Impact on Increasing Retail Credit On Consumption Expenditure in India

(With Special reference to Household Consumption Expenditure)

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Abstract

The importance of retail loans in the current scenario cannot be undermined. Sincetheadvent of new economic policy, India has been undergoing financial engineering. This has given birth to various types of innovations in the financial and banking sector.One of these innovations is related to Personal loans and credit disbursement by the banking sector also known as Retail loans. Retail credit comprises of loans granted to households and individuals in the form of loans given for the purchase of consumer durables, housing loans, education loans, vehicle loans, issue of credit cards etc. Because of this there has been a rise in the household consumption expenditure. The present study is an attempt to know the growth in household consumption expenditure and impact of retail loan disbursement on household consumption expenditure. The study shows that personal loan disbursement has resulted in a positive impact on the private final consumption expenditure thus leading to economic development.

Key Words: Personal loans, Retail loans, Credit, Household Consumption Expenditure, Private Final Consumption Expenditure, Economic Development

Introduction

Ever since advent of new economic policy and liberalization of the economy, the Indian banking sector has been a playfield for development of new financial products and services. The creation of new banking products and services had become almost imperative for the banking sector to face the challenges it was undergoing due to the changes taking place in the economic environment. This led to the emergence of financial engineering in the financial sector and innovative products in the form of retail loans to individuals and households. Retail Credit or retail loans can be defined as the provision of loans and credit by banks to general public, households and individuals rather than to corporate and business houses. It is one of the important aspects of retail banking. Retail credit is disbursed in the form of loans and advances for consumer durables, vehicles, housing, education, issue of credit cards etc. Credit is like a lubricant for sustaining economic growth. It is an integral part of retail banking (*Patnaik, Satpathy and Samal, 2017*). Retail credit leads to an increase in personal spending, thus increasing income levels in the economy. This in turn leads to higher Gross Domestic Product (GDP) and thereby faster productivity growth.

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On the other hand corporate credit is granted for productive investments to the business world. The main purpose of granting such credit is to help the entrepreneurs to produce goods and services, generate employment and income and promote economic growth. Corporate credit or simply business loans are given for use as business investment to enhance investment, employment, production and income generation. Retail credit unlike corporate credit, however is not productive.It is granted by the banks or taken by the households to fulfill personal needs of goods and services for direct satisfaction of wants. Yet such loans can cause an increase in consumption expenditure of the households by creating demand for goods and services. This too can lead to economic growth from expenditure angle which is another aspect of measuring economic growth.

Final consumption reflects the final purchase of goods and services. It occurs when the goods are out of the production boundary. It is an important concept in economics as it is regarded as a yardstick for growth and success of an economy. Consumption drives demand which in turn drives investment, production, income generation and therefore employment. Higher spending on consumption of goods and services by the households also leads to a higher standard of living. Personal consumption is affected by many factors such as income level, inflation, prices, taxes etc.Expenditure made on private final consumption of goods and services thus is an important part of Gross Domestic Product (GDP).

According to Keynesian Theory in macroeconomics a higher supply of money in the economy helps to lift the economy from recessionary pressures and move it towards growth, expansion and prosperity. The distribution of retail loans causes an increase in the money supply in the economy by the amount of loans disbursed. The Indian banking industry has been increasingly distributing retail loans since the New Economic Policy was introduced in 1991. Meandering through a series of ups and downs from 1991 to 2019 retail loans segment has now become an integral part of bank lending. The present study has been done to understand how the same is contributing to increased spending by the household sector and its impact on the same during the period from 2014-15 to 2017-18 as greater spending by the households would lead to prosperity.

