

Developments in Commercial Banking

Introduction

The commercial banking sector plays an important role in the mobilisation of deposits and disbursement of credit to various sectors of the economy. A significant proportion of funds is contributed by deposits which account for more than 80 per cent of the liabilities of scheduled commercial banks (SCBs). The assets portfolio of these banks consists mainly of 'loans and advances' and 'investments in approved securities' and other investments. Loans and advances form around 50 per cent of aggregate deposits. More than 75 per cent of the investments of SCBs is channelised into safe and risk-free assets consisting of both Government and other approved securities.

2.2 During the year 1998-99, the financial performance of SCBs came under pressure and the operating profits of these banks declined by Rs.647.8 crore or 4.4 per cent from Rs.14,640.2 crore in 1997-98 to Rs.13,992.3 crore in 1998-99. Among the SCBs, the only bank group which showed an improvement in the operating profits was the nationalised banks. The operating profits of nationalised banks increased by Rs.388.1 crore or 7.0 per cent from Rs.5,541.4 crore in 1997-98 to Rs.5,929.4 crore in 1998-99. In terms of net profit, the foreign banks alone showed a moderate improvement of Rs.63.4 crore or 10.1 per cent from Rs.630.0 crore in 1997-98 to Rs.693.4 crore in 1998-99, while all other bank groups showed declines.

2.3 As a ratio to total assets, both operating and net profits of all SCBs groups showed decline during the year 1998-99. The other distinguishing feature of the financial performance of SCBs during the year was the decrease in spread and balance sheet exposure and an increase in risk weighted assets ratio (CRAR). The highest decline in operating profits to total assets ratio was witnessed by the foreign banks (1.38 percentage points from 3.91 per cent in 1997-98 to 2.53 per cent in 1998-99), followed by the new private banks (1.08 percentage points from 2.86 per cent in 1997-98 to 1.78 per cent in 1998-99), old private banks (0.76 percentage points from 1.97 per cent in 1997-98 to 1.21 per cent in 1998-99), State Bank of India and associates (0.40 percentage points from 2.03 per cent in 1997-98 to 1.63 per cent in 1998-99) and the nationalised banks (0.11 percentage points from 1.33 per cent in 1997-98 to 1.22 per cent in 1998-99).

2.4 In the foreign bank group, the 'provisions and contingencies' showed a substantial decline of 1.31 percentage points from 2.94 per cent in 1997-98 to 1.63 per cent in 1998-99 and, as a result, the net profit ratio of this group has shown only a negligible decline of 0.07 percentage points from 0.97 per cent in 1997-98 to 0.90 per cent in 1998-99. The highest decline in the net profit ratio was found in the case of State Bank of India group (0.55 percentage points from 1.06 per cent in 1997-98 to 0.51 per cent in 1998-99), followed by the new private bank group (0.52 percentage points from 1.55 per cent in 1997-98 to 1.03 per cent in 1998-99), old private bank group (0.33 percentage points from 0.81 per cent in 1997-98 to 0.48 per cent in 1998-99), and the nationalised bank group (0.25 percentage points from 0.62 per cent in 1997-98 to 0.37 per cent in 1998-99).

2.5 The decline in the 'spread' was the highest in the case of foreign bank group (0.46 percentage point from 3.93 per cent in 1997-98 to 3.47 per cent in 1998-99), followed by the old private sector bank group (0.41 percentage point from 2.57 per cent in 1997-98 to 2.16 per cent in 1998-99), State Bank of India group (0.29 percentage point from 3.14 per cent in 1997-98 to

2.85 per cent in 1998-99), and new private sector bank group (0.25 percentage points from 2.23 per cent in 1997-98 to 1.98 per cent in 1998-99). In the case of nationalised bank group, the 'spread' was at 2.79 per cent during 1998-99 as against 2.78 per cent during 1997-98.

2.6 With a view to assessing the real worth of banks and to aiding the investors in their investment decisions, it is necessary to analyse the behaviour of share prices. During 1998-99, the shares of banks listed on stock exchanges showed substantial reduction in their quoted prices. This has impacted on market capitalisation and turnover of bank scrips (Box II.1).

2.7 The policy environment continued to be characterised by the adoption of various measures aimed at strengthening the banking system in India. The major policy measures adopted during the year 1998-99 included the (i) disclosure of additional information in balance sheet of banks and such information mainly relate to the maturity pattern of loans and advances, movements in non-performing assets and maturity pattern of deposits, (ii) reduction in the time frame for classifying an asset as doubtful from 24 months to 18 months, (iii) announcement of policy guidelines for asset-liability management effective April 1, 1999, (iv) enhancement in the flexibility of norms relating to bridge loans effective January 29, 1999, (v) increase in the proportion of approved securities from 70 per cent to 75 per cent under 'current investments', and (vi) issuance of guidelines for setting-up of Settlement Advisory Committees (SACs) for evolving compromise settlement of non-performing assets of small scale sector.

2.8 The present chapter analyses the performance of commercial banks (sections [2](#), [3](#), [4](#), [5](#), [6](#), [7](#), [8](#), [9](#), [10](#), [11](#)) and discusses policy measures (sections [12](#), [13](#), [14](#), [15](#)) adopted during the year 1998-99.

2. Liabilities and Assets Structure of Scheduled Commercial Banks

2.9 An analysis of the assets and liabilities of scheduled commercial banks is carried out using two distinct sources of data: one based on the Section 42 (2) returns data, and the other based on balance sheet data of banks. The Section 42 (2) returns data are first used to present the trends in the major components of the assets and liabilities of the SCBs, followed by an analysis based on the balance sheet data. The latter provides information regarding total liabilities/ assets of banks and this information can be used to compute the composition pattern of such assets/ liabilities, and to assess financial performance of banks.

