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HOUSING CREDIT IN KERALA AND ECONOMIC GROWTH: A CRITICAL STUDY

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Abstract

The paper makes a critical analysis of the housing credit by the commercial banks (CBs) in Kerala, makes a comparison with that at the national level (India as a whole). In view of the stagnancy in the growth rate in the outstanding housing loans in Kerala as against a growing trend in India as a whole, and so also a steadily decreasing trend in the percentage share of Kerala State in the total housing loans outstanding at the national level, the paper suggests to scale up housing credit by the banks in Kerala. Due to linkage effects of housing, development of housing leads to fast economic development also. While the quantitative expansion of housing credit is imminent in Kerala, it is equally vital to ensure qualitative aspects as well. Thus, the sustainability of housing development through the use of environment-friendly and energy-efficient materials, inclusiveness of housing by providing affordable housing to the masses – the really deserving groups who really need houses, etc. are noted. Lastly, the need for technological integration, like, adoption of ICT, modern techniques and process of house construction, etc. are noted.

Keywords: Housing Finance, Linkage Effects, Housing Microfinance, HMF, Sustainable Housing, ICT.

Introduction

Inclusive housing development adorns a key position in the economic development process due to the strong linkages of housing, both forward and backward, with over 350 other economic sectors, like, construction, steel, cement, transport, paint, financial services, etc. Expansion in housing activity not only satisfies a primary human need but also works as a catalyst for inclusive and sustainable economic development. As a result, housing finance has emerged as one of the vital elements of credit policy of commercial banks (CBs) in developing nations like India. In recent decades, the Indian housing finance system has been undergoing marked transformations. Growing share of CBs and hence lowering share of housing finance companies (HFCs) continues. The continuing policy supports from the Governments (both at State and Union levels) as well as the central bank of the country viz. the Reserve Bank of India (RBI) to the housing sector indicate the utmost priority that housing sector enjoys in India. The role of housing credit in India in stimulating growth and generating employment, particularly in urban and semi-urban areas, is vital (RBI, 2022). A study by Manoj (2008), 'Learning from Cross-country Experiences in Housing Finance: a Microfinance Approach' has clearly cited a number of global experiences and noted the need for promotion of housing microfinance (HMF) for faster housing development in India and hence overall economic growth also due to the linkage effects.

More recently, at the macro level, many empirical studies and global evidence underscore that housing investment contributes significantly to GDP growth through multiplier effects (World Bank, 2020).

In spite of gradual yet positive developments at the national level in India in the housing finance front, the performance of housing credit in Kerala presents a paradox. Kerala is characterized by high human development indicators, substantial remittance inflows, and a traditionally strong housing demand. Yet, recent trends reveal stagnation or even decline in the growth of outstanding figures of housing loans granted by the CBs in the state, accompanied by a steadily declining share of Kerala in total housing credit by the CBs at the all-India level. Kerala's divergence as above raises critical questions regarding the adequacy, accessibility, and efficiency of housing finance delivery by CBs in the State.

Objectives of the Study

(i) To study the housing credit in respect of the CBs in India over the period FY 2021 to FY 2025, and the trend in yearly growth rates, its implications on mortgage to GDP ratio, economic growth, etc.;
(ii) To critically assess the housing credit in Kerala State in India by the CBs in the State, its growth trend and percentage share vis-à-vis the national average (India as a whole), and its implications;
(iii) To examine the factors that warrant attention while designing the housing credit policy of Kerala from the perspective of its long term sustainability, growth of the whole economy of the State, etc.
(iv) To suggest strategies for the quantitative and qualitative expansion of housing credit in Kerala so that the State falls in line with India's average and can hence grow faster in economic growth also.

Research Questions

(i) What has been the general trend in respect of housing credit by the CBs in India, and whether it has been adequate to enhance the mortgage to GDP ratio (MGR), economic growth, etc. of the nation?
(ii) What has been the specific trend in respect of housing credit in Kerala State in India, and whether it has been in line with the national average and also Kerala's percentage share in India as a whole?
(iii) In the context of Kerala which all factors need attention while designing the State's housing credit policy from the perspective of its long term sustainability, economic growth of the State, etc.?
(iv) What are the strategies required for the quantitative and qualitative expansion of housing credit in Kerala, given the State's peculiar features, its relative position at the national level, and so on?

Methodology of the Study

An exploratory as well as descriptive-analytical approach was adopted in this paper, as it sought to use the available secondary data from authentic secondary sources to explore further into the specific case of housing credit by the CBs in Kerala within the broader framework of the whole nation. Data from the reports published by the RBI on the deployment of credit by the CBs India and similar reports published by the State Level Bankers' Committee (SLBC) (Kerala) on the credit deployment by CBs in Kerala; Govt. publications like the *Economic Survey* (Govt. of India) and *Economic Review* (Govt. of Kerala); industry reports of reputed agencies, etc. were used. Popular statistical tools were used for data analysis. RBI publications till June 2025 (e.g. Financial Stability Report, June 2025) were used in this paper.

Significance of the Study

The notion of economic development becomes really meaningful only when its benefits percolate down to the bottom of the society and thereby the fruits of development reaches the masses. Housing is one of the basic pre-requisites of human life and when its availability is ensured for the homeless masses, whose housing needs constitute the 'Real Housing Problem in India'. Their housing needs are quite different and distinct from those who invest in housing stocks for returns, capital appreciation, tax savings, or the like.

