Chapter II

Developments in Commercial Banking

The overall performance of the scheduled commercial banks (SCBs) showed a distinct turnaround during 1999-2000. All the major financial indicators *viz.*, operating profit, net profit, income, expenditure, interest expended, operating expenses and spread posted noticeable improvement (Table II.1). There was also a gain in the health of the banking sector in terms of a reduction in gross and net NPAs as percentage of total assets and an improvement in the capital to risk weighted assets ratio (CRAR). The crucial issue to be addressed now is how to further improve upon the gains and sustain them over the medium term as reform policies progress. This brings to the fore the importance of enhancing efficiency in banks in the context of the evolving regulatory framework. In this context, it is necessary to measure efficiency in Indian banks which in the current transitional period, have to subserve considerations that go beyond maximisation of profits (Box II.1).

Box II.1: Measurement of Efficiency in Indian Banks

An important aspect of the functioning of financial entities relates to measurement of efficiency of the banking system. Such measurement can be done either in respect of banks or of individual branches of a bank. The information so obtained can be used for assessing how efficiency is affected by deregulation, mergers and market structures as well as its effect on scale and scope economies of the entity. It can also be used to determine managerial efficiency relative to a certain threshold by identifying the best and worst practices (associated with high and low measured efficiency, respectively). Measurement of efficiency helps to distinguish as between financial entities to rank their performance and also to assess their position vis-à-vis certain benchmark levels.

One could view efficiency in two ways - technical efficiency and economic efficiency. The former arises when a (banking) firm minimises its inputs, given outputs while in the latter case, the banking firm would maximise its outputs, given inputs. Technical efficiency is thus input saving and the economic efficiency represents output augmenting efficiency. Economic efficiency is a much broader concept in the sense that it involves choosing optimal levels and combinations of inputs and/or outputs, based on reactions to market prices. Economic efficiency involves technical efficiency, but not vice versa. When efficiency is estimated, it would be usually in terms of 'economic' efficiency, unless otherwise specified.

International experiences regarding average efficiency estimates of banks across countries reveal wide divergences in efficiency estimates. A study of banks in Norway, Sweden and Finland showed that banks in Sweden were the most efficient. Two other cross-country studies covered 11 OECD countries and 8 developed countries, respectively. In the first study (Fecher and Pestieau, 1993), the average efficiency of financial services (banking and insurance) was determined for 11 OECD countries for the period 1971-86. The mean average efficiency was 0.82 with a range of 0.67 (for Denmark) to 0.98 (for Japan). In another study using the non-parametric technique to a cross-section of 427 banks in 8 developed countries (Pastor *et.al.*, 1997), the mean efficiency value was 0.86 with a range of 0.55 (for UK) to 0.95 (for France). However, it is important to recognise that cross-country comparisons are often difficult to interpret because the regulatory and economic environment encountered by financial entities are different across nations and also because the level and quality of services associated with deposits and loans in different countries could differ.

In the Indian banking system, the commercial banks serve manifold purposes. While commercial considerations have been recognised as important, especially since 1992-93, the objective of maintaining the safety and soundness of the system is also given emphasis (Das 1997). These considerations would

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imply different combinations of outputs and inputs giving rise to different efficiency estimations. The different portfolio combinations, the risks involved, and provisioning requirements would need to be reckoned in working out the net rates of return. In view of the complexities inherent in such exercises, empirical studies have proceeded in two broad directions. The first set of exercises has been one of estimating technical efficiency of commercial banks, which reveal that there is ample scope for improving the technical efficiency of the banking system in India. The second set of studies have focused on estimating cost functions and measuring economies of scale with the implicit assumption that banks operate on an efficiency frontier. However, studies in India are in a state of infancy and considerable work needs to be done before one could concretise the inferences.

Country experiences reveal that efficiency measures could be used to improve the predictive accuracy of forecasting banking problems and crises and provide basis for tailoring policy decisions to raise efficiency levels. In the US for instance, banks and Savings and Loan (S&L) institutions with low efficiency failed at higher rates than institutions with higher efficiency (Berger and De Young, 1997). Similarly, studies on universal banking using efficiency techniques would help policy makers to parameterise degree of scale and scope economies needed for organisational restructuring. These issues are highly relevant to India at present since improvement in efficiency of banks would help further diversify and develop the financial sector.

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2.2 Public sector banks (PSBs) continued to hold more than four-fifths of the total assets of all SCBs. The State Bank of India and its seven associated banks continued to occupy a dominant position with their total assets accounting for 37.7 per cent of the assets of public sector banks (PSBs) and 30.3 per cent of the total assets of the entire scheduled commercial banks during 1999-2000. The share of nationalised banks constituted 49.9 per cent in the total assets of SCBs. In the total assets of the private sector banks, the share of old private sector banks constituted 57.0 per cent but accounted for only 7.0 per cent of the total assets of the SCBs. The share of 8 new private sector banks was 43.1 per cent in the total assets of all private sector banks and 5.3 per cent of the total assets of SCBs. The total assets of foreign banks as at end-March 2000 constituted 7.5 per cent of the total assets of the SCBs. What is more interesting than shares is the sharp rise in assets of new private sector banks (52.8 per cent) followed by old private sector banks (18.7 per cent), State Bank group (17.7 per cent), nationalised banks (14.5 per cent) and foreign banks (8.2 per cent) in 1999-2000. This shows that Indian private sector banks fared better in terms of assets expansion than PSBs and foreign banks.

Table II.1: Bank Group-wise Financial Performance of Scheduled Commercial Banks - Some Important Financial Indicators: 1997-98, 1998-99 and 1999-2000

(Amount in Rs. crore)

Year	Operating Profit (3+11)	Net Profit (4-7)	Income (5+6)	Interest Income	Other Income	Expenditure (8+9+11)	Interest Expended	Operating Expenses	Wage Bill	Provisions & Contin-gencies	Spread (NII) (5-8)
1	2	3	4	5	6	7	8	9	10	11	12
Scheduled Commercial Banks*											
1997-98	14,640.15 (1.84)	6,501.84 (0.82)	85,856.98 (10.79)	73,750.62 (9.27)	12,106.36 (1.52)	79,355.14 (9.98)	50,299.42 (6.32)	20,917.41 (2.63)	14,091.65 (1.77)	8,138.31 (1.02)	23,451.20 (2.95)
1998-99	13,810.69 (1.45)	4,490.34 (0.47)	1,00,062.00 (10.52)	87,312.04 (9.18)	12,749.96 (1.34)	95,571.66 (10.05)	60,904.99 (6.41)	25,346.32 (2.67)	16,649.52 (1.75)	9,320.35 (0.98)	26,407.05 (2.78)
1999-2000	18,423.36 (1.66)	7,306.36 (0.66)	1,15,386.00 (10.39)	99,506.85 (8.96)	15,879.15 (1.43)	1,08,079.64 (9.73)	69,317.04 (6.24)	27,645.60 (2.49)	18,467.38 (1.66)	11,117.00 (1.00)	30,189.81 (2.72)
Public Sector Banks (27)											
1997-98	10,273.72 (1.58)	5,029.67 (0.77)	67,706.58 (10.42)	59,076.17 (9.10)	8,630.41 (1.33)	62,676.91 (9.65)	40,173.57 (6.19)	17,259.29 (2.66)	12,623.44 (1.94)	5,244.05 (0.81)	18,902.60 (2.91)
1998-99	10,560.79 (1.37)	3,253.85 (0.42)	78,850.36 (10.24)	69,417.42 (9.01)	9,432.94 (1.22)	75,596.51 (9.82)	47,839.75 (6.21)	20,449.82 (2.66)	14,839.66 (1.93)	7,306.94 (0.95)	21,577.67 (2.80)
1999-2000	13,064.03 (1.47)	5,113.87 (0.57)	90,900.44 (10.20)	79,459.71 (8.92)	11,440.73 (1.28)	85,786.57 (9.63)	55,375.28 (6.22)	22,461.13 (2.52)	16,361.57 (1.84)	7,950.16 (0.89)	24,084.43 (2.70)
Nationalised Banks (19)											
1997-98	5,541.38 (1.33)	2,569.90 (0.62)	42,835.47 (10.28)	37,867.33 (9.09)	4,968.14 (1.19)	40,265.57 (9.66)	26,269.42 (6.30)	11,024.67 (2.65)	7,952.95 (1.91)	2,971.48 (0.71)	11,597.91 (2.78)
1998-99	5,912.73 (1.22)	1,788.19 (0.37)	49,500.95 (10.22)	44,291.27 (9.15)	5,209.68 (1.08)	47,712.76 (9.85)	30,856.91 (6.37)	12,731.31 (2.63)	9,346.79 (1.93)	4,124.54 (0.85)	13,434.36 (2.77)
1999-2000	7,224.88 (1.30)	2,437.00 (0.44)	56,885.86 (10.26)	50,273.04 (9.06)	6,612.82 (1.19)	54,448.86 (9.82)	35,478.22 (6.40)	14,182.76 (2.56)	10,435.18 (1.88)	4,787.88 (0.86)	14,794.82 (2.67)
State Bank Group (8)											
1997-98	4,732.34 (2.03)	2,459.77 (1.06)	24,871.11 (10.68)	21,208.84 (9.11)	3,662.27 (1.57)	22,411.34 (9.63)	13,904.15 (5.97)	6,234.62 (2.68)	4,670.49 (2.01)	2,272.57 (0.98)	7,304.69 (3.14)
1998-99	4,648.06 (1.63)	1,465.66 (0.51)	29,349.41 (10.27)	25,126.15 (8.79)	4,223.26 (1.48)	27,883.75 (9.76)	16,982.84 (5.94)	7,718.51 (2.70)	5,492.87 (1.92)	3,182.40 (1.11)	8,143.31 (2.85)
1999-2000	5,839.15 (1.74)	2,676.87 (0.80)	34,014.58 (10.11)	29,186.67 (8.68)	4,827.91 (1.44)	31,337.71 (9.32)	19,897.06 (5.92)	8,278.37 (2.46)	5,926.39 (1.76)	3,162.28 (0.94)	9,289.61 (2.76)