Deposits

2.10 The aggregate deposits of the SCBs showed an increase of Rs.1,15,540 crore or 19.3 per cent during 1998-99 (April-March) as compared with the increase of Rs.98,722 crore or 19.8 per cent in the previous year ([Table II.1](#)). A notable feature of the growth of deposits is the continued significant growth of over 20.0 per cent in time deposits during the year. The time deposits increased by Rs.1,00,630 crore from Rs.4,95,972 crore as on March 27, 1998 to Rs.5,96,602 crore as on March 26, 1999 ([Table II.1](#)).

2.11 During the first half of the current financial year (i.e. upto September 24, 1999), the aggregate deposits increased by Rs.47,653 crore or 6.7 per cent from Rs.7,14,025 crore as on

March 26, 1999 to Rs.7,61,678 crore as on September 24, 1999. The time deposits component of aggregate deposits too sustained its upward trend during the first half of the year.

Bank Credit

2.12 Banks deploy their funds (deposits) to optimize returns and profits. A large part of the bank credit is allocated to the non-food sector and during the year 1998-99, the non-food credit constituted as much as 90.3 per cent of total bank credit. However, mainly owing to the operation of the cycles in industrial activity and decline in exports, the non-food credit showed a smaller increase of Rs.40,427 crore (13.0 per cent) during the year 1998-99, as compared with the increase of Rs.40,789 crore (15.1 per cent) during the preceding year. As regards food credit, it constitutes only a small share (9.7 per cent in 1998-99) in the total bank credit. The food credit showed an increase of Rs.4,331 crore during 1998-99 on top of the increase of Rs.4,888 crore during the preceding year.

Box II.1: Stock Prices of Indian Banks

One of the factors contributing to the efficient allocation of resources by financial markets is the ability of the market to disseminate timely information on a continuous basis on the instruments traded in the markets. Among other things, such information regarding a corporate entity is disclosed to the public in a variety of ways such as the audited financial statements, the ratings, and the advertisements, However, commercial banks have experienced severe informational asymmetries (see Berger, King and O'Brien 1991; O'Hara 1993). In order to assess the real worth of banks, besides the above noted information base, a fair assessment based on the on-site/ off-site examinations of regulatory authorities is crucial for investors to take appropriate decisions to invest in the stocks of banks.

In India, as a part of financial sector reforms, private sector is encouraged to open banking companies and Government owned public sector banks are being allowed to diversify their activities and float issues in capital market to strengthen their capital-base. In the process, till end-March 1999, eight (8) public sector banks¹ raised capital through equity issues from the new issues market and nine (9)² new private sector banks have come into existence in the banking system. The growing capital market activity of commercial banks can be seen in the form of increase in the number of banks listed on recognised stock exchanges from 6 scheduled commercial banks (SCBs) in 1994-95 to 28 SCBs in 1998-99. As at end March 1999, on the National Stock Exchange of India, the shares of 8 public sector banks (PSBs) and 17 private sector banks were listed for secondary market trading ([Table 1](#)). However, capital market regulations do not encourage listing of stocks of foreign banks/corporate bodies on Indian stock exchanges.

During the financial year 1998-99 (April-March), the listed banking scrips on Indian stocks exchanges remained depressed with substantial declines in the banking shares of both public sector banks (PSBs) and private sector banks. The analysis of PSBs banking share prices indicated that the share price of Bank of Baroda steeply declined by 54.5 per cent, followed by State Bank of Travancore 54.4 per cent, Bank of India 52.4 per cent, State Bank of India 23.6 per cent, etc. In the case of private sector banks, during the year 1998-99, the share price of Bank of Rajasthan Ltd. declined by 63.8 per cent, and that of the Federal bank by 52.9 per cent, etc. The share price of HDFC Bank Ltd., a private sector bank, showed a decline of mere 1.1 per cent during the year. The decline in share prices of banking scrips was mainly attributed to the declining performance of banks and the concern of the market over the non-performing assets of banks during 1998-99. During the same period of 1998-99, however, the general stock market trend, measured in terms of S&P CNX Nifty Index for selected traded scrips, declined by 38.9 points (3.5 per cent) on NSE. At the end of March 1999, the closing price of banking scrips as against their issue prices also indicated substantial declines. In respect of PSBs, the share price of Bank of India declined by 55.4 per cent as against the issue price and the State Bank of Bikaner & Jaipur share price showed a decline of 57.7 per cent. In the share price of private sector banks too, a substantial decline was witnessed as compared with the issue prices of shares. While IndusInd Bank Ltd. share price showed a decline of 57.8 per cent as compared with issue price, the share price of City Union Bank Ltd. showed a decline of 54.9 per cent at the end-March 1999 ([Table 2](#)).

Table 1: Listed Banks on NSE

Name of the Bank	Date of Commencement of Trading on NSE
Public Sector Banks	
State Bank of India	October 24, 1994
Oriental Bank of Commerce	February 8, 1995
Dena Bank	January 22, 1997
Bank of Baroda	February 26, 1997
Bank of India	May 7, 1997
Corporation Bank	December 5, 1997
State Bank of Bikaner & Jaipur	February 4, 1998
State Bank of Travancore	March 3, 1998
Old Private Sector Banks	
Federal Bank Ltd.	November 26, 1994
The Bank of Rajasthan Ltd.	December 28, 1994
The United Western Bank Ltd.	February 8, 1995
The Karur Vysya Bank Ltd.	May 10, 1995
The Lakshmi Vilas Bank Ltd.	May 10, 1995
Vysya Bank Ltd.	May 10, 1995
Bank of Madura Ltd.	September 18, 1996
Nedungadi Bank Ltd.	September 11, 1996
J & K Bank Ltd.	August 3, 1998
City Union Bank Ltd.	September 9, 1998
The South Indian Bank Ltd.	December 14, 1998
New Private Sector Banks	
Bank of Punjab Ltd.	June 14, 1995
HDFC Bank Ltd.	June 14, 1995
Global Trust Bank Ltd.	November 26, 1994
ICICI Banking Corporation Ltd.	September 24, 1997
IndusInd Bank Ltd.	January 29, 1998
UTI Bank Ltd.	December 3, 1998

Source : NSE, Mumbai.