In fact, the issue of housing development in contemporary Kerala scenario cannot be assessed merely in quantitative terms. Rather, issues such as affordability, environmental sustainability, inclusiveness, and technology integration have become growingly important. Affordable housing for economically weaker sections (EWS), low income groups (LIG) etc.; promotion of HMF and such other pro-poor models; etc. are essential. Equally vital is the need for using environment-friendly and energy-efficient materials, adoption of ICT and other modern technologies and process in house construction, housing finance, and allied activities. These are required to ensure sustainable housing-led economic growth in Kerala State. Against this backdrop, this study critically examines outstanding housing credit in Kerala State in India, in comparison with the national scenario (India as a whole, i.e. the 'All-India' figures on housing credit). Accordingly the adverse implications of the slower housing credit and hence housing development in Kerala on the regional economic growth are sought to be addressed in the paper by way of suggesting strategies for scaling up housing credit in Kerala so that the State catches up with the national average.

Literature Review

Housing finance has widely been acknowledged as a key driver of economic development of nations owing to its extensive multiplier effects and also linkages – both positive and negative. Theoretical and empirical literature, both global and country-specific, has noted the role of housing credit in stimulation of investment, creation of employment, financial deepening, and inclusive economic growth. In a developing nation like India, housing credit is of key significance as it can bridge the gap between growing housing demand and scarce household savings, and can strengthen India's financial system also.

Housing, Economic Growth, and Linkage Effects

Early development economists highlighted housing as a productive investment rather than a mere consumption good. Hirschman's theory of unbalanced growth underscored the strong backward and forward linkages of housing with allied industries such as cement, steel, construction materials, transport, and financial services. Subsequent empirical studies have validated that housing investment contributes significantly to GDP growth through employment creation and demand stimulation (Buckley & Kalarickal, 2006). In a macro level study in India from a global view, Manoj (2008) 'Learning from Cross-country Experiences in Housing Finance: a Microfinance Approach' has cited the relevance of housing microfinance (HMF) in India, citing global experiences in this regard. The World Bank has repeatedly noted that housing development can act as a "growth pole" in emerging economies due to its multiplier effects (World Bank, 2020). Globally, studies by Leung (2004) and Green (1997) demonstrate a positive relationship between housing investment and macroeconomic performance. Sectors allied to housing and real estate, like, tourism, SEZs etc. too can expedite the growth process, but they have their own limits too, as pointed out by Manoj, P.K (2009) 'Special economic zones in India: financial inclusion: challenges and opportunities'. Instead, at present the finance-growth nexus plays a key role in the development discourses, as a sizeable quantum of evidence suggests that efficient financial intermediation speeds up economic development through mobilizing savings, capital allocation, innovation etc. Manoj, P. K. (2012), 'Potential of micro enterprises in women empowerment: A critical study of micro enterprises run by women under the Kudumbashree Programme in Kerala' has noted that financial inclusion plays a critical role in women's welfare through SHGs model under GOK-controlled 'Kudumbashree' which ensures their financial security. Productive Housing in Rural Areas (PHIRA) model of NHBs is another promising model, for rural men and women, both. Manoj, P.K. (2015) 'Housing Microfinance: A Study on Quality, Cost and Default Rate with Respect to Bhavanashree in Kerala' suggests the HMF model of housing development deserves support it being a good pro-poor model. These national and international studies suggest that a dynamic mortgage market enhances capital formation and stabilize economic cycles, whereas a weak housing finance system constrains development and also limits economic development.

Housing Finance Systems and Banking Sector Role:

The evolution of housing finance systems is studied extensively in the literature. Diamond and Lea (1992) argue that the structure and depth of housing finance markets depend on institutional frameworks, regulatory environments, and the role of commercial banks. In many developing countries, housing finance was traditionally dominated by specialized housing finance companies (HFCs), but over time, commercial banks have emerged as dominant players due to their wider outreach, lower cost of funds, and regulatory support. In the Indian context, the growing participation of commercial banks in housing finance since the 1990s has been well documented (RBI, 2019). In a Kerala-based study, the microfinance route for financial inclusion is noted by Manoj (2015), 'Financial Inclusion through Microfinance: A Study with a focus on the exposure of Commercial Banks in Kerala'. Policy initiatives such as priority sector lending norms, interest subvention schemes, and tax incentives have encouraged banks to expand housing credit. Studies by Jaffee and Renaud (1997) and Malpezzi (2001) assert that bank-led housing finance systems, when properly regulated, can significantly enhance housing supply and affordability.

Housing Credit and Financial Deepening in India:

Several Indian studies have analyzed the relationship between housing credit, financial deepening, and economic growth. Rangarajan and Mishra (2013) argue that housing credit expansion has contributed to the steady increase in India's mortgage-to-GDP ratio, though it remains low compared to advanced economies. According to RBI reports, housing loans constitute the single largest component of retail credit in India, reflecting both rising demand and policy emphasis (RBI, 2022). Higher competitiveness of HFCs is stressed by Manoj (2010) in 'Benchmarking housing finance companies in India: Strategies for enhanced operational efficiency and competitiveness' and suggests requisite strategies too, like lower-cost funds, control of staff costs, establishment costs etc. while an earlier study Manoj (2008) 'Learning from Cross-country Experiences in Housing Finance: a Microfinance Approach' suggests HMF model for the equitable growth of housing development in India. Empirical studies by Kumar and Pradhan (2018) and Bandyopadhyay (2020) confirm that housing credit growth has got a key impact on GDP growth and employment creation in India. However, these studies also caution against regional imbalances and concentration of housing credit in some regions and States. While scientific cost management is highlighted for enhanced competitiveness of CBs by Manoj (2005) in 'Cost accounting systems in Banks-for strategic advantage through effective cost management' a later study Manoj (2009) 'Revival of Indian agriculture for sustainable development: a global perspective' asserts the key need to uphold primary sector too so that India's growth becomes balanced and sustainable. Expansion of banking to rural clientele needs ICT-based products, observe Lakshmi and Manoj (2017), 'Rural Customers and ICT-based Bank Products A Study with a Focus on Kannur District Co-operative Bank and Kerala Gramin Bank' as ICT-based products are preferred for their convenience and quality.