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Table II.1: Bank Group-wise Financial Performance of Scheduled Commercial Banks - Some Important Financial Indicators: 1997-98, 1998-99 and 1999-2000 *(concld.)*

(Amount in Rs. crore)

Year	Operating Profit (3+11)	Net Profit (4-7)	Income (5+6)	Interest Income	Other Income	Expenditure (8+9+11)	Interest Expended	Operating Expenses	Wage Bill	Provisions & Contin-gencies	Spread (NII) (5-8)
1	2	3	4	5	6	7	8	9	10	11	12
Old Indian Private Sector Banks (24)											
1997-98	1,082.33	442.68	6,437.80	5,496.15	941.65	5,995.12	4,083.77	1,271.70	769.92	639.65	1,412.38
	(1.97)	(0.81)	(11.71)	(10.00)	(1.71)	(10.91)	(7.43)	(2.31)	(1.40)	(1.16)	(2.57)
1998-99	792.15	311.46	7,362.14	6,493.40	868.74	7,050.68	5,087.73	1,482.26	919.95	480.69	1,405.67
	(1.21)	(0.48)	(11.24)	(9.92)	(1.33)	(10.77)	(7.77)	(2.26)	(1.41)	(0.73)	(2.15)
1999-2000	1,428.86	655.09	8,749.88	7,441.91	1,307.97	8,094.79	5,628.95	1,692.07	1,080.26	773.77	1,812.96
	(1.84)	(0.84)	(11.26)	(9.58)	(1.68)	(10.42)	(7.24)	(2.18)	(1.39)	(1.00)	(2.33)
New Indian Private Sector Banks (8)											
1997-98	739.56	399.52	3,015.07	2,395.21	619.86	2,615.55	1,819.79	455.72	79.57	340.04	575.42
	(2.86)	(1.55)	(11.67)	(9.27)	(2.40)	(10.12)	(7.04)	(1.76)	(0.31)	(1.32)	(2.23)
1998-99	684.28	397.05	4,130.49	3,540.88	589.61	3,733.44	2,776.94	669.27	119.97	287.23	763.94
	(1.78)	(1.03)	(10.72)	(9.19)	(1.53)	(9.69)	(7.21)	(1.74)	(0.31)	(0.75)	(1.98)
1999-2000	1,243.84	569.41	5,407.47	4,429.21	978.26	4,838.06	3,326.61	837.02	163.18	674.43	1,102.60
	(2.11)	(0.97)	(9.19)	(7.53)	(1.66)	(8.22)	(5.65)	(1.42)	(0.28)	(1.15)	(1.87)
Foreign Banks (42)											
1997-98	2,544.54	629.97	8,697.53	6,783.09	1,914.44	8,067.56	4,222.29	1,930.70	618.72	1,914.57	2,560.80
	(3.91)	(0.97)	(13.36)	(10.42)	(2.94)	(12.39)	(6.49)	(2.97)	(0.95)	(2.94)	(3.93)
1998-99	1,773.47	527.98	9,719.01	7,860.34	1,858.67	9,191.03	5,200.57	2,744.97	769.94	1,245.49	2,659.77
	(2.32)	(0.69)	(12.69)	(10.27)	(2.43)	(12.00)	(6.79)	(3.59)	(1.01)	(1.63)	(3.47)
1999-2000	2,686.63	967.99	10,328.21	8,176.02	2,152.19	9,360.22	4,986.20	2,655.38	862.37	1,718.64	3,189.82
	(3.24)	(1.17)	(12.47)	(9.87)	(2.60)	(11.30)	(6.02)	(3.21)	(1.04)	(2.07)	(3.85)

Notes: 1. * The number of Scheduled Commercial Banks in 1997-98, 1998-99 and 1999-2000 were 103, 105 and 101 respectively.
NII : Net Interest Income.
2. The number of Foreign Banks in 1997-98, 1998-99 and 1999-2000 were 42, 44 and 42 respectively.
3. The number of Old Private Banks in 1997-98, 1998-99 and 1999-2000 were 25, 25 and 24 respectively.
4. The number of New Private Banks in 1997-98, 1998-99 and 1999-2000 were 9, 9 and 8 respectively.
5. Figures in brackets are percentages to Total Assets.

1. Assets and Liabilities Structure of Scheduled Commercial Banks

2.3 The analysis of assets and liabilities of scheduled commercial banks is done on the basis of two sources of data: one based on the returns provided under Section 42 (2) of the Reserve Bank of India Act and the other based on balance sheets of the banks. An analysis of the balance sheet data of the SCBs for the 1999-2000 indicates that the assets of the banking sector continued to witness an impressive growth rate at 16.8 per cent on top of the rise of 19.5 per cent recorded in 1998-1999. The share of investments and loans and advances in total assets rose to 37.3 per cent and 39.9 per cent respectively. During 1999-2000, the structure of liabilities of SCBs remained largely unchanged as compared with the previous year. The share of capital of SCBs in total liabilities declined from 1.9 per cent in 1998-99 to 1.7 per cent in 1999-2000, while that of reserves and surplus increased marginally to 4.0 per cent during 1999-2000 from 3.9 per cent in 1998-99. The share of deposits in total liabilities at 81.1 per cent remained more or less unchanged. The details of the consolidated balance sheets of individual bank groups are given in Tables II.2 to II.5. The data based on Section 42 (2) returns (Table II.6) indicate that SCBs recorded a decline in the share of cash and balances held with the Reserve Bank and the ratio of such balances to agregate deposits of SCBs came down to 7.7 per cent in 1999-2000 from 9.5 per cent in 1998-99 reflecting the reduction of the CRR. The share of balances with banks and money at call and short notice of SCBs, as given by balance sheet data, also declined by more than 2 percentage points to 7.3 per cent.