In addition to the decline in share prices, considerable fluctuation (measured by coefficient of variation (CV) was also witnessed during 1998-99. The CV for the State Bank of India scrip increased from 13.4 per cent in 1997-98 to 19.6 per cent in 1998-99 ([Table 3](#)). In the private sector banking group, the CV of HDFC Bank Ltd. increased marginally from 9.4 per cent in 1997-98 to 11.9 per cent in 1998-99. It has been observed from the Table that the CV of all selected banking scrips remained generally high during the year 1998-99.

The substantial reduction in share prices can also be mirrored in other two indicators *viz.* turnover and market capitalisation. While the turnover of banking scrips on NSE has declined in absolute terms from Rs.51,165 crore in 1997-98 to Rs.26,647 crore in 1998-99, market capitalisation of bank stocks also showed steep decline from Rs.28,322 crore in 1997-98 to Rs.19,561 crore in 1998-99 ([Table 4](#)).

Table 2: Price Changes in Banks' Scrips Traded on NSE during 1998-99

Name of the Bank	Issue Price ³ (Rs.)	Close Price as on March 31, 1999 (Rs.)	% change in Price
Public Sector Banks			

1.	Corporation Bank	80	78.10	-2.38
2.	Bank of India	45	20.05	-55.44
3.	State Bank of Bikaner & Jaipur	540	228.25	-57.73
4.	State Bank of Travancore	600	226.00	-62.33
Private Sector Banks				
1.	ICICI Bank Ltd.	35	27.40	-21.71
2.	J & K Bank Ltd.	38	28.00	-26.32
3.	UTI Bank Ltd.	21	14.05	-33.10
4.	The South Indian Bank Ltd.	32	16.60	-48.13
5.	City Union Bank Ltd.	35	15.80	-54.86
6.	IndusInd Bank Ltd.	45	19.00	-57.78

Table 3: Coefficient of Variation of Select Scrip Prices

Year	SBI	BoB	BoI	Corporation Bank	ICICI Bank Ltd.	HDFC Bank Ltd.	IndusInd Bank Ltd.
1996-97	2.17	6.63	-	-	-	4.53	-
1997-98	13.43	15.23	24.21	11.83	8.79	9.35	5.47
1998-99	19.61	33.85	30.55	19.70	24.92	11.89	22.22

Table 4: Select Market Indicators of Banks' Shares

Particulars	1997-98		1998-99	
	Turnover	Market Capitalisation	Turnover	Market Capitalisation
All Banks (Rs. crore)	51,165	28,322	26,647	19,561
Top 5 banks (Rs. crore)	49,929	23,269	25,687	16,200
NSE Total of all traded scrips (Rs. crore)	3,70,193	4,81,503	4,14,474	4,91,175
% of All Banks scrips to NSE	13.82	5.88	6.43	3.98
% of Top 5 Banks scrips to Total	97.58	82.16	96.4	82.82

Source : NSE.

Further analysis of these two indicators showed that out of 25 banks traded on NSE, the share of top five bank in turnover and capitalisation constituted 96.4 per cent and 82.82 per cent, respectively, during 1998-99. This clearly indicates the skewed pattern of trading of bank stocks on stock exchanges. With the exception of heavy volume in the scrip of State Bank of India, and four other banks, trading activity on the remaining banking scrips was not found to be significant.

The Indian stock exchanges are witnessing reforms in the spheres of trading, clearing and settlement of transactions, etc. Major stock exchanges are giving thrust to international practices in their trading and associated operations. Nevertheless, many banking scrips remain illiquid/ not frequently trading on exchanges. The secondary market has to provide more varying investors' perception, liquidity, and depth for the traded scrips. Further, banking stocks need to be given thrust in view of the banks' need to raise capital from the primary market to meet the regulatory standards in coming years.

References

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O'Hara, Maureen (1993), 'Real Bills Revisited: Market Value Accounting and Loan Maturity.' *Journal of Financial Intermediation*, Vol.3, pp.51-76.

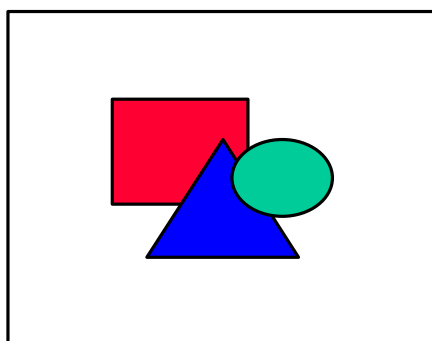
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1. The eight public sector banks are: (1) State Bank of India, (2) State Bank of Bikaner & Jaipur, (3) Oriental Bank of Commerce, (4) Dena Bank, (5) Bank of Baroda, (6) Bank of India, (7) Corporation Bank, and (8) State Bank of Travancore.
 2. The nine new private sector banks are: 1) IndusInd Bank Ltd., 2) Global Trust Bank Ltd., 3) UTI Bank Ltd., 4) ICICI Banking Corporation Ltd., 5) HDFC Bank Ltd., 6) Times Bank Ltd., 7) Bank of Punjab Ltd., 8) Centurion Bank Ltd., and 9) IDBI Bank Ltd.
 3. The price of a share at the time of floating it in the primary market.
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2.13 During the current financial year so far (i.e. upto September 24, 1999), the bank credit increased by Rs.9,557 crore or 2.6 per cent as compared with an increase of Rs.6,611 crore or 2.0 per cent during the corresponding period last year ([Table II.1](#)).