Regional Disparities in Housing Credit:

A growing body of literature highlights regional disparities in the distribution of housing credit across Indian states. While states such as Maharashtra, Tamil Nadu, and Karnataka account for a disproportionately large share of housing loans, several other states lag behind despite having substantial housing demand (NHB, 2021). This uneven distribution raises concerns regarding spatial inequality and inclusive development. Kerala, despite its high literacy rate, human development

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indicators, and remittance inflows, shows unique structural features in its housing sector. Cost competitiveness is noted as key for steady economic growth is noted by Manoj (2008), 'Cost Competitiveness and Indian Economy: Significance of Mandatory Cost Audit in the Globalized Regime'. The microfinance route for financial inclusion by CBs is suggested by Manoj (2015), 'Financial Inclusion through Microfinance: A Study with a focus on the exposure of Commercial Banks in Kerala' while Zachariah and Rajan (2015) point out that remittances have historically played a key role in house construction, substituting formal housing credit.

Housing Credit in Kerala- Sustainability and ESG Considerations:

Existing literature on housing finance in Kerala is relatively limited but insightful. Nair (2010) observes that housing development in Kerala has been largely demand-driven, influenced by migration and remittance inflows. However, the study notes that rising land prices, fragmented land holdings, and regulatory constraints have increased housing costs, making formal housing finance more complex. Manoj (2015) highlights that commercial banks in Kerala exhibit relatively conservative lending behavior in housing finance compared to other states. Factors such as high non-performing asset (NPA) sensitivity, aging population, and limited availability of clear land titles are identified as constraints. Studies by the State Level Bankers' Committee (SLBC, Kerala) also indicate slower growth in housing credit compared to the national average in recent years. The utmost need for sustainability and ESG adoption is noted by Manoj (2023), 'Housing Sector in India: An ESG Route into a Greener Future' given the vital significance of environmental factors; while Joju et. al. (2022) 'Green Marketing for Eco-Friendly Business Growth in the ICT Era: The Case of the Digital Economy of Kerala' suggest the utmost need for green marketing.

Sustainability, Affordable Housing, and Inclusiveness:

Recent literature has shifted focus from mere quantitative expansion of housing credit to qualitative dimensions such as affordability, sustainability, and inclusiveness. UN-Habitat (2018) emphasizes that housing finance systems must align with sustainable development goals by promoting energy-efficient construction, environmentally friendly materials, and affordable housing for low-income groups. In India, government initiatives such as Pradhan Mantri Awas Yojana (PMAY) have been studied extensively (Kundu, 2019). While these schemes have improved housing access, scholars argue that their effectiveness depends heavily on complementary credit support from banks. Housing microfinance (HMF) has been identified as a key tool of affordability gaps by Manoj (2008) 'Learning from Cross-country Experiences in Housing Finance: a Microfinance Approach' while Ferguson & Smets (2010) suggest an incremental housing for inclusive housing development. A study on the GOK-sponsored HMF ('Bhavanashree' under Kudumbashree) Manoj (2010) 'Prospects and Problems of Housing Microfinance in India: Evidence from "Bhavanashree" Project in Kerala State' suggests re-launching of HMF in Kerala after keenly learning the drawbacks of the wound up HMF ("Bhavanashree") and rectifying all of them.

Sectors Allied to Housing and their Impact on Sustainable Development in the Digital Era:

Many studies have noted the need for promoting the primary sector (agriculture) as well as other allied sectors, like, tourism, affordable public healthcare, etc. In this regard, it is noted by Manoj, P. K. (2009) in 'Revival of Indian agriculture for sustainable development: a global perspective' regarding the vital need for reviving India's agriculture sector for the sustained national economic development, and also the subsequent observation by the author Manoj, P.K. (2019) in 'Social banking in India in the reforms era and the case of financial inclusion: Relevance of ICT-based policy options', regarding the utmost