Deposits

2.4 During 1999-2000, deposits as per the returns under Section 42 (2) of the RBI Act exhibited a lower growth of 13.9 per cent (Rs.99,319 crore) than 19.3 per cent (Rs.1,15,540 crore) in 1998-99. This development is, in part, indicative of the statistical bias introduced by the fact that the data as on the last reporting Friday of the year pertained to March 24, 2000, with one full week ahead of the last working day of the year, *viz*., March 31, 2000, dampening the impact of the year-end bulge in deposits on account, for instance, of interest rate applications. Demand deposits increased by Rs.9,943 crore (8.5 per cent) which was lower than Rs.14,910 crore (14.5 per cent) recorded during 1998-99. Time deposits also registered a lower increase of Rs.89,376 crore (15.0 per cent) than Rs.1,00,630 crore (20.3 per cent) during 1998-99 (Table II.6).

Bank Credit

2.5 Notwithstanding the lower growth in deposits during 1999-2000, bank credit enabled to a great extent by reductions in reserve requirements, recorded a higher order of expansion during the year and supported the recovery in industrial output. Both food credit and non-food credit accelerated during the year. Bank credit grew by 18.2 per cent (Rs.67,121 crore) in 1999-2000 as compared with 13.8 per cent (Rs.44,758 crore) in 1998-99. The expansion in food credit by Rs.8,875 crore (52.8 per cent) during 1999-2000 was more than double that of Rs.4,331 crore (34.7 per cent) during 1998-99. The non-food bank credit showed a higher order of expansion of 16.5 per cent (Rs.58,246 crore) as compared with an increase of 13.0 per cent (Rs.40,427 crore). As a result, the credit-deposit ratio moved up to 53.6 per cent as on March 24, 2000 from 51.7 per cent as on March 26, 1999 (Table II.6).

Investment and Cash Balances

2.6 Investments of scheduled commercial banks in government and other approved

Table II.2: Consolidated Balance Sheet of Scheduled Commercial Banks as on March 31, 1999 and 2000

(Amount in Rs. crore)

Item	As on March 31, 1999		As on March 31, 2000	
	Amount	% to total	Amount	% to total
1	2	3	4	5
Liabilities				
1. Capital	18,265.45	1.92	18,446.96	1.66
2. Reserves & Surplus	36,735.19	3.86	43,834.17	3.95
3. Deposits	7,71,128.85	81.11	9,00,306.82	81.08
3.1 Demand Deposits	1,09,526.70	11.52	1,29,339.08	11.65
3.2 Savings Bank Deposits	1,58,364.28	16.66	1,88,483.03	16.97
3.3 Term Deposits	5,03,237.87	52.93	5,82,484.71	52.46
4. Borrowings	40,158.68	4.22	45,359.77	4.09
5. Other Liabilities and Provisions	84,429.57	8.88	1,02,420.36	9.22
Total Liabilities	**9,50,717.74**	**100.00**	**11,10,368.08**	**100.00**
Assets				
1. Cash and balances with RBI	81,384.66	8.56	85,371.01	7.69
2. Balances with banks and money at call and short notice	88,840.68	9.34	81,019.26	7.30
3. Investments	3,39,633.43	35.72	4,13,871.40	37.27
3.1 In Govt. Securities (a+b)	2,30,151.75	24.21	2,88,178.35	25.95
a. In India	2,28,003.41	23.98	2,85,804.99	25.74
b. Outside India	2,148.34	0.23	2,373.36	0.21
3.2 In other approved Securities	27,401.64	2.88	25,242.66	2.27
3.3 In non-approved Securities	82,080.04	8.63	1,00,450.39	9.05
4. Loans and Advances	3,69,271.71	38.84	4,43,468.70	39.94
4.1 Bills purchased & discounted	37,076.63	3.90	43,051.23	3.88
4.2 Cash Credit, Overdrafts, etc.	2,03,618.33	21.42	2,41,595.71	21.76
4.3 Term Loans	1,28,576.75	13.52	1,58,821.76	14.30
5. Fixed Assets	14,494.10	1.52	15,480.21	1.39
6. Other Assets	57,093.16	6.01	71,157.50	6.41
Total Assets	**9,50,717.74**	**100.00**	**11,10,368.08**	**100.00**

Source : Balance sheets of respective banks.

securities increased by Rs.54,350 crore (21.3 per cent) in 1999-2000 as compared to a rise of Rs.35,889 crore (16.4 per cent) recorded in 1998-99. The investment-deposit ratio (on an outstanding basis) increased to 38.0 per cent as on March 24, 2000 from 35.7 per cent as on March 26, 1999. The cash balances-deposits ratio, declined to 7.7 per cent as on March 24, 2000 from 9.5 per cent as on March 26, 1999. The cash balances of scheduled commercial banks declined by Rs.5,161 crore (7.6 per cent) in 1999-2000 as against an increase of Rs.6,604 crore (10.8 per cent) in 1998-99 (Table II.6).

Table II.3: Consolidated Balance Sheet of Public Sector Banks as on March 31, 1999 and 2000

(Amount in Rs. Crore)

Item	Public Sector Banks				Nationalised Banks				State Bank Group			
	As on March 31, 1999 Amount	% to total	As on March 31, 2000 Amount	% to total	As on March 31, 1999 Amount	% to total	As on March 31, 2000 Amount	% to total	As on March 31, 1999 Amount	% to total	As on March 31, 2000 Amount	% to total
1	2	3	4	5	6	7	8	9	10	11	12	13
Liabilities												
1. Capital	14,405.64	1.87	14,233.68	1.60	13,369.84	2.76	13,197.88	2.38	1,035.80	0.36	1,035.80	0.31
2. Reserves & Surplus	27,446.60	3.56	31,818.72	3.57	15,277.32	3.15	17,334.98	3.13	12,169.28	4.26	14,483.74	4.31
3. Deposits	6,36,810.10	82.69	7,37,312.98	82.76	4,17,525.34	86.21	4,81,024.96	86.73	2,19,284.76	76.72	2,56,288.02	76.20
3.1 Demand Deposits	89,325.27	11.60	1,02,455.83	11.50	50,100.51	10.34	57,040.53	10.28	39,224.76	13.72	45,415.30	13.50
3.2 Savings Bank Deposits	1,45,133.62	18.84	1,71,129.98	19.21	99,214.83	20.49	1,15,932.32	20.90	45,918.79	16.06	55,197.66	16.41
3.3 Term Deposits	4,02,351.21	52.24	4,63,727.17	52.05	2,68,210.00	55.38	3,08,052.11	55.54	1,34,141.21	46.93	1,55,675.06	46.29
4. Borrowings	18,288.39	2.37	19,474.04	2.19	8,150.33	1.68	8,865.07	1.60	10,138.06	3.55	10,608.97	3.15
5. Other Liabilities and Provisions	73,194.19	9.50	88,112.31	9.89	29,987.37	6.19	34,202.29	6.17	43,206.82	15.12	53,910.02	16.03
Total Liabilities	**7,70,144.92**	**100.00**	**8,90,951.73**	**100.00**	**4,84,310.20**	**100.00**	**5,54,625.18**	**100.00**	**2,85,834.72**	**100.00**	**3,36,326.55**	**100.00**
Assets												
1. Cash and balances with RBI	68,522.04	8.90	70,782.91	7.94	45,142.81	9.32	45,569.34	8.22	23,379.23	8.18	25,213.57	7.50
2. Balances with banks and money at call and short notice	71,048.39	9.23	64,538.47	7.24	31,875.42	6.58	32,685.05	5.89	39,172.97	13.70	31,853.42	9.47
3. Investments	2,76,802.19	35.94	3,33,413.96	37.42	1,81,629.92	37.50	2,12,287.04	38.28	95,172.27	33.30	1,21,126.92	36.01
3.1 In Govt. Securities (a+b)	1,90,982.95	24.80	2,37,653.09	26.67	1,20,634.70	24.91	1,46,106.34	26.34	70,348.25	24.61	91,546.75	27.22
a. In India	1,88,939.00	24.53	2,35,353.80	26.42	1,18,775.99	24.52	1,44,127.98	25.99	70,163.01	24.55	91,225.82	27.12
b. Outside India	2,043.95	0.27	2,299.29	0.26	1,858.71	0.38	1,978.36	0.36	185.24	0.06	320.93	0.10
3.2 In other approved Securities	25,560.77	3.32	23,464.32	2.63	17,306.52	3.57	15,909.61	2.87	8,254.25	2.89	7,554.71	2.25
3.3 In non-approved Securities	60,258.47	7.82	72,296.55	8.11	43,688.70	9.02	50,271.09	9.06	16,569.77	5.80	22,025.46	6.55
4. Loans and Advances	2,96,959.13	38.56	3,52,109.31	39.52	1,88,534.01	38.93	2,23,075.68	40.22	1,08,425.12	37.93	1,29,033.63	38.37
4.1 Bills purchased & discounted	24,961.76	3.24	28,248.76	3.17	15,032.26	3.10	16,463.92	2.97	9,929.50	3.47	11,784.84	3.50
4.2 Cash Credit, Overdrafts, etc.	1,70,173.78	22.10	1,98,867.36	22.32	1,06,600.26	22.01	1,23,599.72	22.29	63,573.52	22.24	75,267.64	22.38
4.3 Term Loans	1,01,823.59	13.22	1,24,993.19	14.03	66,901.49	13.81	83,012.04	14.97	34,922.10	12.22	41,981.15	12.48
5. Fixed Assets	9,400.66	1.22	10,019.73	1.12	6,811.41	1.41	7,126.45	1.28	2,589.25	0.91	2,893.28	0.86
6. Other Assets	47,412.51	6.16	60,087.35	6.74	30,316.63	6.26	33,881.62	6.11	17,095.88	5.98	26,205.73	7.79
Total Assets	**7,70,144.92**	**100.00**	**8,90,951.73**	**100.00**	**4,84,310.20**	**100.00**	**5,54,625.18**	**100.00**	**2,85,834.72**	**100.00**	**3,36,326.55**	**100.00**