2.14 Apart from lending credit to the non-food segment of the commercial sector, the SCBs also invest their funds in various financial papers including commercial papers (CPs), PSU bonds, and the bonds floated by the private corporate sector. The SCBs investment in these papers at Rs.47,949 crore as on March 26, 1999 showed a substantial increase of Rs.14,865 crore or 44.9 per cent over the level of Rs.33,084 crore as on March 27, 1998. The increase in such investment combined with the flow of funds to non-food sector (including bills rediscounted) aggregated to Rs.53,021 crore during 1998-99 as compared to Rs.53,662 crore during 1997-98. The trends in the investment and total funds patterns of SCBs are depicted in [Chart II.1](#) and [Chart II.2](#).

Sectoral Deployment of Bank Credit

2.15 An analysis of the deployment pattern of incremental bank credit during 1998-99 (April-March) indicates that the priority sector receives a predominant share of total bank credit (40.4 per cent) followed by medium and large industries (34.7 per cent). The remaining 24.9 per cent of bank credit was distributed among other sectors including (i) wholesale trade (other than food procurement) (2.0 per cent), (ii) housing (6.3 per cent), (iii) consumer durables (1.5 per cent) and (iv) other non-priority sector personal loans (5.8 per cent), etc. ([Table II.2](#)). The relaxation given by the Reserve Bank for investments in housing and the demand for white goods enabled the banks to extend credit facilities to 'other sectors' under non-food credit.



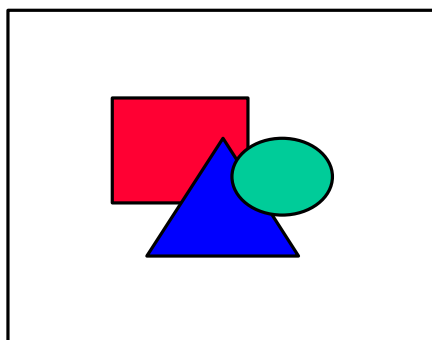


Table II.1: Important Banking Indicators: Scheduled Commercial Banks: 1997-98 and 1998-99

Item	(Amount in Rs. crore)									
	Outstanding as on					Variations during the financial year		Variations during April - September		
	March 28, 1997	March 27, 1998	March 26, 1999	Sept. 25, 1998	Sept. 24, 1999*	1997-98 over March 28	1998-99 over March 27	1998-99 over March 27	1999-2000* over March 26	
	1	2	3	4	5	6	7	8	9	10
						(3-2)	(4-3)	(5-3)	(6-4)	
1. Total Demand and Time Liabilities @	561,982	678,731	820,443	749,923	873,501	116,749	141,712	71,192	53,058	
2. Aggregate Deposits (a+b)	499,763	598,485	714,025	661,658	761,678	98,722	115,540	63,173	47,653	
(a) Demand Deposits	90,610	102,513	117,423	101,953	111,076	(19.8)	(19.3)	(10.6)	(6.7)	
(b) Time Deposits	409,153	495,972	596,602	559,705	650,602	11,903	14,910	-560	-6,347	
2a. Certificate of Deposits	12,134	14,296	3,717	5,686	3,305	(13.1)	(14.5)	-(0.5)	-(5.4)	
2b. Aggregate Deposits (excl. Certificate of Deposits)	487,629	584,189	710,308	655,972	758,373	(21.2)	(20.3)	(12.9)	(9.1)	
3. Borrowings from RBI	560	395	2,894	3,306	4,204	2,162	-10,579	-8,610	-412	
4. Liability to Banks	21,193	32,287	45,204	38,081	47,530	(17.8)	-(74.0)	-(60.2)	-(11.1)	
5. Bank Credit (a+b)	278,402	324,079	368,837	330,690	378,394	96,560	126,119	71,783	48,065	
a. Food Credit	7,597	12,485	16,816	16,079	20,532	(19.8)	(21.6)	(12.3)	(6.8)	
b. Non-food credit	270,805	311,594	352,021	314,611	357,862	-165	2,499	2,911	1,310	
c. Non-food credit excluding petroleum credit	268,551	308,902	347,373	312,436	356,463	-(29.5)	(632.7)	(737.0)	(45.3)	
6. Investments (a+b)	190,514	218,705	254,594	251,867	289,596	11,094	12,917	5,794	2,326	
a. Govt. Securities	158,890	186,957	223,217	220,725	258,367	(52.3)	(40.0)	(17.9)	(5.1)	
b. Other Approved Sec.	31,624	31,748	31,377	31,142	31,229	124	-371	-606	-148	
7. Cash Balances (a+b)	53,195	61,306	67,910	66,607	69,600	(0.4)	-(1.2)	-(1.9)	-(0.5)	
a. Cash in hand	3,347	3,608	4,362	3,812	4,235	8,111	6,604	5,301	1,690	
b. Balances with RBI	49,848	57,698	63,548	62,795	65,365	(15.2)	(10.8)	(8.6)	(2.5)	
Memorandum Items :						(7.8)	(20.9)	(5.7)	-(2.9)	
A Credit-Deposit Ratio	55.7	54.1	51.7	50.0	49.7	7,850	5,850	5,097	1,817	
B Non-food credit (excl. Petr.credit) / Deposit Ratio	53.7	51.6	48.6	47.2	46.8	(15.7)	(10.1)	(8.8)	(2.9)	
C Incremental CD Ratio	34.0	46.3	38.7	10.5	20.1					
D Cash Balance-Deposit Ratio	10.6	10.2	9.5	10.1	9.1					

E	Investment/Deposit Ratio	38.1	36.5	35.7	38.1	38.0
F	Investment+Credit/Deposit Ratio	93.8	90.7	87.3	88.0	87.7

- Notes : 1. * Provisional.
 @ Excluding borrowings from RBI/IDBI/NABARD.
 2. Figures in bracket are percentage variations.
 3. Constituent items may not add up the totals due to rounding off.