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significance of ICT-based initiatives for better delivery of social banking and hence inclusive growth deserve special mention. Another macro level study by Ali, O.P. and Manoj, P. K. (2018) ‘A review of current noticeable trends in institutional credit to agriculture in India’ which includes the case of KCCs too, point out the need for expansion of bank credit to small and marginal farmers, instead of simple quantitative expansion that favours large and rich farmers. Besides agricultural growth, rural prosperity warrants the development of rural tourism which is an area related to housing. An environment-friendly approach is thus suggested by Manoj, P. K. (2016) in ‘Impact of Rural Tourism on the Environment and Society: Evidence from Kumbalangi in Kerala, India’ wherein the utmost need for boosting rural tourism and allied sectors is underscored for the sustainable and environment-friendly growth of farm tourism. While more growth avenues (e.g. Vizhinjam port in south Kerala besides ICTT in central Kerala, IT parks) are being created to boost the services, commensurate support to boost the industries too, especially small industries, is vital. As Manoj, P.K (2015), ‘International Container Transhipment Terminal (ICTT) and its impact on coffee exports from India: An analysis’ remarks that ICTT aids faster growth in exports, ways to boost industries too is vital to balance growth pattern. However, many studies have noted a mismatch between the credit supply and sectoral demand for credit. For instance, Manoj, P.K(2016) ‘Real Estate Investment Trusts (REITs) for Faster Housing Development in India: An Analysis in the Context of the New Regulatory Policies of SEBI’ has noted the need for innovative financing models like REITs for better credit into the construction sector so that linkage effects could translate housing development into overall economic growth. As suggested by Manoj, P.K (2017), ‘Segmentation Strategy for Promotion of Ecotourism Products: Evidence from Thenmala Ecotourism’, a clear segmentation strategy as per specific customer groups is vital to lure more foreign visitors. As Kerala’s economic growth in absolute terms driven mainly by services, structural changes that enhance the share of agriculture to Kerala’s GSDP are required. As noted by Manoj (2023) ‘Affordable Healthcare and Affordable Housing: Need for an Integrative Approach for the Holistic Growth of the Digital Economy of Kerala, India’ an integrative and holistic approach, along with ICT adoption, in the two key sectors is vital for sustained growth of Kerala.

Within the Indian context, agriculture continues to be a key sector for employment, food security, and rural income generation, even as the economy diversifies towards services. But, persistent problems of credit inadequacy, dependence on informal lenders, and volatility in farm incomes have constrained inclusive growth. Manoj, P. K. (2012), ‘Potential of micro enterprises in women empowerment: A critical study of micro enterprises run by women under the Kudumbashree Programme in Kerala’ points out the key role of financial inclusion of women through SHGs under the GOK-controlled ‘Kudumbashree’ project for the grassroots level industrialization and financial security. It is noted that enhancing the share of agriculture in Kerala’s GSDP through digital financial inclusion is an imperative from an equity perspective. Public sector banks (PSBs) should upgrade their ICT capabilities as their ICT products (e.g. E-CRM) are noted to be lower, says Manoj (2018) in ‘CRM in old private sector banks and new generation private sector banks in Kerala: A comparison’ by comparing PSBs with private banks. While services, remittances, and tourism have driven income growth, agriculture and manufacturing have experienced relative stagnation. Need for proper ICT skills and suitable training to them is noted by Manoj (2019) in ‘Dynamics of human resource management in banks in the ICT era: A study with a focus on Kerala based old private sector banks’ in view of the vast and fast changes going on.

Technology and Housing Finance:

In the ongoing ICT (digital) era in India wherein *Digital India* is the national level mandate of the GOI, and likewise, creation of a *Knowledge Economy* is the motto of the GOK at the State level, ICT integration and adoption of other relevant technologies in housing sector is an imperative rather than an option. ICT could ensure wider outreach, reduced transaction costs, improved transparency and customer service, thus strengthening the effectiveness of financial inclusion in India. Many such relevant technologies as noted by Manoj (2009) ‘Emerging Technologies and Financing Models for Affordable Housing in India’ could be adopted meaningfully in the current ICT regime. Technological integration in housing finance and construction has emerged as a critical theme in recent studies. In the Indian banking sector, digitalization has reduced transaction costs and improved credit outreach, yet regional adoption remains uneven. Kerala, despite high digital literacy, appears to lag in leveraging fintech and ICT solutions for housing finance at scale. This gap is noted in recent industry reports and academic discussions, suggesting untapped potential for technology-driven expansion of housing credit.

Research Gap:
A critical review of the existing literature reveals several gaps. First, while numerous studies examine housing finance at the national level in India, state-specific analyses—especially focused on Kerala—remain sparse and fragmented. Second, existing studies often emphasize housing demand, remittances, or construction patterns in Kerala, but do not adequately analyze the stagnation and declining share of housing credit by commercial banks in the state vis-à-vis the national trend. Third, there is limited integration of quantitative trends in housing credit with qualitative dimensions such as sustainability, inclusiveness, and technological adoption, particularly in the Kerala context. Finally, very few studies explicitly link housing credit trends in Kerala with broader macroeconomic implications such as mortgage-to-GDP ratio, employment generation, and long-term economic growth. This study seeks to address these gaps by providing a comprehensive, comparative, and policy-oriented analysis of housing credit in Kerala vis-à-vis India as a whole, with special emphasis on both quantitative expansion and qualitative transformation of housing finance. Within the above national context, the State of Kerala presents a unique and instructive case. In spite of its relatively small size and limited industrial base, Kerala has consistently outperformed most other States in India in terms of social development indices like literacy, public health, women empowerment, human development etc. Kerala is distinguished by its vast banking infrastructure, high internet penetration, widespread digital literacy, and early adoption of digital governance and ICT drives to transform itself into a ‘Knowledge Economy’.

Housing Credit in India (FY 2021 to FY 2025) – Its Broad Trend and Implications
Over the last five years in a row there has been a steadily growing trend in respect of bank credit in India and this is a very commendable trend. Also, it may be noted that there is a high level of consistency and explanatory power for the trend line associated with the outstanding housing credit (in Crores) in respect of the CBs in India, as is suggested by the high R-square value of 0.9371. This in turn means that as high as 93.71 percent of the yearly increase is explained by the trend equation. Accordingly, it is noted that nearly Rs. 3,47,980 Crore is the yearly increment to the outstanding amount of housing credit (in Crores) of the CBs in India. Needless to mention, this is a very appreciable trend as far as the housing credit by the CBs in India, in general, is concerned. Figure I is self-explanatory in this regard.