Literature Review

The review of literature has been divided into three parts. The first part is related to the relationship between retail loans and economic growth and development, the second part is related to shift in focus and increase in the disbursement of retail loans by the scheduled commercial banks in India whereas the third part is related to facets exploring the relationship between retail loans and few other factors.

i. Retail loans and economic growth

The Keynesian Theory in Economics advocates consumer or household spending to reduce and limit recession. Most of the literature conducted in India and at a global level asserts that retail loan disbursement is a tool to enhance the economic development of the country and profitability of banks.Retail banking according to *Patnaik, Satpathy and Samal (2017)* means provision of banking services and products to individual and household customers for purposes other than business or entrepreneurship. It caters to both the sides of balance sheet by accepting deposits from customers on the liabilities side and offering them various loans on the asset side. While retail banking offers huge opportunities for growth, the retail credit sector too offers good prospects for growth.A study conducted by *Zaker-Ul-Oman* (2017) states that over the past few years, retail lending has become the focus of the banks and the Non Banking Financing Companies (NBFCs) on account of the contrasting fortunes of commercial credit and retail credit. In contrast to the trends of slowing growth and rising delinquent trends exhibited by the commercial lending space, retail lending has exhibited significant robust growth accompanied by declining delinquencies (*economictimes.indiatimes.com*). Retail credit has an important role to play as it enhances consumption and spending. Besides disposable income, per capita income, level of income inequality and consumer confidence index about the future prices, level of household debt is one of the most important determinants of consumer spending.In a note on consumer spending in India (www.icmrindia.org), consumer spending is considered as an important factor affecting economic growth and development of a country. Consumer spending has played a vital role in the economic development of India. According to a report published by the Bank of Baroda in 2006, consumer expenditure is fuelling economic growth in India. The report further states that the rising income levels, higher disposable income, emergence of new products in the market, brand consciousness and availability of retail credit are the main reasons behind increasing consumption in India. Consumer spending is the most important driving force of the U.S economy and 70 percent of the U.S. economy is driven because of consumer spending (*Kimberly Amadeo,2019*).The study conducted by the researcher supports the Keynesian Theory that higher consumption would lead to a higher aggregate demand thus impeding recessionary trends.*Sukanya (2016)* observes that retail lending as a part of retail banking, particularly by scheduled commercial banks, has immense potential for the banks in the country by way of expansion of scope of activity and volume of business. At a macro level it can also increase the level of economic activity in the country resulting in higher rates of economic growth for the country. Similar studies have also been carried across the globe. A study conducted in Romania between 1990 and 2014 by *Catalin Emilian HuidumacPetrescu and Alina Pop* (2015) shows that banking sector has played a very crucial role in the growth of Romanian economy by providing funds for increasing consumption and investment and thereby creating jobs, enhancing income and profits. Using regression analysis and taking bank lending, inflation and interest rate as independent variables and gross domestic product as the dependent variable they find that the loans granted by the banking sector have a significant positive effect on the GDP where as inflation and interest rate have an inverse effect. In a study by *EvicaDelova and AndovskiIlija*(2016) 44 percent of retail loans are dominated by the consumer loan portfolio followed by the housing loans at 22 percent. In Macedonia there has been a tremendous growth in the retail loan sector of banking system post 2012 which represents the recovery period post global financial crisis of 2008-09. As stated in their study household consumption expenditure comprises of almost 60 percent of GDP and is a major factor influencing the aggregate demand in an economy. Also disposable income is again the most influential factor affecting consumption expenditure which is also the pillar of Keynesian Consumption function. A study conducted in India by *VidyaTelang (2019)* makes use of regression analysis for studying the impact of various retail loans on economic development of the country and finds that every type of retail loan such as loans for purchase of consumer durables, vehicles, credit card outstandings, education loans etc. shows a positive impact on the Gross Domestic Product (GDP) during the study period of 11 years ranging from 2007-08 to 2017-18.