Export Credit

2.16 Commercial banks extend credit facility to exporters to promote export activities. The Reserve Bank, through various policy measures, has also relaxed norms for commercial banks so as to encourage the flow of credit to the export sector. Banks, however, are required to lend 12 per cent of advances as export credit. During the year under review (1998-99), one of the important measures taken by the Reserve Bank was the downward revision in the refinance rates for export credit ([Table II.2](#)). Export credit as a percentage of net bank credit (NBC), however, declined to 10.6 per cent in 1998-99 from 11.4 per cent in the previous year, reflecting decline in exports. It further declined to 10.3 per cent as on June 18, 1999. The outstanding export credit of SCBs at Rs.35,891 crore as on March 26, 1999 showed an increase of Rs.1,944 crore or 5.7 per cent over the outstanding credit of Rs.33,947 crore as on March 27, 1998. As on June 18, 1999, the outstanding export credit amounted to Rs.34,504 crore indicating an increase of Rs.2,833 crore or 8.9 per cent over the same period in the corresponding year.

2.17 During 1998-99 (April-March), export credit refinance limits of SCBs showed a more than three-fold increase from Rs.2,403 crore in March 1998 to Rs.7,269 crore in March 1999. The significant increase in the export credit refinance limit is mainly attributable to the restoration of export credit refinance limit of banks, effective the fortnight beginning May 9, 1998, from 50 per cent to 100 per cent of the increase in export credit eligible for refinance over the level of such credit as on February 16, 1996. During the current financial year, this limit was further increased and this stood at Rs.7,378 crore as on October 8, 1999 ([Appendix Table II.1](#)).

2.18 An analysis of the utilisation of export credit refinance facility availed of by the SCBs shows that the average utilisation of export credit refinance ranged between 0.5 per cent to 8.6 per cent during April 1998 to August 14, 1998. During the subsequent fortnights of the year 1998-99, the average utilization of export credit refinance has shown a perceptible increase, varying in the range of 70.8 per cent and 97.2 per cent. This can be attributed to the reduction in interest rate on export credit refinance from 9.0 per cent to 7.0 per cent, effective August 6, 1998. With effect from April 1, 1999, export credit refinance is being provided to scheduled commercial banks at the Bank Rate. During April 1999 to October 1999, the average utilisation of export credit refinance was in the range of 46.9 per cent and 95.7 per cent.

Industry-wise Deployment of credit

2.19 An analysis of the industry-wise deployment of gross bank credit indicates that out of the bank credit allocated to industry (constituting of small, medium and large industries) during the year 1998-99, infrastructure industries received the maximum share of 15.5 per cent, followed by those of iron and steel (14.1 per cent), electricity (12.0 per cent), chemicals, dyes, paints, etc. (10.1 per cent) and other textiles industries (7.5 per cent). During the year 1998-99, the industries that witnessed substantial declines in bank credit include engineering (7.3 per cent),

petroleum (3.6 per cent), rubber and rubber products (2.9 per cent), and jute textiles (1.4 per cent) (Table II.3).

Table II.2: Sectoral Deployment of Gross Bank Credit by Major Sectors

Sectors		(Rs. crore)									
		Outstanding as on					Variations during				
		March 28, 1997	March 27, 1998	March 26, 1999	June 19, 1998	June 18, 1999*	Financial year		April-June		1999-2000*
1	2	3	4	5	6	7	8	9	10		
							(3-2)	(4-3)	(5-3)	(6-4)	
I.	Gross Bank Credit (1+2)	258,991	300,283	342,012	295,373	338,654	41,292	41,729	-4,910	-3,358	
1.	Public Food Procurement Credit	7,597	12,485	16,816	16,828	22,221	4,888	4,331	4,343	5,405	
2.	Non-Food Gross Bank Credit (A+B+C+D)	251,394	287,798	325,196	278,545	316,433	36,404	37,398	-9,253	-8,763	
							[100.0]	[100.0]	[100.0]	[100.0]	
A.	Priority Sectors	84,880	99,507	114,611	98,064	113,433	14,627	15,104	-1,443	-1,178	
(i)	Agriculture	31,442	34,869	39,634	34,448	38,393	3,427	4,765	-421	-1,241	
							(9.4)	(12.7)	(4.5)	(14.2)	
(ii)	Small Scale Industries	35,944	43,508	48,483	42,374	47,166	7,564	4,975	-1,134	-1,317	
							(20.8)	(13.3)	(12.3)	(15.0)	
(iii)	Other Priority Sectors	17,494	21,130	26,494	21,242	27,874	3,636	5,364	112	1,380	
							(10.0)	(14.3)	-(1.2)	-(15.7)	
B.	Industry (Medium & Large)	102,604	117,530	130,516	112,172	123,983	14,926	12,986	-5,358	-6,533	
							(41.0)	(34.7)	(57.9)	(74.6)	
C.	Wholesale Trade (other than food procurement)	12,340	13,217	13,965	12,937	13,966	877	748	-280	1	
							(2.4)	(2.0)	(3.0)	(0.0)	
D.	Other Sectors of which :	51,570	57,544	66,104	55,372	65,051	5,974	8,560	-2,172	-1,053	
							(16.4)	(22.9)	(23.5)	(12.0)	
(i)	Housing	7,773	9,057	11,404	9,020	11,764	1,284	2,347	-37	360	
							(3.5)	(6.3)	(0.4)	-(4.1)	
(ii)	Consumer durables	2,297	2,527	3,090	2,679	3,269	230	563	152	179	
							(0.6)	(1.5)	-(1.6)	-(2.0)	
(iii)	Non-banking financial companies	5,154	6,227	6,082	5,375	5,565	1,073	-145	-852	-517	
							(2.9)	-(0.4)	(9.2)	(5.9)	
(iv)	Loans to individuals	2,066	1,904	1,625	2,603	1,596	-162	-279	699	-29	
							-(0.4)	-(0.7)	-(7.6)	(0.3)	
(v)	Real Estate Loans	1,546	1,899	1,625	2,104	1,668	353	-274	205	43	
							(1.0)	-(0.7)	-(2.2)	-(0.5)	
(vi)	Other non-priority sector personal loans	12,392	10,133	12,289	9,240	12,534	-2,259	2,156	-893	245	
							-(6.2)	(5.8)	(9.7)	-(2.8)	
(vii)	Advances against Fixed Deposits	1,505	11,815	15,106	12,139	16,405	10,310	3,291	324	1,299	
							(28.3)	(8.8)	-(3.5)	-(14.8)	
(viii)	Tourism and tourism related hotels	-	822	612	423	694	-	-210	-399	82	
								-(0.6)	(4.3)	-(0.9)	
II.	Export Credit (included under item I.2)	30,008	33,947	35,891	31,671	34,504	3,939	1,944	-2,276	-1,387	
III.	Net Bank Credit (including inter-bank participation)	245,999	297,265	339,477	292,782	336,273	51,266	42,212	-4,483	-3,204	
Memorandum Items :											
A.	Priority Sector credit as % to NBC	34.5	33.5	33.8	33.5	33.7					
B.	Agricultural Sector credit as % to NBC	12.8	11.7	11.7	11.8	11.4					
C.	Export Sector credit as % to NBC	12.2	11.4	10.6	10.8	10.3					