Source : Balance sheets of respective banks.

Table II.4: Consolidated Balance Sheet of Private Sector Banks as on March 31, 1999 and 2000

(Amount in Rs. Crore)

Item	All Private Sector Banks				Old Private Banks				New Private Banks			
	As on March 31, 1999		As on March 31, 2000		As on March 31, 1999		As on March 31, 2000		As on March 31, 1999		As on March 31, 2000	
	Amount	% to total	Amount	% to total	Amount	% to total	Amount	% to total	Amount	% to total	Amount	% to total
1	2	3	4	5	6	7	8	9	10	11	12	13
Liabilities												
1. Capital	1,729.07	1.66	1,808.45	1.32	505.54	0.77	558.61	0.72	1,223.53	3.18	1,249.84	2.12
2. Reserves & Surplus	4,221.49	4.06	6,342.18	4.64	3,058.22	4.67	3,753.24	4.83	1,163.27	3.02	2,588.94	4.40
3. Deposits	86,855.16	83.51	1,13,669.67	83.23	56,041.83	85.59	66,988.12	86.20	30,813.33	79.97	46,681.55	79.31
3.1 Demand Deposits	11,040.82	10.62	16,228.85	11.88	6,221.58	9.50	8,224.73	10.58	4,819.24	12.51	8,004.12	13.60
3.2 Savings Bank Deposits	9,352.20	8.99	12,521.27	9.17	7,808.59	11.93	9,506.98	12.23	1,543.61	4.01	3,014.29	5.12
3.3 Term Deposits	66,462.14	63.90	84,919.55	62.18	42,011.66	64.16	49,256.41	63.39	24,450.48	63.46	35,663.14	60.59
4. Borrowings	5,512.21	5.30	7,046.68	5.16	2,414.08	3.69	2,004.78	2.58	3,098.13	8.04	5,041.90	8.57
5. Other Liabilities and Provisions	5,687.73	5.47	7,699.50	5.64	3,455.12	5.28	4,404.55	5.67	2,232.61	5.79	3,294.95	5.60
Total Liabilities	**1,04,005.66**	**100.00**	**1,36,566.48**	**100.00**	**65,474.79**	**100.00**	**77,709.30**	**100.00**	**38,530.87**	100.00	**58,857.18**	100.00
Assets												
1. Cash and balances with RBI	8,622.28	8.29	10,658.19	7.80	5,868.64	8.96	6,814.35	8.77	2,753.64	7.15	3,843.84	6.53
2. Balances with banks and money at call and short notice	8,703.93	8.37	10,587.78	7.75	5,358.31	8.18	5,248.46	6.75	3,345.62	8.68	5,339.32	9.07
3. Investments	36,493.77	35.09	50,793.65	37.19	22,138.51	33.81	27,285.19	35.11	14,355.26	37.26	23,508.46	39.94
3.1 In Govt. Securities (a+b)	22,293.56	21.43	31,866.12	23.33	14,198.78	21.69	17,549.03	22.58	8,094.78	21.01	14,317.09	24.33
a. In India	22,189.17	21.33	31,792.05	23.28	14,094.39	21.53	17,474.96	22.49	8,094.78	21.01	14,317.09	24.33
b. Outside India	104.39	0.10	74.07	0.05	104.39	0.16	74.07	0.10	—	—	—	—
3.2 In other approved Securities	1,539.41	1.48	1,487.74	1.09	1,348.51	2.06	1,238.70	1.59	190.90	0.50	249.04	0.42
3.3 In non-approved Securities	12,660.80	12.17	17,439.79	12.77	6,591.22	10.07	8,497.46	10.93	6,069.58	15.75	8,942.33	15.19
4. Loans and Advances	42,789.23	41.14	55,742.21	40.82	27,748.96	42.38	33,585.99	43.22	15,040.27	39.03	22,156.22	37.64
4.1 Bills purchased & discounted	8,869.61	8.53	10,145.84	7.43	4,300.39	6.57	4,708.18	6.06	4,569.22	11.86	5,437.66	9.24
4.2 Cash Credit, Overdrafts, etc.	21,794.64	20.96	29,153.98	21.35	14,973.43	22.87	18,033.30	23.21	6,821.21	17.70	11,120.68	18.89
4.3 Term Loans	12,124.98	11.66	16,442.39	12.04	8,475.14	12.94	10,844.51	13.96	3,649.84	9.47	5,597.88	9.51
5. Fixed Assets	2,797.83	2.69	3,152.83	2.31	1,342.14	2.05	1,514.18	1.95	1,455.69	3.78	1,638.65	2.78
6. Other Assets	4,598.62	4.42	5,631.82	4.12	3,018.23	4.61	3,261.13	4.20	1,580.39	4.10	2,370.69	4.03
Total Assets	**1,04,005.66**	100.00	**1,36,566.48**	100.00	**65,474.79**	100.00	**77,709.30**	100.00	**38,530.87**	100.00	**58,857.18**	100.00

Source : Balance sheets of respective banks.

Table II.5: Consolidated Balance Sheet of Foreign Banks in India as on March 31, 1999 and 2000

(Amount in Rs. crore)

Item	Foreign Banks In India			
	As on March 31, 1999		As on March 31, 2000	
	Amount	% to total	Amount	% to total
1	2	3	4	5
Liabilities				
1. Capital	2,130.74	2.78	2,404.83	2.90
2. Reserves & Surplus	5,067.10	6.62	5,673.27	6.85
3. Deposits	47,463.59	61.99	49,324.17	59.53
3.1 Demand Deposits	9,160.61	11.96	10,654.40	12.86
3.2 Savings Bank Deposits	3,878.46	5.07	4,831.78	5.83
3.3 Term Deposits	34,424.52	44.96	33,837.99	40.84
4. Borrowings	16,358.08	21.36	18,839.05	22.74
5. Other Liabilities and Provisions	5,547.65	7.25	6,608.55	7.98
Total Liabilities	**76,567.16**	**100.00**	**82,849.87**	**100.00**
Assets				
1. Cash and balances with RBI	4,240.34	5.54	3,929.91	4.74
2. Balances with banks and money at call and short notice	9,088.36	11.87	5,893.01	7.11
3. Investments	26,337.47	34.40	29,663.79	35.80
3.1 In Govt. Securities (a+b)	16,875.24	22.04	18,659.14	22.52
a. In India	16,875.24	22.04	18,659.14	22.52
b. Outside India	—	—	—	—
3.2 In other approved Securities	301.46	0.39	290.60	0.35
3.3 In non-approved Securities	9,160.77	11.96	10,714.05	12.93
4. Loans and Advances	29,523.35	38.56	35,617.18	42.99
4.1 Bills purchased & discounted	3,245.26	4.24	4,656.63	5.62
4.2 Cash Credit, Overdrafts, etc.	11,649.91	15.22	13,574.37	16.38
4.3 Term Loans	14,628.18	19.11	17,386.18	20.99
5. Fixed Assets	2,295.61	3.00	2,307.65	2.79
6. Other Assets	5,082.03	6.64	5,438.33	6.56
Total Assets	**76,567.16**	**100.00**	**82,849.87**	**100.00**

Source : Balance sheets of respective banks.