ii. Shift in focus towards retail banking

Jayati Ghosh and C.P.Chandrashekhar (2016) observe that the rise in retail loans had started from the post-liberalization period. The retail loans by the banking sector had gone through a series of up and downs during that period. There was an upward trend in the distribution of retail loans during from 2002-03 to 2008-09. The sector suffered a setback during the global crisis period from 2008-09 to 2011-12. However since then it has been rising again.During recent times there has been a shift of focus of scheduled commercial banks towards retail banking products. A study by *VivekKaul* (2018) reiterates the above fact that the current focus of Indian Banks is now on 'Narrow Banking' i.e. retail banking. This is because of the non-performing loans problem emerging mainly from the corporate sector in India which the scheduled commercial banks in Indian banking sector are facing in a big way today. In fact, in September 2017, the bad loans (loans which haven't been repaid for a period of 90 days or more) had stood at 10.2 percent of the total advances made. Public sector banks constituted a bulk of these bad loans. As of 31 March 2018, the total bad loans of banks stood at

Rs.1035528 crore which was 11.6 percent of the total advances made by these banks. The rising Non-performing Assets (NPAs) of banks were thus the main reason for the scheduled banks getting more inclined towards retail lending. Narrow banking involves banks taking deposits and giving out only retail loans. By 31 March 2013, lending to industry and retail made up for 45.8 percent and 18.4 percent of the non-food credit, respectively. Five years later, the situation has changed completely and lending to industry and retail make up for 35.1 percent and 24.8 percent of the non-food credit, respectively. Basically, the figures reflect that Indian banks have gone more retail over the last five years.Personal lending or retail credit has been gaining a lot of momentum in recent times. The share of retail loans as a percentage of gross credit disbursed by the banks has been continuously rising in the recent past and accounts for more than 24percent of gross credit disbursed by banks (*Saon Ray, SmitaMiglani and Sandeep Paul*, 2018). Another reason which can be attributed to the growth of retail loans in India is financial inclusion which has emerged as one of the most important objectives of the planning process. It has opened up huge opportunities to all the players in the financial market to innovate and to create new products to tap the market potential especially for those who are out of the net of financial services or belong to under-served places. *Vijayalakshmi and Sailaja (2016)* opine that the picture of Indian financial sector is undergoing a change. Thus expectations of customer, technology, regulatory requirements, demographic aspects and economics are together making it imperative to change. Retail banking sector of India is also expanding rapidly. The banking industry of India is worth Rs. 81 trillion (US $ 1.31 trillion) currently. By 2020 as per global perspective it can become the fifth largest bank industry in the entire world and third largest by 2025.

Mammoth population and a low base have made India the fourth largest retail loan lender in the world (*VidyaTelang,* 2019). Huge demand for housing, consumer goods, vehicles, electronic durables, credit cards and education have caused a surge in retail loans in the Indian banking. All components of various retail loans showed an increasing trend indicating the huge demand for such loans in India. Also since According to *Libina* (2016), retail banking has helped the banks to diversify their asset portfolio. As the loans distributed to the household are lesser in value as compared to the corporate loans and as they are given to a large number of customers, the risk of default in repayment is less resulting in lesser NPAs. Thus for the banks it has wide opportunities for growth and profit.Conventional banking scenario is undergoing many changes(*Ravikanth, 2016)*. Banking sector has gained huge momentum during the last five years as far as retail banking and retail lending is concerned anks need to use this segment as a growth trigger. To achieve growth the retail banking sector also needs constant re-engineering to offer more and new products to their customers and also to retain them with themselves.According to *Parmanand Barodiya and Anita Singh Chauhan (2015)*, retail lending which is a growing sector of the economy has contributed significantly to its development. Similar to other developed countries, India also has a developing retail banking sector which currently accounts for one-fifth of all banks credit. Retail lending has emerged as one of the important innovations across the globe in the banking sector. The high growth of retail credit in emerging economies can also be attributed to the increase in personal wealth of the people favourable demographic profile, development of information technology sector, conduciveness of the macroeconomic environment, reforms in financial markets. The strategies in retail banking are also undergoing major changes as banks are beginning to adopt a mix of strategies like achieving organic growth through acquisition and alliance formation. Public Sector Banks (PSBs) are adopting more aggressive strategies and trying to leverage their branch network to garner a larger share of the retail market. *Srinivas (2014)* opines that there is a need of constant innovation in retail banking products. It is one of the most tremendous areas now days as its contribution to the economy is quite noteworthy. Retail banking industry contributes 7percent to our GDP and 14percent to employment.