Notes : 1. * Provisional.

2. Data relate to selected scheduled commercial banks which account for about 90-95 per cent of bank credit of all scheduled commercial banks. Gross bank credit data include bills rediscounted with RBI, IDBI, EXIM Bank, other approved financial institutions and inter-bank participations

3. Figures in bracket are proportions to incremental non-food gross bank credit.

Bank Credit to Sick/Weak Industries

2.20 Commercial banks extend financial assistance for the revival of sick/weak industrial units. Recently, the number of sick/weak industrial units financed by banks declined from 2,37,400 as at end-March 1997 to 2,24,012 as at end-March 1998. The outstanding bank credit to sick/weak industries as a proportion of bank credit allocated to industry also declined from 10.0 per cent as at end-March 1997 to 9.7 per cent as at end-March 1998. The bank credit locked up in small-scale sick industries and non-SSI sick/weak industrial units recorded a significant increase of 13.7 per cent from Rs.13,787 crore as at end-March 1997 to Rs.15,682 crore as at end-March 1998 ([Appendix Table II.2](#)).

Credit to Small-Scale Industries

2.21 During the year 1998-99, the Reserve Bank issued guidelines to encourage the growth of small-scale industries (SSI) and to ensure prompt payment of dues by medium/large industrial borrowers to SSI Units. These guidelines include (i) commercial banks should periodically ascertain, from their medium/large industrial borrowers, the extent of their dues to SSI suppliers and the action proposed to be taken by these borrowers to clear off the overdues, if any, to SSIs and (ii) commercial banks should ensure that the medium/large borrowers finance their domestic credit purchases from SSI Units, at least to the extent of 25 per cent by way of bills drawn on and accepted by them.

2.22 The foregoing analysis concerning the deposits and sectoral allocation of bank credit, is now supplemented with analysis based on balance sheet data, and it provides a focus on the asset/ liability composition as well as the financial performance of the SCBs¹. The structure and asset composition of the SCBs is delineated in [Chart II.3](#). The disaggregated details of the assets/liabilities of the scheduled commercial banks, based on balance sheet data, are presented in [Tables II.4, II.5, II.6, II.7](#).

2.23 On the liabilities side, deposits constituted the major component (with 81.1 per cent as on March 31, 1999) of total liabilities of the SCBs. A substantial part of bank deposits are from term deposits, and these deposits accounted for 65.3 per cent of the aggregate deposits as on March 31, 1999. As regards the assets of the SCBs, a major share was on account of the 'loans and advances', and 'investments'. As on March 31, 1999, the advances constituted a share of 38.9 per cent while the investments accounted for a share of 35.7 per cent in the total assets of SCBs. The investments portfolio of SCBs is predominated by the investments in safe and riskless assets, i.e. the Government securities. As on March 31, 1999, the investments in Government and other approved securities constituted as high as 75.8 per cent of the total investments of SCBs. The SCBs investments in non-approved securities constituted relatively a much smaller share of 24.2 per cent of total investment as on March 31, 1999. However, such investments showed a substantial increase of 45.3 per cent compared with the 23.3 per cent increase in investment in Government securities during 1998-99.

