

Consumer credit steering: A tale of two markets

Adam Feibelman and Renuka Sane

12th Emerging Markets Conference, Mumbai

14 December 2021

The problems with credit markets

- ▶ *Financial exclusion*: often of the poor, minorities.
- ▶ *Inadequate access to long term finance*: example infrastructure.
- ▶ *Poor consumer protection*: consumers mis-sold products Both US and India have various policies for steering credit and financial services
- ▶ Countries have various policies for steering credit and financial services

The problems with credit markets

- ▶ *Financial exclusion*: often of the poor, minorities.
- ▶ *Inadequate access to long term finance*: example infrastructure.
- ▶ *Poor consumer protection*: consumers mis-sold products Both US and India have various policies for steering credit and financial services
- ▶ Countries have various policies for steering credit and financial services

How governments steer credit?

- ▶ *Ownership of the lending channel*: example public sector banking in India, DFIs in India
- ▶ *Rules on credit disbursal*: Priority Sector Lending (PSL) in India, Community Reinvestment Act (CRA) in the US
- ▶ *Provide liquidity to markets*: Credit guarantee schemes in India; Freddie Mac, Fannie Mae in the US

Different results

- ▶ India:
 - ▶ PSL is generally seen to improve outcomes for beneficiaries; overall cost to the system not known.
 - ▶ Public sector ownership of the banking channel has not worked so well: effects on employment, high NPAs, politically motivated lending, failure of DFIs.
 - ▶ Credit guarantee schemes see high NPAs
- ▶ US:
 - ▶ Some criticism about distorting the market
 - ▶ View that there should be more steering (e.g., expanding CRA goals, promoting infrastructure)

Lessons from comparison

- ▶ Is the difference between the two economies that different?
- ▶ If so, why? How much do the following matter:
 - ▶ Structure of the scheme (PSL vs. CRA)
 - ▶ Size of the intervention (high public sector ownership in India vs. Limited role in the US)
 - ▶ Institutional capacity
- ▶ How do we think about designing interventions?

Thank you