i. Retail Banking and other factors

Botterill (2010) has linked retail loans to the political mindset of an economy and treated the development and increase in the retail loan portfolio to moral issues and consumerism. A look at India's past prior to 1991 is an evidence of a narrow and discouraging approach towards spending. The emphasis during those times was more on savings which could be channelized into investment and the banking policies related to individual lending were almost non-existent. On political grounds we were more a socialistic pattern of economy than a capitalist one.Borrowing for the purpose of revenue expenditure on goods and gadgets, appliances and vehicles was considered unnecessary and an unwanted, unwarranted liability for the future. With the advent of new economic policy of deregulation and privatization in 1991 the approach towards consumer spending changed completely and retail banking started being considered as a way to let people enjoy a better standard and quality of life.

Closely related to concept of consumerism is an observation made by *Cohen* (2016). America as an economy is well known for its consumerism. However the researcher observes that it may not always be correct to relate retail loans to extravagance or being a spendthrift. The rise in personal loans has been attributed more to price rise and inflation accompanied with near stagnant wages. With increase in prices of essential well-being products led to unaffordability of those products for the lower income households in America and due to which they had to resort to personal borrowings thus leading to increase in personal loans in America. A very recent research by *Anker, Thomas* (2020) makes references to consumer autonomy in a marketing world. Though no direct hint at marketing of services is made, he opines that consumer autonomy is the key ethical principle of marketing in capitalistic economies. In case of availability of retail loans and the persuasive tactics used by the public and private sectors bankers in India, retails loans are being seen as financial products which need to be marketed and sold to people some of whom may be vulnerable or ill informed. This lack of information or even persuasion by the financial intermediaries may result in affecting informed decision making by the consumer. For the banking sector retail loans are being seen as income generating centres and therefore need to be marketed even if they go to the extent of being an imposition on the autonomy of the consumer.

Share of Retail loans in Gross Bank Credit

The share of retail credit in gross bank credit shows an increasing trend (Table No.1). In year 2013 the percentage share of retail credit in gross bank credit was 18.15 which increased to 24.69 percent by March 2018. This shows that retail loans have become an integral part of bank lending in India. From 2013 to 2018 the average share of retail loans in gross bank credit has been 21.15 percent. Similarly we can see that the growth rate in case of retail credit has been much higher than growth rate in gross bank credit throughout the study period. This can be an indication of shifting focus of banks from corporate lending to retail lending. The average rate of growth for the period from 2013 to 2018 for gross bank credit is 9.29 percentwhere as for retail credit it is 16.22 percent. During 2014-15 the overall retail credit grew by 20percent even though there was a decline in gross bank credit *(Report on Trend and Progress of Banking Sector in India, RBI 2014-15)*. The retail loans robust growth is more driven by housing loans, auto loans and credit card receivables *(Report on Trend and Progress of Banking Sector in India, RBI 2017-18)*. As per the same report retail loan segment of bank lending is relatively stress free. The figures as per Table No.1 highly support the findings stated by *VivekKaul*(2018) that India is shifting and focusing more on Narrow Banking or Retail Banking as shown by its increasing share in Gross Bank Credit from the period 2013 to 2018.

Table 1: Share of Retail loans in Gross Bank Credit

(Rs.Billion)

YEAR	Retail loans as a % of Gross bank Credit	% Growth in Gross Bank Credit	% Growth in Retail Credit
2013	18.15	---	---
2014	18.33	13.96	15.07
2015	19.11	7.87	12.50
2016	20.94	8.98	19.37
2017	22.71	7.29	16.36
2018	24.69	8.35	17.81
Average	**21.15**	**9.29**	**16.22**

Source: self-generated (data source www.rbi.org)

From the above reviews of literature it can be observed that the research conducted earlier is quite explicit about the expanding role of retail banking as well as retail credit in an economy. This can be evidenced through the figures derived as in Table No. 1. It can be seen that since the year 2013 the share of retail credit in gross bank loans has been growing constantly. From 18.15 percent in 2013 it has increased to 24.69 percent in 2018. The rate of growth in retail loans has also always been more than the rate of growth in gross bank credit.Its contribution to the growth of an economy cannot be undermined.

