the state.

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3 SHGs are groups that are formed by people who pool in money and then use it for lending to either members of the group or others in the same locality. Banks or micro-finance institutions also use SHGs to channelize their lending programs.

4 MFIs are lending institutions that usually reach out to borrowers in regions where typically, a bank does not find it viable to reach.

5 All unpaid credit card bills overdue by more than 2 months are captured as borrowings from credit cards. Usually, this is a costly source of getting money as the interest rates are very high. Any cash withdrawal using a credit card is considered as borrowing from credit cards.

6 Borrowing from employer includes loan facilities taken from the company. It also includes informal borrowings from employers, for example, a house help taking a loan from his/her employer, which may or may not be interest-free. The loan repayment is often through a direct cut from the salary.

Table 2: Formal sources of household borrowing

STATE	2019 Jan-Apr	2019 May - Aug	2019 Sep-Dec	2020 Jan-Apr	2020 May - Aug	2020 Sep-Dec	2021 Jan-Apr	2021 May - Aug
% of Household Borrowing from Banks								
KL	68.55	67.38	68.48	48.77	28.82	43.81	44.51	45.51
HIS	29.01	27.42	25.38	23.68	18.71	18.32	20.88	20.46
LIS	21.89	21.15	19.4	18.79	20.13	16.09	17.42	17.58
ALL	26.58	25.62	23.75	21.78	19.86	18.06	19.81	19.67
% of Household Borrowing from NBFC & MFI								
KL	6.29	6.17	6.84	21.8	13.65	14.79	13.33	10.05
HIS	10	10.43	7.91	8.73	11.96	14.56	14.22	14.6
LIS	2.62	3.07	2.41	4.27	3.15	2.36	1.4	2
ALL	6.07	6.68	5.2	6.77	7.17	8.21	7.39	7.68
% of Household Borrowing from SHG								
KL	8.8	17.36	14.22	17.43	57.75	41.07	41.53	43.94
HIS	20.8	16.44	12.79	15.07	21.57	17.6	15.85	17.76
LIS	4.16	4.51	3.68	4.26	4.95	5.22	4.53	2.78
ALL	11.83	10.61	8.39	9.6	13.74	11.99	10.68	10.5

Source (Basic Data): CPHS

Note: Corresponding columns do not sum up to 100 as households borrow for multiple source

Borrowing from informal sources includes (i) borrowing from moneylenders (ii) borrowing from relatives or friends, (iii) borrowing from other sources. Such loans are usually used to meet urgent needs or shortfalls. From Table 3, it is observed that the dependence of households borrowing from moneylenders has increased marginally. Conversely, households' reliance on friends and relatives to borrow rose sharply at the peak of each wave (May 2020-August 2021, respectively). This indicates the lack of alternative options for credit for many families during the lockdown while almost a similar trend is seen in other states and national levels.

Table 3: Informal sources of household borrowing

STATE	2019 Jan-Apr	2019 May - Aug	2019 Sep-Dec	2020 Jan-Apr	2020 May - Aug	2020 Sep-Dec	2021 Jan-Apr	2021 May - Aug
% of Households Borrowing from Money Lenders								
KL	8.04	3.58	3.49	3.65	5.88	5.48	4.43	2.63
HIS	8.29	8.58	7.2	7.69	3.87	2.41	2.04	2.37
LIS	6.58	6.12	4.8	4.33	4.67	2.99	3.05	2.54
ALL	7.39	7.21	5.92	5.87	4.39	2.82	2.65	2.46
% of Households Borrowing from Relatives and Friends								
KL	7.85	4.28	5.11	6.79	20.34	6.01	2.99	14.52
HIS	17.24	17.21	16.11	16.11	26	12.61	15.69	14.64
LIS	16.01	12.73	5.11	11.26	20.84	8.84	7.97	12.94
ALL	16.31	14.6	13.56	13.41	22.95	10.41	11.18	13.72

Source (Basic Data): CPHS

Note: Corresponding columns do not sum up to 100 as households borrow from multiple sources.

Cooperative credit in Kerala during the pandemic

As CPHS does not capture a specific picture of cooperative credit in the state, we attempt to explore its access by taking cases. Kerala is a state known for cooperative movements in the country. It is well recognized that the concept of cooperatives, inspired by cooperative movements, has played a crucial role in the socio-economic development of the state over the years. As many avenues are directly or indirectly under the cooperative networks, it contributes in various ways to the overall progress of the state. Therefore, its signature can be seen in all areas of the state. Notably, 12265 working cooperative societies are functioning in the state.