2.7 The scheduled commercial banks can also invest their funds in various market instruments, *viz*., commercial paper, PSU bonds and the bonds floated by the corporate sector. The investments of SCBs in these instruments stood at Rs.61,429 crore as on March 24, 2000 showing an increase of 26.8 per cent (Rs.12,983 crore) over the level of Rs.48,446 crore as on March 26, 1999. The increase in these investments (including bills rediscounted) coupled with non-food bank credit aggregated to Rs.71,133 crore during 1999-2000 as

Table II.6: Important Banking Indicators-Scheduled Commercial Banks: 1998-99 and 1999-2000

(Amount in Rs. crore)

Item	Outstanding as on					Variations during Financial year		Variations during April - Sept.	
	March 27, 1998	March 26, 1999	March 24, 2000	Sept. 24, 1999	Sept. 22, 2000 *	1998-99	1999-2000	1999-2000	2000-2001*
1	2	3	4	5	6	7 (3-2)	8 (4-3)	9 (5-3)	10 (6-4)
1. Total Demand and Time Liabilities @	**6,78,730**	**8,20,443**	**9,48,358**	**8,77,376**	**10,06,933**	**141,713**	**127,915**	**56,933**	**58,575**
2. Aggregate Deposits (a+b)	**5,98,485**	**7,14,025**	**8,13,344**	**7,65,704**	**8,72,947**	**115,540 (19.3)**	**99,319 (13.9)**	**51,679 (7.2)**	**59,603 (7.3)**
(a) Demand Deposits	1,02,513	1,17,423	1,27,366	1,12,978	1,26,638	14,910 (14.5)	9,943 (8.5)	-4,445 -(3.8)	-728 -(0.6)
(b) Time Deposits	4,95,972	5,96,602	6,85,978	6,52,726	7,46,309	100,630 (20.3)	89,376 (15.0)	56,124 (9.4)	60,331 (8.8)
2a Certificates of Deposit	14,296	3,717	1,227	3,296	N.A.	-10,579 -(74.0)	-2,490 -(67.0)	-421 -(11.3)	– –
2b Aggregate Deposits (excl. Certificates of Deposit)	5,84,189	7,10,308	8,12,117	7,62,408	N.A.	126,119 (21.6)	101,809 (14.3)	52,100 (7.3)	– –
3. Borrowings from RBI	**395**	**2,894**	**6,491**	**4,204**	**5,292**	**2,499 (632.7)**	**3,597 (124.3)**	**1,310 (45.3)**	**-1,199 -(18.5)**
4. Liability to Banks	**32,287**	**45,204**	**53,838**	**48,238**	**53,303**	**12,917 (40.0)**	**8,634 (19.1)**	**3,034 (6.7)**	**-535 -(1.0)**
5. Bank Credit (a+b)	**3,24,079**	**3,68,837**	**4,35,958**	**3,80,657**	**4,66,826**	**44,758 (13.8)**	**67,121 (18.2)**	**11,820 (3.2)**	**30,868 (7.1)**
a. Food Credit	12,485	16,816	25,691	20,532	32,090	4,331 (34.7)	8,875 (52.8)	3,716 (22.1)	6,399 (24.9)
b. Non-food credit	3,11,594	3,52,021	4,10,267	3,60,125	4,34,736	40,427 (13.0)	58,246 (16.5)	8,104 (2.3)	24,469 (6.0)
c. Non-food credit excluding petroleum credit	3,08,902	3,47,373	–	–	–	38,471 (12.5)	– –	– –	– –
6. Investments (a+b)	**2,18,705**	**2,54,594**	**3,08,944**	**2,90,033**	**3,33,382**	**35,889 (16.4)**	**54,350 (21.3)**	**35,439 (13.9)**	**24,438 (7.9)**
a. Govt. Securities	1,86,957	2,23,217	2,78,456	2,58,983	3,02,390	36,260 (19.4)	55,239 (24.7)	35,766 (16.0)	23,934 (8.6)
b. Other Approved Sec.	31,748	31,377	30,488	31,050	30,992	-371 -(1.2)	-889 -(2.8)	-327 -(1.0)	504 (1.7)
7. Cash Balances (a+b)	**61,306**	**67,910**	**62,749**	**69,951**	**68,474**	**6,604 (10.8)**	**-5,161 -(7.6)**	**2,041 (3.0)**	**5,725 (9.1)**
a. Cash in hand	3,608	4,362	5,330	4,586	5,305	754 (20.9)	968 (22.2)	224 (5.1)	-25 -(0.5)
b. Balances with RBI	57,698	63,548	57,419	65,365	63,169	5,850 (10.1)	-6,129 -(9.6)	1,817 (2.9)	5,750 (10.0)
Memorandum Items :									
A Credit-Deposit (CD) Ratio	54.1	51.7	53.6	49.7	53.5				
B Non-food credit (excl. Petr. credit) / Deposit Ratio	51.6	48.6	–	–	–				
C Incremental CD Ratio	49.2	38.7	67.6	22.9 **	51.8 **				
D Cash Balance-Deposit Ratio	10.2	9.5	7.7	9.1	7.8				
E Investment/Deposit Ratio	36.5	35.7	38.0	37.9	38.2				
F Investment+Credit/Deposit Ratio	90.7	87.3	91.6	87.6	91.7				

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

compared with Rs.56,556 crore in 1998-99. In recent years, SCBs have increased their investments in instruments that fall outside the purview of SLR participation in response to growing relaxation of such regulations on banks' investments in such securities. In October 1993, scheduled commercial banks were allowed to invest in shares and debentures of corporates (including PSU bonds) up to 5.0 per cent of their incremental aggregate deposits of the previous year with a sub-ceiling of 1.5 per cent for corporate shares devolving as part of underwriting obligations. The sub-ceiling of 1.5 per cent was abolished in January 1994. Investments in PSU bonds were excluded from the 5.0 per cent ceiling in January 1994. Further, they were allowed to purchase shares and debentures in the secondary market within the existing 5.0 per cent ceiling in October 1996. Preference shares/non-convertible debentures/bonds of private sector bodies were excluded from the 5.0 per cent limit in April 1997. The current restriction on banks' investments relates to only ordinary shares, convertible debentures of corporates and units of equity oriented mutual funds. The ceiling on such investments has since been modified to 5.0 per cent of outstanding advances as on March 31 of the previous year, from the earlier prescription of 5.0 per cent of the incremental deposits in the previous year.

2.8 An examination of the fortnightly data available through the special returns reveals that there has been a deceleration in the banks' subscription of money and capital market instruments and issued by the non-financial commercial sector during 1999-2000 after a sharp increase during 1998-99 (Table II.7). After recording an increase of Rs.13,907 crore during 1997-98 and Rs.15,941 crore during 1998-99, such investments decelerated to Rs.12,983 crore during 1999-2000. Similarly, banks' investments in instruments of FIs and mutual funds decelerated to Rs.3,648 crore during 1999-2000 from Rs.8,904 crore in 1998-99. Consequently, after recording a sustained increase during 1996-97 to 1998-99, the share of non-SLR investments in the deployment of funds by scheduled commercial banks declined to 9.3 per cent during 1999-2000 from 15.3 per cent during 1998-99.