Objective of study

The Indian banking industry has been on a spree of retail lending post liberalization. The NPAs resulting from corporate loan portfolio have been taking a toll on banking profitability Also because of the non-performing assets (NPA) problem related to the corporate sector, the focus of the banks has also become slightly more inclined towards the retail loans. This is because the incidence of NPAs is much lesser in retail lending as compared to corporate lending. Also the retail loans are giving healthier returns to the banking sector (VivekKaul, 2018).

Retail credit has been a part of the Indian banking system for a long time now. But its empirical impact on the household consumption expenditure has not been studied yet. None of the above researches have quantified the contribution or impact of retail credit on the consumption expenditure of households in India. Thus through this study an attempt has been made to gauge the impact of retail credit on private household final consumption expenditure of Indian economy for the 4 year quarterly period 2014-15 to 2017-18.

The main objectives of this study are:

1. To empirically estimate the impact of Personal Loans excluding Housing loans on Household Consumption Expenditure (PFCE)

2. To measure the multiplier effect of increase in retail loan disbursement on change in personal consumption expenditure.

Research Methodology

The present study has been carried out with the objective of knowing the growth in loans of retail and personal nature during the above-mentioned period and its impact on personal consumption. In the past the Indian economy was not as consumption oriented as it is today. This has happened firstly because of rising incomes and secondly because of availability of retail credit. As discussed above consumption and generation of demand are primary drivers of growth and economic development of an economy

Data Collection and study period:

The study is based on secondary data collected from journals, research papers and internet sources. The statistical data particularly has been collected from RBI website. The statistical time series data is quarterly in nature and is for the period 2014-15 to 2017-18 (The quarterly time series data is available only from the year 2014-15).

Regression analysis is an econometric tool meant to study the impact of independent variable over another dependent variable. Keeping in consideration the macroeconomic theory regression analysis has been used to study the impact of retail loans on personal expenditure and consumption

Variables under study

1. Independent variable: Personal Loans excluding Housing loans

Personal loans refer to the total amount of retail loans granted by the banks as consumer loans for purchase of durable goods, vehicles, housing, education, credit cards outstanding, advance against fixed deposits, advances against purchase of shares and debentures and miscellaneous loans. It is an indicator of increase in current income of the people meant to be disposed for purchase of goods and services. Personal loans also include loans given for housing. However since Private Final Consumption Expenditure does not comprise of expenditure made on housing but is included as a part of Gross Domestic Capital Formation, therefore the variable Personal Loans is taken after deducting the amount of housing loans granted during the period. It is being used as an independent variable.

2. Dependent Variable: Private Final Consumption Expenditure (PFCE)

This refers to the final consumption expenditure made on durable, semi-durable, non-durable goods and services by the households and individuals. PFCE is an important ingredient of Gross Domestic Product (GDP) of the country when it is measured on Expenditure basis. GDP is the most important parameter for measuring the growth of a country and any rise in PFCE would automatically reflect the increase in consumption and GDP. Since the expenditure made on residential houses is included in Gross Domestic Capital Formation (GDCF) and not PFCE, PFCE does not however include any expenditure made on acquisition or construction of houses by the household sector. A higher PFCE is also an indicator of increase in the standard of living of the people. PFCE is the dependent variable representing final consumption expenditure of people.

Hypothesis formulation

The Null Hypothesis being formulated is

H_0 = There is a positive impact of retail credit on the household consumption expenditure in India.

The alternative hypotheses is

H_1 = There is no impact of retail credit on the household consumption expenditure in India.