During the pandemic, the PACS loan disbursement has significantly increased from Rs. 89,153.03 crore to Rs 1, 08,816.15 crore in 2020-21, implying a 22 percent growth in credit creation (See Appendix Table-1). Among the total loan disbursements, the long-term loan registered the highest growth of 69.3 percent, while the short-term loan registered a mere growth of 11.3 percent. In addition, a few PACS disbursed an interest-free loan of Rs 9.2 lakh per farmer to promote their economic activity and livelihood opportunities during the pandemic. In 2020-21, the outstanding loan amount recorded a 25 percent growth, despite a 42 percent growth in loan overdue. This implies that, unlike the Scheduled commercial banks, which have followed a risk aversion strategy of not lending during the pandemic, the co-operative banks actively disbursed the loans.

To meet the need of the family during the pandemic, 4500 additional PACs were formed through which Rs. 1736.70 lakhs loan was disbursed. Overall, it is clear that PACSs in Kerala have played an active role in credit disbursal while commercial banks have withdrawn from lending despite RBI's liquidity measures to encourage credit growth. It is clear from the discussion that during this pandemic, the cooperative sector has risen to the occasion, with a long tradition of being with the grassroots and helping to address their local specific needs. However, it is important to note at this point that the remarkable role that the cooperative sector has historically played in Kerala is yet to receive the academic and policy attention it deserves. Such an inquiry is especially necessary when "one-size-fits-all" type of policies are being imposed from the centre, which are likely to adversely affect the firm roots of co-operatives in Kerala.

What drives household borrowing during the pandemic?

Households entering the debt market depend on demand and supply factors. While lenders' decision is on the supply side, households' decision to borrow is on the demand side. The latter can be broadly classified into four - borrowing for consumption[7], borrowing for health[8], borrowing for investment[9] and borrowing for others[10].

It is clear from Table 4 that borrowing for consumption was not a driving factor during the epidemic in Kerala. In fact, dependence on borrowing for consumption showed a decreasing trend during the pandemic. This may be due to partial state support for household consumption. However, borrowing for consumption is evident in other categories, particularly in LIS. Interestingly, health spending through borrowing is not visible in any state. This suggests that policy intervention in health expenditure has been somewhat effective. Additionally, business and investment borrowing dependence began to decline at the peak of the pandemic in 2020, but reached pre-pandemic levels in the second wave of 2021. Comparatively, Kerala's credit support for setting up a business or investment remained poor.

Table 4: Drivers of household borrowing- General

STATE	2019 Jan-Apr	2019 May -Aug	2019 Sep-Dec	2020 Jan-Apr	2020 May -Aug	2020 Sep-Dec	2021 Jan-Apr	2021 May -Aug
% of Households which Borrowing for Consumption Purposes								
KL	9.92	14.14	15.72	24.51	21.64	17.03	15.91	11.81
HIS	88.82	95.18	97.14	93.53	88.22	95.8	98.06	98.31
LIS	72.13	73.91	78.42	78.3	73.22	88.21	88.5	87.29
ALL	69.13	71.73	71.73	77.47	82.57	72.29	85.19	84.3
% of Households Borrowing for Medical Purposes								
KL	0.96	0.86	0.79	1.67	1.9	0.4	0.63	0.56
HIS	2.23	0.71	0.51	2.24	1.59	0.92	0.13	0.15
LIS	3.08	2.64	1.35	1.22	0.41	0.76	0.56	0.62
ALL	2.86	2.32	1.23	1.38	0.59	0.76	0.51	0.56
% of Households Borrowing for Investment Purposes								
KL	3.9	3.86	3.28	3.01	1.2	2.13	2.59	3.98
HIS	2.04	0.62	0.32	1.23	10.09	1.48	0.15	0.09
LIS	12.58	12.59	11.89	12.22	10.95	9.54	9.66	10
ALL	11.08	10.74	10.1	10.26	10.43	8.07	8.13	8.41

Source (Basic Data): CPHS

Note: Corresponding columns do not sum up to 100 as households borrow for other purposes

[7] Borrowing for consumption comprises of borrowing for consumption expenditure and borrowing for consumer durables

[8] Borrowing for health covers expenditures made for any medical treatment, whether at the hospital or at home

[9] Borrowing for investments includes borrowing (i) for starting or running a business, (ii) for investing in financial instruments such as equity shares, mutual funds, national savings certificates, insurance policies or to speculate on any of these markets or the commodities markets (including gold).

[10] Borrowing for others includes (i) borrowing for housing (ii) borrowing for debt repayment (iii) borrowing for vehicles (iv) borrowing for marriage ceremonies (v) borrowing for education and (vi) borrowing for others

Interestingly, unlike All India, HIS, and LIS, borrowing for other purposes shows an increasing trend in Kerala. This indicates that more than 85 percent of households have borrowed money for reasons other than consumption, health, and investment activities. In addition, we disaggregated other purposes and reported household loans for debt repayment and housing, as it represented a major driving force in that segment. Debt repayment involves borrowing money to repay previous debts. However, loan swapping is not classified under this. Housing loans include money borrowed to buy a house, an apartment, or a piece of land for commercial or non-commercial purposes.