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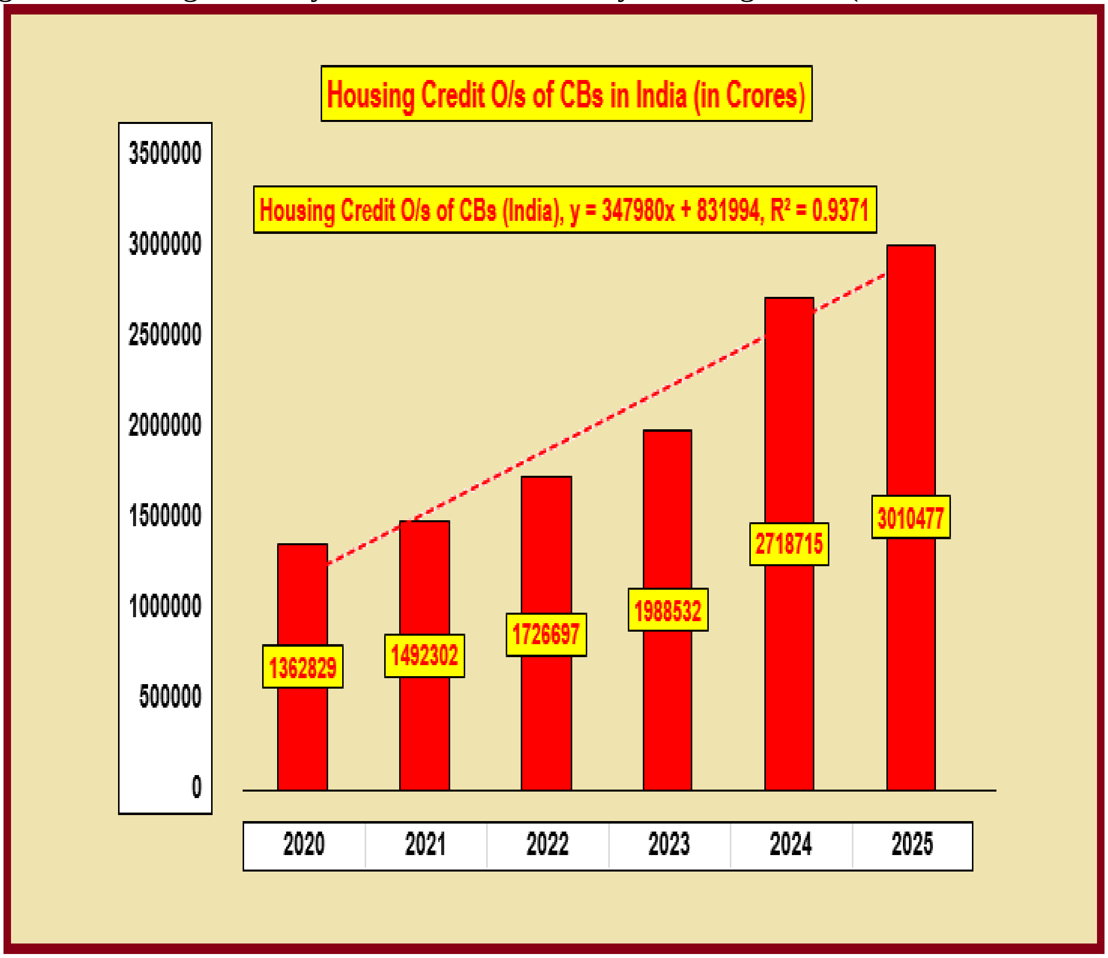
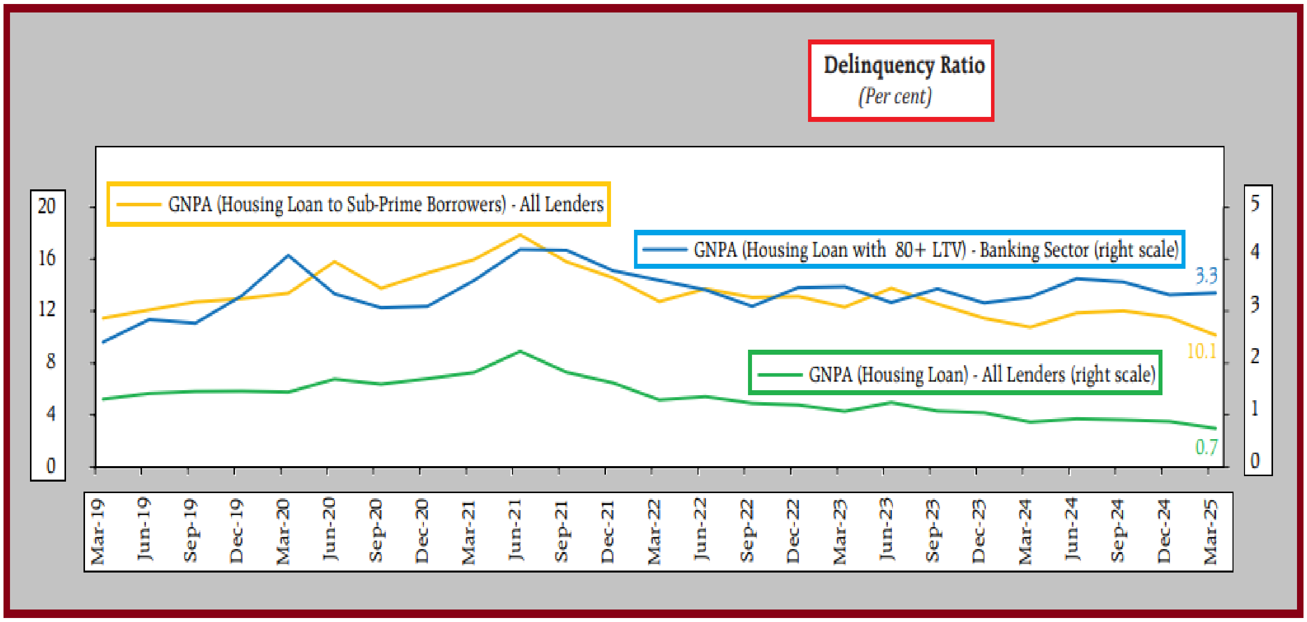
Figure I: Housing Credit by CBs in India – Steadily Growing Trend (FY 2020 to FY 2025)