The following univariateempirical model has been used to study the impact of retail credit on household consumption expenditure

$$Y = B_0 + B_1X + u$$

Where,

B_0 = Constant

B_1 = Beta Coefficient of Personal Loans outstanding less Housing loans

Y=Personal Loans outstanding less Housing loans

X= Private Final Consumption Expenditure (PFCE)

u = Error Term

The literature provides several other factors which can affect household consumption expenditure such as income level of the households, education level of the consumers and inclination towards buying more goods for a better lifestyle etc. however the model is a univariate model and takes into consideration only retail loans disbursement as an independent factor due to unavailability of quarterly data for other factors.

Data Stationarity

Data Stationarity has been ensured by using the Augmented Dicky Fuller Test. Both the personal loans and Private Final Consumption Expenditure have been found to be stationary at first level difference and the results were significant at 5percent.

Growth in Private Final Consumption Expenditure (PFCE) and Personal Loans (excluding housing loans) and Descriptive Statistics

During the study period from 2014-15 to 2017-18 private final consumption expenditure has grown by 2.13 percent per quarter (Table No.2). On the other hand the average growth for the same period on a quarterly basis for retail lending excluding housing loans has been 4.43 percent. It means that the growth in retail lending during the last four years has been more than twice of growth in personal consumption expenditure. This initiative by the banks reflects that it is being sought to make the people more consumption oriented. It also shows the increasing focus of the banks towards personal lending. The quarterly average retail loans excluding housing loans disbursed during the period amount to Rs. 6588.60 billion with a standard deviation of 1325.53 billion. At the same time the quarterly average for PFCE amounts to Rs.16459 billion with a standard deviation of Rs.1606.28 billion (Appendix

Table 2: Quarterly % Growth rate

YEAR	QUARTER	Personal Loans outstanding excluding Housing Loans	Private Final Consumption Expenditure
2014-15	Q1		
	Q2	1.53	-0.31
	Q3	8.70	6.50
	Q4	1.89	4.89
2015-16	Q1	-0.40	-6.64
	Q2	2.39	2.29
	Q3	7.31	10.33
	Q4	5.84	2.70
2016-17	Q1	3.27	-6.59
	Q2	3.01	1.54
	Q3	1.89	12.21
	Q4	5.41	-2.08
2017-18	Q1	5.04	-4.15
	Q2	6.58	1.43
	Q3	5.48	11.19
	Q4	8.54	-1.31
	AVERAGE	4.43	2.13

Source: self-generated (data source www.rbi.org)

Impact of Personal Loans (excluding housing loans) on Private Final Consumption Expenditure (PFCE)

Table 3: Regression

	Coefficients	Standard Error	T Stat	P-Value	R Square
Intercept	9209.66	910.65	10.11	0.00	0.82
Personal loans excluding household loans	1.10	0.14	8.11	0.00	

Analysis and Interpretationand Discussion

From the above Table No.3we can see that the Coefficient of determination R^2 for the model is 0.82 i.e. 82 percent. It means that the independent variable in the model is able to explain the variations in the private final consumption expenditure to the extent of 82 percent. The regression results also show that there is a positive impact of retail and personal loans of the bankingsector on consumption expenditure the positive coefficient being 1.1 which means that a 1 percent increase in personal loans would lead to 1.1 percent increase in PFCE. Thus higher the disbursement of retail loans higher is the consumption expenditure made by households. It reflects that the distribution of retail loans and a relaxed and liberal credit policy by banking sector in India has impacted the household consumption sector in a favourable way. The results are also highly statistically significant at 5 percent. The null hypotheses thus stands accepted that grant of retail and loans of personal nature have had a positive effect on the consumption expenditure of households.Also the alternate hypothesis that there is no effect of retails loans on household consumptionsimultaneously stands rejected.It is pertinent to note that during the study period the average rate of growth in household consumption expenditure has been 7.84 percent and in case of GDP the average growth rate has been 11.07 percent*(rbi.org.in).*

The results derived above support the previous researches by *Zaker-Ul-Oman* (2017) and *VivekKaul* (2018) regarding the increase in retail lending by the scheduled commercial banks in India. The focus of banks during the study period has been shifting more and more towards retail credit more than corporate credit. Also as per *Kimberly Amadeo* (2019) which states that household consumption has been the driving force of U.S. economy, similarly the results of the present study in India are pointers to the fact that the positive significant impact on private final consumption expenditure has also contributed to the growth of Indian economy. The results also support the Keynesian Theory which propounds greater household consumption for limiting recession and achieving economic growth.