2.9 The Reserve Bank has circulated draft guidelines for banks' investments in non-SLR securities in June 2000 to ensure that such non-SLR investments are made on sound prudential considerations, with more transparency and guarding against potential risks. To ensure financial system stability and viability of the banking system, the Reserve Bank has also stipulated a market risk weight of 2.5 per cent in addition to the 100 per cent credit risk weight on non-SLR securities, effective March

Table II.7: Scheduled Commercial Banks' Investments in Non-SLR Securities Issued by the Non-financial Commercial Sector

(Rs. Crore)

	Outstanding as on	March 27, 1998	March 26, 1999	March 24, 2000
1.	Commercial Paper	2,443	4,006	5,066
2.	Bonds/Debentures/Preference Shares Issued by	28,545	42,033	53,501
	a) PSUs	18,767	24,174	30,586
	b) Private Corporate Sector	9,778	17,859	22,915
3.	Equity Shares *	1,472	2,342	2,841
4.	Loans to Corporates against shares	44	64	20
	Total	**32,505**	**48,446**	**61,429**

Notes: 1. * Issued by PSUs and private corporate sector.
2. Constituent figures may not add up to totals due to rounding off of figures.

31, 2001. The details of the draft guidelines on Non-SLR investments of banks are discussed in Chapter I.

Sectoral Deployment of Bank Credit

2.10 The gross bank credit of SCBs increased by 17.2 per cent (Rs.58,806 crore) in 1999-2000 as compared with an increase of 13.9 per cent (Rs.41,729 crore) in 1998-99. The sharp increase in bank credit resulted from 52.8 per cent increase in food credit (accounting for 6.4 per cent of gross bank credit as on March 24, 2000) and a 15.4 per cent increase in non-food gross bank credit (accounting for 93.6 per cent of gross bank credit as on the same date). This increase was brought about primarily by increases in credit to medium and large industry, the wholesale sector and other sectors (constituting the non-priority sector). Credit to priority sector increased by 15.0 per cent, which was marginally lower than 15.2 per cent in the previous year. Within the priority sector, credit to agriculture and small-scale industry showed a rise of 12.0 per cent and 8.9 per cent, respectively while credit to other priority sectors accelerated. Among the non-priority sectors, credit to medium and large industry, wholesale trade and other sectors increased by 12.9 per cent, 20.4 per cent and 19.8 per cent, respectively. An examination of the shares of different components of credit to other sectors in non-food gross bank credit shows that while the share of housing loans, consumer durables, advances against fixed deposits and other non-priority sector personal loans in non-food gross bank credit showed an increasing trend over the last three years, that of real estate loans remained sluggish (Table II.8).

Export Credit

2.11 In order to facilitate exports, the Reserve Bank provides refinance to banks for extending credit to exports. During 1999-2000, export credit refinance limits of SCBs increased from Rs.7,269 crore in March 1999 to Rs.10,579 crore in March 2000, due to the rise in aggregate export credit of SCBs from Rs.36,827 crore in March 1999 to Rs.40,460 crore in March 2000. The average utilisation of export credit refinance availed of by SCBs ranged between 37.2 per cent and 95.7 per cent during March 1999 to March 2000. Banks are required to lend a minimum 12 per cent of advances as export credit. During 2000-2001, the export credit refinance limit has further increased by 17.9 per cent to Rs.12,468 crore in July 2000 (Appendix Table II.1).

Industry-wise Deployment of Credit

2.12 The share of industrial credit in net bank credit declined from 52.7 per cent in 1998-99 to 50.3 per cent in 1999-2000. Credit increased by more than 20 per cent in the case of 9 industries out of the 26 categories of industries. The increase in credit was the highest at 62.6 per cent for the petroleum industry. The decline in credit was witnessed in the case of only two industries *viz*., mining and 'tobacco and tobacco products'as against declines reported in respect of as many as 7 industries in 1998-99. An analysis of industry-wise incremental deployment of gross bank credit indicates that during 1999-2000, chemicals, dyes, paints etc., received the maximum incremental share of 16.6 per cent, followed by petroleum (16.3 per cent), all engineering (7.4 per cent), infrastructure industries (6.1 per cent), gems and jewellery (6.1 per cent), cotton textiles (5.9 per cent) and food processing industries (5.8 per cent) (Table II.9).

Bank Credit to Sick/Weak Industries

2.13 The number of sick/weak industrial units financed by the SCBs increased substantially from 2,24,012 as at end-March 1998 to 3,09,013 as at end March 1999. The bank credit to sick industries showed an increase of

Table II.8: Sectoral Deployment of Gross Bank Credit by Major Sectors

(Amount in Rs. crore)

Sectors	Outstanding as on					Variations during			
						Financial year		April - June	
	March 27, 1998	March 26, 1999	March 24, 2000	June 18, 1999	June 30, 2000	1998-99 (3-2)	1999-2000 (4-3)	1998-99 (5-3)	1999-2000* (6-4)
1	2	3	4	5	6	7	8	9	10
I. Gross Bank Credit (1+2)	**3,00,283**	**3,42,012**	**4,00,818**	**3,38,654**	**4,21,479**	**41,729**	**58,806**	**-3,358**	**20,661**
1. Public Food Procurement Credit	12,485	16,816	25,691	22,221	33,182	4,331	8,875	5,405	7,491
2. Non-Food Gross Bank Credit (A+B+C+D)	2,87,798	3,25,196	3,75,127	3,16,433	3,88,297	37,398 [100.0]	49,931 [100.0]	-8,763 [100.0]	13,170 [100.0]
A. Priority Sectors	**99,507**	**1,14,611**	**1,31,827**	**1,13,933**	**1,35,923**	**15,104 (40.4)**	**17,216 (34.5)**	**-678 (7.7)**	**4,096 (31.1)**
(i) Agriculture	34,869	39,634	44,381	38,393	45,425	4,765 (12.7)	4,747 (9.5)	-1,241 (14.2)	1,044 (7.9)
(ii) Small Scale Industries	43,508	48,483	52,814	47,166	52,889	4,975 (13.3)	4,331 (8.7)	-1,317 (15.0)	75 (0.6)
(iii) Other Priority Sectors	21,130	26,494	34,632	28,374	37,609	5,364 (14.3)	8,138 (16.3)	1,880 -(21.5)	2,977 (22.6)
B. Industry (Medium & Large)	**1,17,530**	**1,30,516**	**1,47,319**	**1,23,983**	**1,52,759**	**12,986 (34.7)**	**16,803 (33.7)**	**-6,533 (74.6)**	**5,440 (41.3)**
C. Wholesale Trade (other than food procurement)	**13,217**	**13,965**	**16,818**	**13,966**	**17,724**	**748 (2.0)**	**2,853 (5.7)**	**1 (0.0)**	**906 (6.9)**
D. Other Sectors *of which :*	**57,544**	**66,104**	**79,163**	**64,551**	**81,891**	**8,560 (22.9)**	**13,059 (26.2)**	**-1,553 (17.7)**	**2,728 (20.7)**
(i) Housing	9,057	11,404	14,100	11,764	14,261	2,347 (6.3)	2,696 (5.4)	360 -(4.1)	161 (1.2)
(ii) Consumer durables	2,527	3,090	3,855	3,269	4,995	563 (1.5)	765 (1.5)	179 -(2.0)	1,140 (8.7)
(iii) Non-banking financial companies	6,227	6,082	7,178	5,565	7,014	-145 -(0.4)	1,096 (2.2)	-517 (5.9)	-164 -(1.2)
(iv) Loans to individuals	1,904	1,625	2,146	1,596	2,023	-279 -(0.7)	521 (1.0)	-29 (0.3)	-123 -(0.9)
(v) Real Estate Loans	1,899	1,625	1,644	1,668	1,601	-274 -(0.7)	19 (0.0)	43 -(0.5)	-43 -(0.3)
(vi) Other non-priority sector personal loans	10,133	12,289	15,409	12,166	14,820	2,156 (5.8)	3,120 (6.2)	-123 (1.4)	-589 -(4.5)
(vii) Advances against Fixed Deposits	11,815	15,106	18,876	16,405	19,282	3,291 (8.8)	3,770 (7.6)	1,299 -(14.8)	406 (3.1)
(viii) Tourism and tourism related hotels	822	612	900	694	1,088	-210	288 (0.6)	82 -(0.9)	188 (1.4)
II. Export Credit (included under item I.2)	**33,947**	**35,891**	**39,118**	**34,443**	**38,628**	**1,944**	**3,227**	**-1,448**	**-490**
III. Net Bank Credit (including inter-bank participation)	**2,97,265**	**3,39,477**	**3,98,205**	**3,36,273**	**4,19,447**	**42,212**	**58,728**	**-3,204**	**21,242**

Notes: 1. * Provisional.