Table II.3: Industry-wise Deployment of Gross Bank Credit

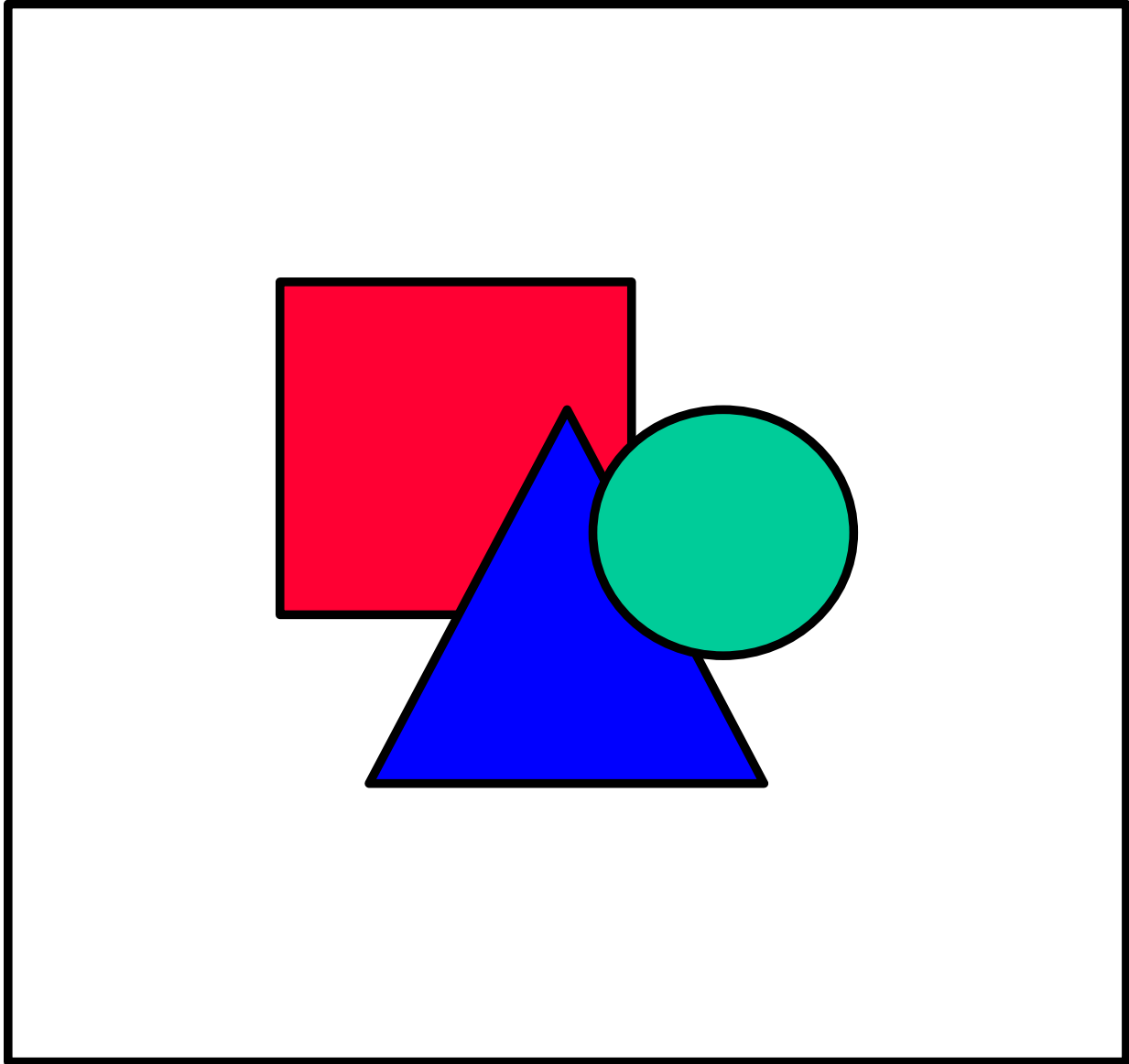
(Rs. crore)

Industry	Outstanding as on					Variations during			
	March 28,	March 27,	March 26,	June 19,	June 18,	Financial year		April-June	
	1997	1998	1999	1998	1999*	1997-98	1998-99	1998-99	1999-2000*
1	2	3	4	5	6	7	8	9	10
						(3-2)	(4-3)	(5-3)	(6-4)
Industry (Total of Small, Medium and Large Scale)	138,548	161,038	178,999	154,546	171,149	22,490	17,961	-6,492	-7,850
1. Coal	570	801	1,114	729	1,032	231	313	-72	-82
2. Mining	65	975	1,360	937	1,349	910	385	-38	-11
3. Iron & Steel	11,668	15,767	18,291	15,405	17,998	4,099	2,524	-362	-293
4. Other Metals and Metal Products	5,276	5,193	5,918	5,302	5,717	-83	725	109	-201
5. All Engineering	22,684	22,833	21,513	20,832	20,598	149	-1,320	-2,001	-915
<i>of which : Electronics</i>	<i>(4699)</i>	<i>(4472)</i>	<i>(4872)</i>	<i>(4511)</i>	<i>(4635)</i>	<i>-(227)</i>	<i>(400)</i>	<i>(39)</i>	<i>-(237)</i>
6. Electricity	3,506	4,652	6,813	5,129	6,960	1,146	2,161	477	147
7. Cotton Textiles	8,053	9,331	10,430	9,363	10,433	1,278	1,099	32	3
8. Jute Textiles	543	1,089	844	1,105	820	546	-245	16	-24
9. Other Textiles	9,685	10,651	12,000	9,927	12,187	966	1,349	-724	187
10. Sugar	2,547	2,959	3,338	2,824	3,399	412	379	-135	61
11. Tea	814	1,028	825	1,035	775	214	-203	7	-50
12. Food Processing	3,655	4,134	4,750	4,326	4,746	479	616	192	-4
13. Vegetable Oils and vanaspati	1,955	2,296	2,710	2,365	2,555	341	414	69	-155
14. Tobacco and Tobacco Products	934	1,076	1,005	1,007	891	142	-71	-69	-114
15. Paper and Paper Products	2,580	2,742	2,938	2,905	2,902	162	196	163	-36
16. Rubber and Rubber products	1,817	2,534	2,014	2,277	1,818	717	-520	-257	-196
17. Chemicals, Dyes, Paints, etc.	15,393	18,120	19,929	17,610	19,629	2,727	1,809	-510	-300
<i>of which :</i>									
<i>i) Fertilisers</i>	<i>(2358)</i>	<i>(2910)</i>	<i>(3577)</i>	<i>(2994)</i>	<i>(3061)</i>	<i>(552)</i>	<i>(667)</i>	<i>(84)</i>	<i>-(516)</i>
<i>ii) Petrochemicals</i>	<i>(1923)</i>	<i>(2956)</i>	<i>(4748)</i>	<i>(3029)</i>	<i>(4499)</i>	<i>(1033)</i>	<i>(1792)</i>	<i>(73)</i>	<i>-(249)</i>
<i>iii) Drugs & Pharmaceuticals</i>	<i>(3672)</i>	<i>(5219)</i>	<i>(5323)</i>	<i>(5142)</i>	<i>(5415)</i>	<i>(1547)</i>	<i>(104)</i>	<i>-(77)</i>	<i>(92)</i>
18. Cement	1,918	2,502	2,746	2,655	2,846	584	244	153	100
19. Leather and Leather products	2,225	2,478	2,542	2,547	2,446	253	64	69	-96
20. Gems and Jewellery	3,096	3,530	4,124	3,422	4,140	434	594	-108	16
21. Construction	2,494	2,646	2,569	2,326	2,333	152	-77	-320	-236
22. Petroleum	3,374	6,155	5,516	4,318	3,898	2,781	-639	-1,837	-1,618
23. Automobiles including trucks	0	2,870	3,128	2,827	3,525	2,870	258	-43	397
24. Computer Software	0	616	747	673	663	616	131	57	-84
25. Infrastructure	0	3,163	5,945	3,998	6,137	3,163	2,782	835	192
<i>of which :</i>									
<i>i) Power</i>	<i>0</i>	<i>(697)</i>	<i>(2109)</i>	<i>(982)</i>	<i>(2625)</i>	<i>(697)</i>	<i>(1412)</i>	<i>(285)</i>	<i>(516)</i>
<i>ii) Telecommunications</i>	<i>0</i>	<i>(2045)</i>	<i>(2273)</i>	<i>(2442)</i>	<i>(1946)</i>	<i>(2045)</i>	<i>(228)</i>	<i>(397)</i>	<i>-(327)</i>
<i>iii) Roads and Ports</i>	<i>0</i>	<i>(421)</i>	<i>(1563)</i>	<i>(574)</i>	<i>(1566)</i>	<i>(421)</i>	<i>(1142)</i>	<i>(153)</i>	<i>(3)</i>
26. Other Industries	33,696	30,897	35,890	28,702	31,352	-2,799	4,993	-2,195	-4,538
Memorandum Item :									
Industrial Credit as proportion to Net Bank Credit	56.3	54.2	52.7	52.8	50.9				