The Loan Multiplier Effect – Ratio betweenQuarterly change in Private Final Consumption Expenditure and Personal loans (excluding housing loans)

In Economics, the ratio of change in one variable and change in another variable is known as the multiplier effect. Just like increase in investment causes an increase in income generated in the economy in multiples and is measured through Investment Multiplier similarly it has been established above through regression thatpersonal loans affect the consumption expenditure of the households. This phenomenon can be treated as similar to Investment Multiplier and can aptly be called as Loan Multiplier. Table No.4 depicts the loan multiplier effect of the change in PFCE due to change in Personal loans (excluding housing loans). The loan multiplier has been calculated as:

$$\text{Loan Multiplier} = \frac{\text{Change in Private Final Consumption Expenditure}}{\text{Change in Personal Loans}}$$

Table4: Loan Multiplier effect

YEAR	QUARTER	Change in Personal Loans outstanding (excluding Housing Loans)	Change in PFCE	Loan Multiplier (Change in PFCE/ Change in Personal Loans excluding Housing Loans)
2014-15	Q1			
	Q2	74.75	-43.61	-0.58
	Q3	431.71	917.72	2.13
	Q4	102.02	735.36	7.21
2015-16	Q1	-22.05	-1047.10	47.48
	Q2	130.60	337.60	2.59
	Q3	409.97	1556.54	3.80
	Q4	351.01	449.41	1.28
2016-17	Q1	208.31	-1125.38	-5.40
	Q2	198.10	245.62	1.24
	Q3	128.08	1977.68	15.44
	Q4	373.16	-377.65	-1.01
2017-18	Q1	366.89	-738.11	-2.01
	Q2	503.02	243.15	0.48
	Q3	446.54	1937.03	4.34
	Q4	733.94	-251.47	-0.34

Source: self-generated (data source www.rbi.org)

Table No.4 depicts the Multiplier Effect of change in personal loans excluding housing loans on Private Final consumption expenditure on a quarterly basis.Though it is difficult to draw any behavioural patterns from the above table with certainty it can be observed that there is a negative change in personal loans only once during First Quarter of year 2015-16. Otherwise throughout the study period, the retail loans are showing an increase on a quarterly basis. However the same pattern cannot be observed for PFCE. It has decreased several times during the period despite of an increase in outstanding personal loans. It is also interesting to note that usually during the second and third quarter there is a forward action of the multiplier which means that an absolute change in the personal loans has led to a bigger absolute change in PFCE. In India the second and third quarter of the financial year i.e. second quarter Q2 and third quarter Q3 represent the months from July to September and October to December respectively. These months are festival months with all major festivals like Ganesh festival, Navratri festival, Dussehra and Diwali falling in this period and are considered quite auspicious for purchase of any king of durable goods including vehicles. It is thus quite understandable that the PFCE during this period would be quite high leading to a positive forward multiplier effect. The Loan Multiplier effect has been even more prominent during the third quarter of the study period. For all the years it has been 2.13, 3.80, 15.44 and 4.34 for the years 2014-15 to 2017-18 respectively. It indicates that during this period the change in PFCE in relation to the change in personal loans has been as many times as mentioned above. On the other hand while moving from quarter four (Q4) to quarter one (Q1) there is a backward multiplier effect which means that the PFCE shows an actual decrease. Again it is noteworthy to note that the fourth quarter of the preceding year and the first quarter of the next year represent the closing of a financial year and the transition to the next financial year and are therefore related to tax payments and tax planning. Therefore the focus of the people would be more on saving than on expending. The households would be more interested in channelizing their savings in tax saving schemes than on purchase of goods and consumer durables. That justifies the decrease in PFCE during this period leading to a backward multiplier effect.