Source: Based on RBI Banking Statistics (FY 2020 to FY 2025)

Another noteworthy feature of housing credit by the CBs in Indi at the national (all-India) level is that there has been a constantly increasing trend in respect of credit quality year after year, in terms of the level of the delinquency ratio i.e. GNPA (Gross Non-Performing Assets) expressed as a percentage of the total housing credit by the CBs in India. Accordingly, it may be noted that the GNPA in respect of housing credit by the CBs in India has been constantly and steadily coming down year after year over the years, right from June 2021 till date (March 2025). This declining trend is a very encouraging and the GNPA percentage has more than halved from over 2 percent in June 2021 to as low as 0.7 percent in March 2025. The above trend corresponds to housing loan exposures in general, i.e. housing loans of all categories, including the riskier category of loans such as housing credit to the sub-prime borrowers and housing loans characterised by an LTV (loan to value) ratio of 80 percent or more (i.e. much riskier type). It is worth pointing out that even in respect of the very risky category of loans as above (i.e. sub-prime loans and loans with LTV 80 percent or more) there has been a very encouraging declining trend over the years. Accordingly, the GNPA share of sub-prime loans has improved from over 18 percent (June 2021) to as low as 10.1 percent in FY 2025. Similarly, in respect of loans with LTV 80 percent or more, the GNPA has improved from over 4 percent (FY 2021) to 3.3 percent in FY 2025. In short, the trend in asset quality of housing credit by CBs in India has been very appreciable, in general. Figure II is self-explanatory.

Figure II: Housing Credit by CBs in India – Steadily Growing Trend (FY 2020 to FY 2025)



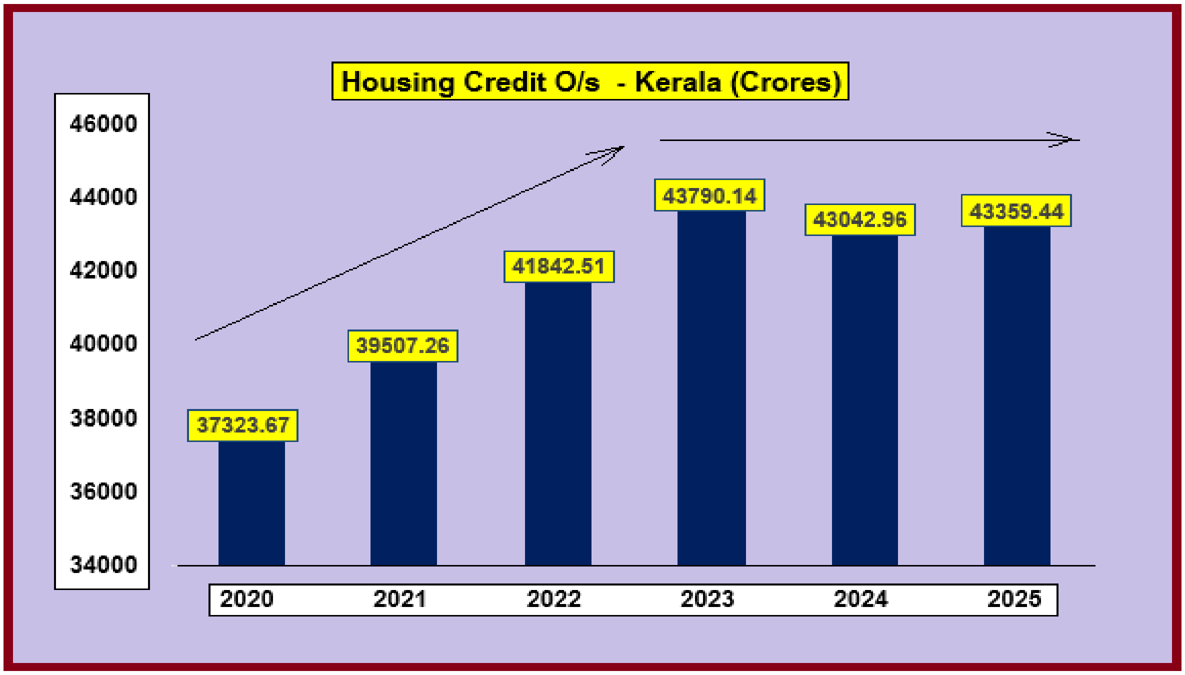
Source: RBI (2025), *Financial Stability Report*, June. p.34

There has been a very appreciable trend in the growth of housing credit outstanding by the CBs in India over the years and this is evident from its steady and consistent growth (Figure I). Also, there has been a promising trend in the quality in housing credit in general (GNPA 0.7 percent only as of FY 2025) which in turn includes the specialised categories of riskier types of housing credit whose trends too have been improving year after year; as the GNPA in respect of Sub-PLR housing loans is 10.1 percent only and that of housing loans with LTV equal to or more than 80 percent is 3.3 percent only, as of FY 2025. In general housing credit of CBs in India during the period FY 2020 to FY 2025 has been improving both in quantitative and qualitative terms. (Figures I and II).

