

## MSME loans risky even as banks transmitted rate cuts the most

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Even as banks have transmitted rate cuts most to the MSME sector and education loans during pandemic, they are still perceived to be risky. The spread over one year benchmark lending rate is highest for such loans, according to a study by RBI economists

Spreads of weighted average lending rates (WALRs) on fresh rupee loans over 1-year marginal cost of funds-based lending rate (MCLR) for loans to MSME was 179 basis points (bps- one bps is 0.01 per cent) in May, factoring the median WALR at 7.28 per cent even as banks transmitted 132 bps of policy rate cuts during the pandemic between April 2020 and May 2021, analysis by the economists in a study published in the latest monthly bulletin showed. Such spread for education loan was 219 per cent and the banks transmitted 162 basis points. Put simply, even though these loans are risky, lending rates were lowered to revive activities.

“Despite the restructuring, however, stress in the MSME portfolio of PSBs remains high” noted RBI’s latest financial stability report (FSR). “ Given the elevated level of debt of the stressed cohort, the implications of business disruptions following the resurgence of the pandemic could be significant.”

” (The spreads) were uneven across sectors reflecting their varied credit risk profiles and business strategies followed by banks” the study noted. The spread was among the lowest in respect of housing loans, reflecting lower defaults and the availability of collaterals and highest for personal loans . “Personal loans (other than housing and vehicle loans) are mostly unsecured and involve higher credit risk and hence, the spread charged was the highest for other personal loans”. But in terms of transmission, personal loans were lower by only around 100 bps points during the period.

Boosted by The Emergency Credit Line Guarantee Scheme (ECLGS) disbursements to eligible categories, net credit flow to stressed MSMEs during March 2020-February 2021 rose to Rs 50,535 crore with the shares of public sector banks and private sector banks at 54 per cent and 35 per cent, respectively, according to the latest Financial Stability Report. The Emergency Credit Line Guarantee Scheme provides 100% guarantee to banks for loan portfolio of up to Rs. 3 lakh crore to eligible MSMEs.

“Going forward, close monitoring on asset quality of MSME and retail portfolios of banks is warranted” the financial” the FSR noted.

**Rating agencies have warned of balance sheet implication for banks. “The reduced dent on the balance sheet of financial institutions over the last year may deepen further in case the regulator withdraws its supportive stance to eligible segments under the retail, agriculture and MSME industry” said the July review by Brickwork Ratings.**