Conclusion

Retail loans are a result of financial engineering which has led to designing of customised financial products as per the needs of the consumer. The personal loans by the banking sector in India help the expending capacity of the consumers and households by increasing their current capital income (the augmented income is in the form of loans) and therefore disposable income.Due to the enhanced retail loan portfolio of banks the household sector has been able to increase their expenditure on final purchases thus triggering higher demand for the economy. Demand and consumption are the most important factors which effect the growth of an economy. Private or Household Final Consumption expenditure is an important part of GDP measurement. Household consumption is again dependent on the personal disposable income of a household. From the above results of regression it can be inferred that the disbursement of retail loans has had a positive impact on the consumption expenditure and thus economic development of the country.

A report by*GayatriNayak*(2019) states that ever since opening of the Indian economy in 1991, the consumer spending has gone up tremendously and today the consumer does not think twice before borrowing for his various consumer goods need. This rising trend of consumer spending and changing behaviour of people towards going in for credit and borrowings to satisfy their needs for goods and services has acted as a booster for the banks to diversify their products towards creating various types of lending products.The same report also states that because of the non-viability of corporate lending the banks have moved towards providing more and more retail loans. The findings of the study also support the results of study by *VidyaTelang*(2019) that retails loans have been a major cause of economic development. In the current study also it can be very well understood that retail loans have had a positive effect on economic growth manifested through positive impact on personal consumption expenditure. This again takes us back to some of the researches made by the *Botterill, Jacqueline* (2010), *Anker, Thomas* (2020), Cohen, Joseph N. (2016). In India the banks are oblivious to the fact as to whether their marketing tactics are in anyway affecting consumer autonomy or whether the change in the economic policy outlook justifies the conservative banking approach to a highly open approach towards borrowings and loans. The redeeming feature about the discussion is that retails loans have certainly helped to improve the standard of living of the people at the same time creating an additional liability on them.

Policy Implications

As stated earlier banking sector is in current times besotted with huge challenges. The relaxation of norms by RBI has given a lot of freedom to the Scheduled Commercial Banks (SCBs) to design their own products and decide their own interest rates. This has caused a greater level of competition between different types of banks. The current study has shown that personal loans also have a forward multiplier effect on PFCE specifically during second quarter (Q2) and third quarter (Q3). From the above analysis it can also be seen that the second and the third quarter of the year show a higher amount of consumption expenditure. The banks can make use of this information and analysis to design more customised loan products in retail banking sector and offer more competitive interest rates on loans to take advantage of the festive season in India. This can enhance the revenue generated from retail loans for the banks and also lead to enhanced profitability.

Limitations of the study

The main limitation of the study is the data for personal loans on a quarterly basis is available at RBI site only from the year 2014-15. Therefore the study period is limited only to 4 years i.e. 16 quarters. Also since November 2016 the economy has been under the repercussions of Demonetisation which may have affected the aggregate demand of economy adversely. This may have consequently also affected the demand for retail loans.

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APPENDIX TABLE 5
Personal Loans excluding Housing Loans and Private Final Consumption Expenditure (PFCE)

(Rs.Billion)

YEAR	QUARTER	Personal Loans excluding Housing Loans)	PFCE/
2014-15	Q1	**4887.77**	
	Q2	**4962.52**	-0.58
	Q3	**5394.23**	2.13
	Q4	**5496.25**	7.21
2015-16	Q1	**5474.19**	47.48
	Q2	**5604.79**	2.59
	Q3	**6014.76**	3.80
	Q4	**6365.77**	1.28
2016-17	Q1	**6574.08**	-5.40
	Q2	**6772.18**	1.24
	Q3	**6900.27**	15.44
	Q4	**7273.43**	-1.01
2017-18	Q1	**7640.33**	-2.01
	Q2	**8143.35**	0.48
	Q3	**8589.89**	4.34
	Q4	**9323.83**	-0.34
		6588.60	
		1325.53	

Source: RBI Handbook of Statistics on Indian Economy
Average and Standard Deviation have been self-computed

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