Performance of CBs in Kerala in Housing Credit (FY 2021 to FY 2025)

In the context of the very promising growth of housing loans portfolio of the CBs in India, in general, it is meaningful to look into the case of Kerala State in particular, i.e. the case of housing loans extended by the CBs in the State of Kerala during the corresponding period from a comparative perspective. In fact, in contrast to the overall picture at the national (i.e. all-India) level regarding the outstanding housing credit by the CBs in India as a whole which has been very encouraging throughout the 5 years' period, the trend in respect of Kerala State in specific has been quite disappointing or discouraging, especially during the last three years viz. FY 2023 onwards. It is noted that despite an appreciable growth rate in the housing loan outstanding during the initial period (FY 2020 to FY 2023), there has been a glaring stagnancy (or even a slight decline also) throughout the latter period (viz. FY 2023 to FY 2025). Hence, as far as the State of Kerala is concerned a scaling up of housing credit by the CBs in this State is imminent. Such an improvement is very much required to tide over the present situation of stagnancy (with indications of slight decline also) and to catch up with the generally increasing trend in housing credit at the national level, both in quantitative and qualitative terms, as already noted. (Figures I and II). The urgency of such a boost in the housing credit by the CBs in Kerala is evident from Figure III which is self-explanatory regarding the persisting stagnancy in housing credit by the CBs in Kerala. Actually, there are indications of a slight decline in the figures during the last three years which in turn needs to be invariable rectified and reversed back into the growth trajectory as noted at the national (all-India) level. (Figure III).

Figure III: Housing Credit by CBs in Kerala (FY 2020 to FY 2025) – Stagnancy since FY 2023.



Source: Based on SLBC-Kerala Banking Statistics (FY 2020 to FY 2025)

Analysis and Discussion

The analysis of the trends in housing credit by CBs at the national (all-India) level and also State level brings out a glaring divergence between the overall performance of CBs in India and their performance in the State of Kerala. While housing credit at the all-India level has demonstrated robust and sustained growth—both quantitatively and qualitatively—the experience of the State of Kerala over the corresponding period clearly shows persisting stagnation and also a relative decline. This contrast assumes greater significance in view of Kerala's otherwise strong socio-economic fundamentals, such as high literacy, superior human development indicators, extensive banking penetration, and substantial remittance inflows. At the all-India level, the constantly growing trend in outstanding housing credit from FY 2021 to FY 2025 reflects the growing importance of housing finance in India's credit architecture. The high explanatory power of the trend line ($R^2 = 0.9371$) confirms that housing credit growth has been systematic rather than sporadic. This trend aligns well with policy thrusts aimed at financial deepening, retail credit expansion, and strengthening of the mortgage market.

It is noted that annually the incremental amount to the housing credit outstanding by the CBs in India is about Rs. 3.48 lakh crore. This fact underscores the key role that CBs plays as the major players in India's housing finance, gradually overshadowing the influence of housing finance companies (HFCs). More importantly, the simultaneous improvement in asset quality, as evidenced by the consistent decline in GNPA ratios, strengthens the argument that housing credit expansion in India has been largely sustainable. Even riskier segments—such as sub-prime loans and loans with higher loan-to-value (LTV) ratios—have witnessed marked improvement in credit quality. This fact negates the conventional apprehension that rapid housing credit expansion would inevitably lead to fall in asset quality. Rather, available evidence suggests that enhanced standards of underwriting, better risk management practices, stable income expectations, and supportive regulatory frameworks have enabled CBs to scale up housing credit without compromising financial stability.

From a macroeconomic view point, the robust growth in the housing loans portfolio of the CBs at the all-India level has vital policy implications. Expansion in housing credit in a nation can significantly contribute to that nation's higher mortgage-to-GDP ratio (MGR). Housing investments can stimulate investment demand, and can create large-scale employment (both skilled and unskilled) too. Besides, such investments in housing can facilitate strong linkage effects, both backward and forward linkages, across diverse sectors (totally over 350), like, cement, construction materials, steel, transportation, financial services, household durables, and so on. Accordingly, the trend in housing credit at the national level clearly reinforces the fact that housing can act as a powerful engine of economic growth in India.

In sharp contrast to the very appreciable trend in housing finance by CBs at the national (all India) level, the performance of housing credit by CBs in the State of Kerala reveals a paradox. Accordingly, despite a reasonably good growth trajectory during the initial years of the study period (up to FY 2023), housing credit by the CBs in Kerala has shown clear signs of stagnation thereafter, i.e. since FY 2023. The flattening trend (stagnancy)- and in some instances marginal decline too- in respect of the outstanding housing loans from FY 2023 to FY 2025 clearly suggests a structural slowdown in Kerala instead of a cyclical fluctuation. The persisting stagnation as noted above has resulted in a declining percentage share of Kerala in total housing credit by the CBs at the national (all-India) level. This situation thus portrays a situation of relative marginalization of the State of Kerala within India's expanding housing loan market.