From Table 5, household borrowing for debt repayment, more than 40 percent, shows a significant increase during the pandemic. Apparently, households take interest-free loans from SHGs and cooperatives to repay loans in PSBs. No wonder the country's public sector banks posted a profit of Rs 3,30,000 crore last quarter- Banks thrive when people and the economy suffer. It is also observed that there has been a significant decrease in the percentage of households borrowing for housing. This may be because credit sources have discouraged such loans.

Table 5: Drivers of household borrowing-Specific

STATE	2019 Jan-Apr	2019 May - Aug	2019 Sep-Dec	2020 Jan-Apr	2020 May - Aug	2020 Sep-Dec	2021 Jan-Apr	2021 May - Aug
% of Households Borrowing for Debt Repayment								
KL	20.27	18.51	18.44	24.37	52.2	40.2	39.7	44.3
HIS	0.16	0.12	0.04	0.1	0	0.05	0.07	0.03
LIS	0.28	0.23	0.19	0.75	0.11	0.83	0.62	0.42
ALL	1.67	1.55	1.4	1.92	3.67	3.36	2.94	2.92
% of Households Borrowing for Housing								
KL	33.14	31.49	31.63	26.62	13.96	15.37	15.85	18.66
HIS	2.94	1.43	1.16	1.94	5.88	1.21	0.51	0.41
LIS	8.93	8.81	7.8	4.67	2.69	3.93	5.06	3.44
ALL	10.12	9.72	8.71	5.48	3.69	4.36	5.19	3.94

Source (Basic Data): CPHS

Concluding remarks

Debt adds grease to the wheels of an economy, especially when an epidemic hit a country. If households' credit market access is inadequate during the pandemic, the reduction in household spending will negatively impact economic recovery. Using CPHS data, this chapter observed some facts and figures about patterns of household credit, household access to credit, drivers of credit, and incidence of credit among different segments during the pandemic. It is observed that despite maintaining the pre-pandemic level of over half dependent household credit, its credit market participation during the pandemic is far from the mark of recovery. This is because access to formal sources of credit is uncertain during a pandemic. Formal arrangements, Self Help Groups (SHGs) and some Microfinance Institutions (MFIs) have played a crucial intermediary role with some of the advantages of the informal network in Kerala. That is, when banks withdrew during the crisis, self-help groups and cooperatives came forward with massive loans.

Notably, households' decision to borrow was driven by non-consumption, non-health and non-investment factors. Instead, the main purpose of borrowing among households in Kerala is to repay old debts. As Scheduled Communities, low-income earners, small traders and wage laborers faced the most financial hardships during the pandemic, the intermediary role played by SHGs and cooperatives helped them get loans. Also, credit availability of rural households in Kerala is reported to be high, as borrowing through SHGs, cooperatives and MFIs is relatively more profitable in rural areas than in urban areas. Overall, there has been a significant shift in access to credit from banks to SHGs.

Policy intervention is very necessary at this stage. If policy tools (monetary and fiscal) fail to respond to demand and supply shocks, it can hamper economic recovery. For Kerala, fiscal policy responses to the economic impacts of the COVID-19 pandemic through various welfare schemes, COVID relief packages, medical assistance etc. have been effective to some extent. However, since the government now has unlimited room for fiscal expansion, the only option is to facilitate access to maximum credit through monetary channels. However, fiscal support fell by the wayside. Low access to credit will jeopardize the recovery process due to risk aversion of financial institutions. Banks and similar institutions should announce measures to offer various credit facilities to distressed customers, family income level, social status, employment status, regional differences etc. Otherwise, when the crisis unfolds completely, it will further hamper economic growth.

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Appendix Table-1

A1: Select indicators of cooperative sectors of Kerala

Indicators	Unit	2019-20	2020-21	Growth
No. of societies	Numbers	1643	1644	0
Total loans Issued Of which;	Rs in crore	89153.03	108816.15	22.06
Short-term loans Issued		51490.79	57306.71	11.3
Medium-term Loan issued		29210.96	37200.62	27.35
Long-term Loan issued		8451.28	14308.81	69.31
Deposits	Rs in crore	111100.19	173816.22	56.45
Loan Overdue	Rs in crore	16250.36	23158.31	42.51
SHGs Formed by PACS	Numbers	61358	65891	7.39
State Contribution to				
SHGs through PACS Credit	Rs. In Lakhs	1347.41	1736.79	28.9
Average loan per member	Rs.	28212.98	31177.22	10.51

Source (basic data) : Office of the Registrar of Co-operative societies