2. Data relate to 50 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.

Net bank credit data are exclusive of bills rediscounted with RBI, IDBI, EXIM Bank and other approved finanical institutions.

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

24.1 per cent from Rs.15,682 crore as at end-March 1998 to Rs.19,464 crore as at end-March 1999. The outstanding bank credit to sick/weak industries as a proportion of bank credit to industrial sector increased from 9.7 per cent in 1997-98 to 10.9 per cent in 1998-99 (Appendix Table II.2).

Credit-Deposit Ratio

2.14 As per BSR data, the credit-deposit ratio of SCBs as on March 31, 2000 (as per sanctions) stood at 57.1 per cent as against 54.8 per cent at end-March 1999. The rise in credit-deposit ratio reflected improvement in activity as well as pick-up in credit demand. The region-wise distribution of the C-D ratio indicates that with the exception of northern and western regions, the remaining four regions witnessed a decline in the C-D ratio during the year 1999-2000. As on March 31, 2000 the C-D ratio was the highest at 88.0 per cent in the case of Tamil Nadu followed by that of Maharashtra (83.8 per cent) (Appendix Table II.3)

Lending to Sensitive Sectors

2.15 The exposure of scheduled commercial banks to sensitive sectors is limited in India as compared with that in other emerging market economies. As at the end of March 2000, the total amount extended to the sensitive sectors *viz.*, capital market, real estate and commodities by SCBs was Rs.19,669.0 crore constituting 4.4 per cent of total advances. An analysis of the lending pattern of different bank groups to sensitive sectors indicate that new private sector banks disbursed a maximum share of 16.0 per cent of total advances or Rs.3,550.8 crore to the sensitive sectors with capital market's share in its loans to the sensitive sectors being around 62.0 per cent. Old private sector banks disbursed 8.1 per cent of their total advances to the sensitive sectors with the share of real estate in total advances to the sensitive sector being 43.4 per cent. Foreign banks extended 7.2 per cent of total advances to the sensitive sectors. Among the bank groups, the State Bank group had the lowest level of exposure to sensitive sectors amounting to Rs.1,794.7 crore or 1.4 per cent of its total advances (Table II.10).

Stock Prices of Indian Banks

2.16 During the year 1999-2000 three banks *viz.*, Syndicate Bank, Centurion Bank Ltd. and Times Bank Ltd. raised equity capital amounting to Rs.193.75 crore through initial public offerings (IPOs) in the market. The number of banks listed on stock exchanges increased from 25 in 1998-99 to 29 in 1999-2000. As on March 31, 2000, the shares of 9 PSBs and 19 private sector banks were listed for secondary market trading on the National Stock Exchange (Table II.11). An examination of share prices of PSBs indicated that only two banks *viz.*, the State Bank of Bikaner and Jaipur and the Oriental Bank of Commerce showed increases of 18.3 per cent and 17.0 per cent respectively, while the share prices of the remaining seven banks displayed a decline, with the Bank of India showing a maximum decline of 22.0 per cent (Table II.12). Among the private sector banks, the share prices of all the banks listed on the NSE showed an improvement with five banks showing an increase of above 100 per cent during 1999-2000. The increase in the share price of ICICI Banking Corporation Ltd. was spectacular at 874.6 per cent, followed by HDFC Bank Ltd. (269.8 per cent), Nedungadi Bank Ltd.(187.9 per cent), UTI Bank Ltd. (182.6 per cent) and Global Trust Bank Ltd (152.6 per cent). As a result, the turnover in shares of all banks increased by16.3 per cent to Rs.30,982 crore in 1999-2000 from Rs.26,647 crore in 1998-99. The share of top five banks in total turnover declined marginally to 95.5 per cent in 1999-2000 from 96.4 per cent in 1998-99 (Table II.13). The contribution of bank scrips to total turn over in NSE also declined to 3.7 per cent during 1999-2000 from

Table II.9: Industry-wise Deployment of Gross Bank Credit

(Amount in Rs. crore)

Industry	Outstanding as on					Variations during			
	March 27,	March 26,	March 24,	June 18,	June 30,	Financial year		April - June	
	1998	1999	2000	1999	2000	1998-99	1999-2000	1998-2000	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)	1,61,038	1,78,999	2,00,133	1,71,149	2,05,648	17,961	21,134	-7,850	5,515
1. Coal	801	1,114	1,126	1,032	1,227	313	12	-82	101
2. Mining	975	1,360	1,240	1,349	1,318	385	-120	-11	78
3. Iron & Steel	15,767	18,291	18,799	17,998	18,813	2,524	508	-293	14
4. Other Metals and Metal Products	5,193	5,918	6,294	5,717	6,328	725	376	-201	34
5. All Engineering	22,833	21,513	23,069	20,598	23,292	-1,320	1,556	-915	223
of which : Electronics	4,472	4,872	5,133	4635	5309	400	261	-237	176
6. Electricity	4,652	6,813	7,438	6,960	8,403	2,161	625	147	965
7. Cotton Textiles	9,331	10,430	11,682	10,433	11,838	1,099	1,252	3	156
8. Jute Textiles	1,089	844	894	820	741	-245	50	-24	-153
9. Other Textiles	10,651	12,000	13,003	12,187	13,705	1,349	1,003	187	702
10. Sugar	2,959	3,338	3,832	3,399	4,348	379	494	61	516
11. Tea	1,028	825	1,034	775	954	-203	209	-50	-80
12. Food Processing	4,134	4,750	5,986	4,746	6,370	616	1,236	-4	384
13. Vegetable Oils and vanaspati	2,296	2,710	2,958	2,555	2,794	414	248	-155	-164
14. Tobacco and Tobbaco Products	1,076	1,005	993	891	932	-71	-12	-114	-61
15. Paper and Paper Products	2,742	2,938	3,143	2,902	3,083	196	205	-36	-60
16. Rubber and Rubber products	2,534	2,014	2,063	1,818	2,041	-520	49	-196	-22
17. Chemicals, Dyes, Paints, etc.	18,120	19,929	23,440	19,629	24,812	1,809	3,511	-300	1,372
of which :									
i) Fertilisers	2,910	3,577	4,577	3,061	5,292	667	1,000	-516	715
ii) Petrochemicals	2,956	4,748	6,185	4,499	6,806	1,792	1,437	-249	621
iii) Drugs & Pharmaceuticals	5,219	5,323	5,693	5,415	5,535	104	370	92	-158
18. Cement	2,502	2,746	3,624	2,846	3,835	244	878	100	211
19. Leather and Leather products	2,478	2,542	2,664	2,446	2,527	64	122	-96	-137
20. Gems and Jewellery	3,530	4,124	5,406	4,140	5,800	594	1,282	16	394
21. Construction	2,646	2,569	2,736	2,333	2,596	-77	167	-236	-140
22. Petroleum	6,155	5,516	8,969	3,898	8,025	-639	3,453	-1,618	-944
23. Automobiles including trucks	2,870	3,128	4,028	3,525	4,458	258	900	397	430
24. Computer Software	616	747	1,022	663	1,038	131	275	-84	16
25. Infrastructure	3,163	5,945	7,243	6,137	8,636	2,782	1,298	192	1,393
of which :									
i) Power	697	2,109	3,289	2,625	4,035	1,412	1,180	516	746
ii) Telecommunications	2,045	2,273	1,992	1,946	2,516	228	-281	-327	524
iii) Roads and Ports	421	1,563	1,962	1,566	2,085	1,142	399	3	123
26. Other Industries	30,897	35,890	37,447	31,352	37,734	4,993	1,557	-4,538	287
Memorandum Item :									
Industrial Credit as proportion to Net Bank Credit	54.2	52.7	50.3	50.9	49.0				

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.