Several interrelated factors seem to have caused this divergence that Kerala is witnessing today and these are as follows: *First*, Kerala has historically relied heavily on remittance-financed housing, particularly from Gulf migrants. While remittances continue to play a significant role, their growth has moderated in recent years, and households may increasingly prefer self-financing over formal credit, thereby reducing demand for bank housing loans. *Second*, high land prices, fragmented landholdings, and issues related to land titling and documentation increase transaction costs and credit risk perception for banks, discouraging aggressive lending. *Third*, demographic factors such as an aging population and slower household formation rates may have dampened new housing demand relative to other states. *Fourth*, CBs in Kerala appear to exhibit relatively conservative lending behavior, possibly due to heightened sensitivity to NPAs, regulatory scrutiny, and risk aversion. This conservative approach, while beneficial from a prudential standpoint, might have constrained credit expansion in Kerala State even when macroeconomic conditions and asset quality trends at the national level were favorable. Another critical dimension emerging from this study is the qualitative aspect of housing credit. Unlike the national trend where improved asset quality has gone hand in hand with credit expansion, Kerala's stagnation suggests underutilization of opportunities for sustainable and inclusive housing finance. The relatively limited penetration of housing microfinance (HMF), affordable housing finance for EWS/LIG segments, and technology-driven credit delivery mechanisms indicates missed potential. Given Kerala's high digital literacy and ICT infrastructure, the slow adoption of fintech solutions in the housing finance parlance denotes a paradox within a paradox.

From a sustainability perspective, the stagnation of housing credit in Kerala may also have broader economic implications. Housing-led growth has strong multiplier effects, and any slowdown in housing activity can adversely affect allied sectors, employment generation, and overall economic momentum.

In a state where services dominate GSDP and agriculture and manufacturing show relative stagnation, housing could have acted as a balancing growth driver. The observed stagnation thus raises concerns regarding Kerala's long-term growth trajectory. Overall, the analysis highlights that the issue in Kerala is not merely one of insufficient demand or weak banking infrastructure, but rather a combination of structural, institutional, and policy-related constraints. Addressing these issues requires a calibrated strategy that balances quantitative expansion with qualitative transformation of housing credit in Kerala. Some suggestions in this direction are offered in the next part of this paper.

Suggestions for the Expansion of Housing Credit by the CBs in Kerala

In light of the foregoing discussion, the following policy-oriented suggestions are suggested here:

1. *Scaling up Quantitative Expansion of Housing Credit*: CBs in Kerala should proactively strive to expand their housing finance off-take in the State and hence to try to align themselves with the national growth trajectory which in turn is of a significantly higher level at present. This in turn requires the CBs in this State to set up Kerala-specific housing finance targets under their annual credit plans and also to strengthen their monitoring mechanisms through the SLBC unit within the State (i.e. SLBC-Kerala). Such a highly specific and target-based approach by the CBs in Kerala alone can ensure that the housing credit in the State goes up significantly.
2. *Promotion of Affordable Housing and Housing Microfinance (HMF)*: Banks should focus on EWS and LIG segments through affordable housing products and HMF models. Reviving and redesigning HMF initiatives with improved risk-sharing mechanisms can enhance inclusiveness while minimizing credit risk. Such an effort makes the housing finance system in the State equitable and inclusive, thus making it sustainable in the long run. CBs in Kerala have got a major role to play in this regard.
3. *Leveraging Remittances through Formal Credit Channels*: Innovative housing finance products that combine remittances with bank credit - such as remittance-backed housing loans - can transform the self-financed housing demand into formal credit demand.
4. *Technology Integration and Fintech Adoption:* Various ICT-enabled platforms for digital loan processing, automated appraisal, e-KYC, and online disbursement of loans etc. can significantly reduce transaction (operational) expenses and can hence improve the outreach of CBs. The very high level of digital literacy in the State of Kerala, along with very high ICT infrastructure including strong telecommunication network, can offer a robust platform to initiate such innovations.
5. *Encouraging Sustainable and Green Housing Finance*: Banks should promote energy-efficient and environment-friendly housing through preferential interest rates, green housing loans, and collaboration with government agencies. This will align housing credit with ESG goals and long-term sustainability.
6. *Policy Coordination and Institutional Support:* Greater coordination among the State Government, RBI, SLBC, and CBs is essential to address land-related issues, streamline approvals, and reduce procedural bottlenecks that discourage housing credit expansion.

Conclusion

The study underscores the centrality of housing credit as a catalyst for inclusive and sustainable economic growth, particularly in a developing economy like India. At the national level, housing credit by commercial banks has emerged as a success story, characterized by steady growth, improving asset quality, and strong linkage effects on the broader economy. This experience demonstrates that housing finance, when supported by sound policy frameworks and prudent banking practices, can significantly contribute to economic development without undermining financial stability. Kerala's experience, however, presents a contrasting and cautionary narrative. Despite favorable socio-economic conditions and strong housing demand, the stagnation of housing credit since FY 2023 signals underlying structural and policy-related constraints. If left unaddressed, this stagnation could weaken housing-led growth impulses and limit the State's long-term economic potential. The way forward lies not merely in expanding housing credit quantitatively, but in transforming it qualitatively. A strategic focus on affordability, inclusiveness, sustainability, and technology-driven delivery can unlock Kerala's latent housing finance potential. By realigning housing credit policy with the State's development priorities and national best practices, Kerala can reinvigorate housing-led economic growth and restore its position in India's evolving mortgage landscape.

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