Notes : 1. * Provisional.

2. Data relate to selected scheduled commercial banks which account for about 90-95 per cent of bank credit of all scheduled commercial banks

3. No sign is indicated for positive variations.



Credit-Deposit Relationship

2.24 As on March 31, 1999 (as per sanctions), the credit-deposit ratio of SCBs was a shade higher at 55.5 per cent than that of 55.3 per cent in the corresponding period last year. Although the C-D ratio has been widely used as an indicator of deployment of credit, it might not adequately capture the intensity of credit dispensation, as, the economic units may not necessarily avail of bank financing only through the conventional form of credit; they could as well gain resources from banks from the sale of their equities or debentures or bonds or commercial papers. The concept of C-D ratio therefore needs to be broadened to accommodate the investments of banks in such marketable instruments of business entities ([Box II.2](#)).

2.25 A region-wise analysis of C-D ratio indicates that with the exception of the northern and western regions, the remaining four regions witnessed decline in C-D ratio during the year 1998-99. As on March 31, 1999, the C-D ratio was the highest at 93.0 per cent for Tamil Nadu,

followed by Maharashtra (72.8 per cent) ([Appendix Table II.3](#)).

Table II.4: Consolidated Balance Sheet of Scheduled Commercial Banks as on March 31, 1998 and 1999

Item	(Amount in Rs. crore)			
	As on March 31, 1998		As on March 31, 1999	
	Amount	% to total	Amount	% to total
1	2	3	4	5
Liabilities				
1. Capital	19,439.35	2.44	18,206.71	1.91
2. Reserves & Surplus	34,003.73	4.27	36,793.46	3.87
3. Deposits	644,068.17	80.97	771,145.55	81.10
3.1 Demand Deposits	95,342.15	11.99	109,572.51	11.52
3.2 Savings Bank Deposits	133,475.75	16.78	158,364.28	16.65
3.3 Term Deposits	415,250.27	52.21	503,208.76	52.92
4. Borrowings	25,780.50	3.24	40,248.48	4.23
5. Other Liabilities and Provisions	72,120.73	9.07	84,503.77	8.89
Total Liabilities	7,95,412.48	100.00	9,50,897.97	100.00
Assets				
1. Cash and balances with RBI	71,590.49	9.00	81,384.66	8.56
2. Balances with banks and money at call and short notice	60,311.17	7.58	88,916.55	9.35
3. Investments	271,966.67	34.19	339,633.41	35.72
3.1 In Govt. Securities (a+b)	186,715.78	23.47	230,154.81	24.20
a. In India	184,729.09	23.22	228,006.47	23.98
b. Outside India	1,986.69	0.25	2,148.34	0.23
3.2 In other approved Securities	28,759.59	3.62	27,404.98	2.88
3.3 In non-approved Securities	56,491.30	7.10	82,073.62	8.63
4. Loans and Advances	324,166.54	40.75	369,648.55	38.87
4.1 Bills purchased & discounted	34,285.61	4.31	37,065.86	3.90
4.2 Cash Credit, Overdrafts, etc.	188,008.73	23.64	203,677.56	21.42
4.3 Term Loans	101,872.20	12.81	128,905.13	13.56
5. Fixed Assets	12,760.78	1.60	14,500.45	1.52
6. Other Assets	54,616.83	6.87	56,814.35	5.97
Total Assets	7,95,412.48	100.00	9,50,897.97	100.00

1. As at the end of March 1999, there were 105 Scheduled Commercial Banks (SCBs) comprising 27 Public Sector Banks (PSBs), 34 Private Sector Banks (old and new) and 44 Foreign Banks. As at end-March 1998, there were 103