Table II.10: Lending to Sensitive Sectors - 1999-2000

(Amount in Rs. crore)

Bank-group	Advances to			Total
	Capital Market	Real Estate	Commodities	
1	2	3	4	5
Public Sector Banks	746.97	4,686.97	5,386.02	10,819.96
	(0.21)	(1.33)	(1.53)	(3.07)
Nationalised Banks	673.77	4,009.63	4,341.82	9,025.22
	(0.30)	(1.80)	(1.95)	(4.05)
State Bank Group	73.20	677.34	1,044.20	1,794.74
	(0.06)	(0.52)	(0.81)	(1.39)
All Private Sector Banks	2,597.32	1,860.58	1,815.43	6,273.33
	(4.66)	(3.34)	(3.26)	(11.25)
Old Private Sector Banks	404.56	1,180.34	1,137.60	2,722.50
	(1.20)	(3.51)	(3.39)	(8.11)
New Private Sector Banks	2,192.76	680.24	677.83	3,550.83
	(9.90)	(3.07)	(3.06)	(16.03)
Foreign Banks in India	1,546.20	695.96	333.53	2,575.69
	(4.34)	(1.95)	(0.94)	(7.23)
Scheduled Commercial Banks	**4,890.49**	**7,243.51**	**7,534.98**	**19,668.98**
	(1.10)	**(1.63)**	**(1.70)**	**(4.44)**

Note : Figures in brackets are percentage to Total Loans & Advances of the concerned Bank-group and for SCBs.

6.4 per cent in 1998-99 primarily due to sharp improvement in the overall turn over in the NSE.

2. Financial Performance of Scheduled Commercial Banks

2.17 The details of performance in terms of selected financial parameters of major bank groups in terms of operating profit, net profit, income, interest income, other income, expenditure, interest expended, operating expenses, wage bill, provisions and contingencies and spread in respect of SCBs and among major groups of banks are discussed below.

2.18 There was a marked improvement in the profits of scheduled commercial banks during 1999-2000 as compared with the performance in 1998-99. The net profit of SCBs rose by as much as 62.7 per cent and amounted to Rs.7,306.4 crore during 1999-2000 as compared with Rs.4,490.3 crore during 1998-99. The improvement in profit performance to a large extent was driven by the State Bank group. The share of the State Bank group in total net profits increased from 32.6 per cent in 1998-99 to 36.6 per cent in 1999-2000 and that of private sector banks from 15.8 per cent in 1998-99 to 16.8 per cent in 1999-2000 (Chart II.1). The share of foreign banks increased from 11.8 per cent in 1998-99 to 13.3 per cent in 1999-2000. As against this, the shares of nationalised banks declined from 39.8 per cent in 1998-99 to 33.4 per cent in 1999-2000. A comparative analysis of the profit performance (in terms of the ratio of operating profit as percentage to total assets) indicate that the State Bank group, SCBs and

Table II.11: Listed Banks on NSE

Sr. No.	Name of the Bank	Date of Commencement of Trading on NSE
	Public Sector Banks	
1	State Bank of India	October 24, 1994
2	Oriental Bank of Commerce	February 8, 1995
3	Dena Bank	January 22, 1997
4	Bank of Baroda	February 26, 1997
5	Bank of India	May 7, 1997
6	Corporation Bank	December 5, 1997
7	State Bank of Bikaner & Jaipur	February 4, 1998
8	State Bank of Travancore	March 3, 1998
9	Syndicate Bank	December 27, 1999
	Private Sector Banks	
1	Federal Bank Ltd.	November 26, 1994
2	The Bank of Rajasthan Ltd.	December 28, 1994
3	United Western Bank Ltd.	February 8, 1995
4	Karur Vysya Bank Ltd.	May 10, 1995
5	Lakshmi Vilas Bank Ltd.	May 10, 1995
6	Vysya Bank Ltd.	May 10, 1995
7	Bank of Madura Ltd.	September 18, 1996
8	Nedungadi Bank Ltd.	September 11, 1996
9	Bank of Punjab Ltd.	June 14, 1995
10	HDFC Bank Ltd.	June 14, 1995
11	Global Trust Bank Ltd.	November 26, 1994
12	ICICI Banking Corporation Ltd.	September 24, 1997
13	Indusind Bank Ltd.	January 29, 1998
14	J & K Bank Ltd.	August 3, 1998
15	City Union Bank Ltd.	September 9, 1998
16	UTI Bank Ltd.	December 3, 1998
17	The South Indian Bank Ltd.	December 14, 1998
18	IDBI Bank Ltd.	April 15, 1999
19	Times Bank Ltd.*	September 17, 1999
20	Centurion Bank Ltd.	December 8, 1999

Note: * The scrip of Times Bank Ltd. was suspended from March 1, 2000 on account of its merger with HDFC Bank Ltd.
Source : NSE, Mumbai.

Table II.13: Turnover Details of Bank Shares

(Rs. crore)

Item	Turnover	
	1998-99	1999-2000
All Banks	26,647	30,982
Top 5 Banks	25,687	29,600
NSE Total (incl.bank shares)	4,14,474	8,39,051
% all Banks to NSE Total	6.43	3.69
% Top 5 Banks to All Banks	96.40	95.54

Source: NSE, Mumbai.

Table II.12: Share Price Changes in Banks

Sr. No.	Name of the Bank	Closing Price 1998-99	Closing Price 1999-2000	Change in Share Price
	Public Sector Banks			
1	Bank of Baroda	46.45	46.00	-0.97
2	Bank of India	20.05	15.65	-21.95
3	Corporation Bank	78.10	76.40	-2.18
4	Dena Bank	12.10	11.30	-6.61
5	Oriental Bank of Commerce	31.50	36.85	16.98
6	State Bank of Bikaner & Jaipur	228.25	270.00	18.29
7	State Bank of India	213.10	204.75	-3.92
8	State Bank of Travancore	226.00	210.00	-7.08
9	Syndicate Bank	-	10.00	-
	Private Sector Banks			
1	Bank of Madura Ltd.	57.50	101.50	76.52
2	Bank of Punjab Ltd.	11.15	14.20	27.35
3	Bank of Rajasthan Ltd.	17.65	18.40	4.25
4	Centurion Bank Ltd.	-	17.90	-
5	City Union Bank Ltd.	15.80	19.15	21.20
6	Federal Bank Ltd.	35.30	53.00	50.14
7	Global Trust Bank Ltd.	32.60	82.35	152.61
8	HDFC Bank Ltd.	69.55	257.20	269.81
9	ICICI Banking Coprn.Ltd.	27.40	267.05	874.64
10	IDBI Bank Ltd.	-	29.55	-
11	Indusind Bank Ltd.	19.00	27.80	46.32
12	J & K Bank Ltd.	28.00	36.15	29.11
13	Karur Vysya Bank Ltd.	97.65	185.55	90.02
14	Laxmi Vilas Bank Ltd.	33.80	38.50	13.91
15	Nedungadi Bank Ltd.	37.65	108.40	187.92
16	The South Indian Bank Ltd.	16.60	17.50	5.42
17	United Western Bank Ltd.	22.10	28.50	28..96
18	UTI Bank Ltd.	14.05	39.70	182.56
19	Vysya Bank Ltd.	107.00	125.30	17.10

Source : NSE, Mumbai.

nationalised banks were below the median value of 1.79 per cent and the new private sector banks and foreign banks above the median (Chart II.2). In the case of net profit as percentage of total assets, (0.82 per cent median represented by the performance of the State Bank group), SCBs and nationalised banks were below the median value while old and new private sector banks and foreign banks remained above the median value (Chart II.3)

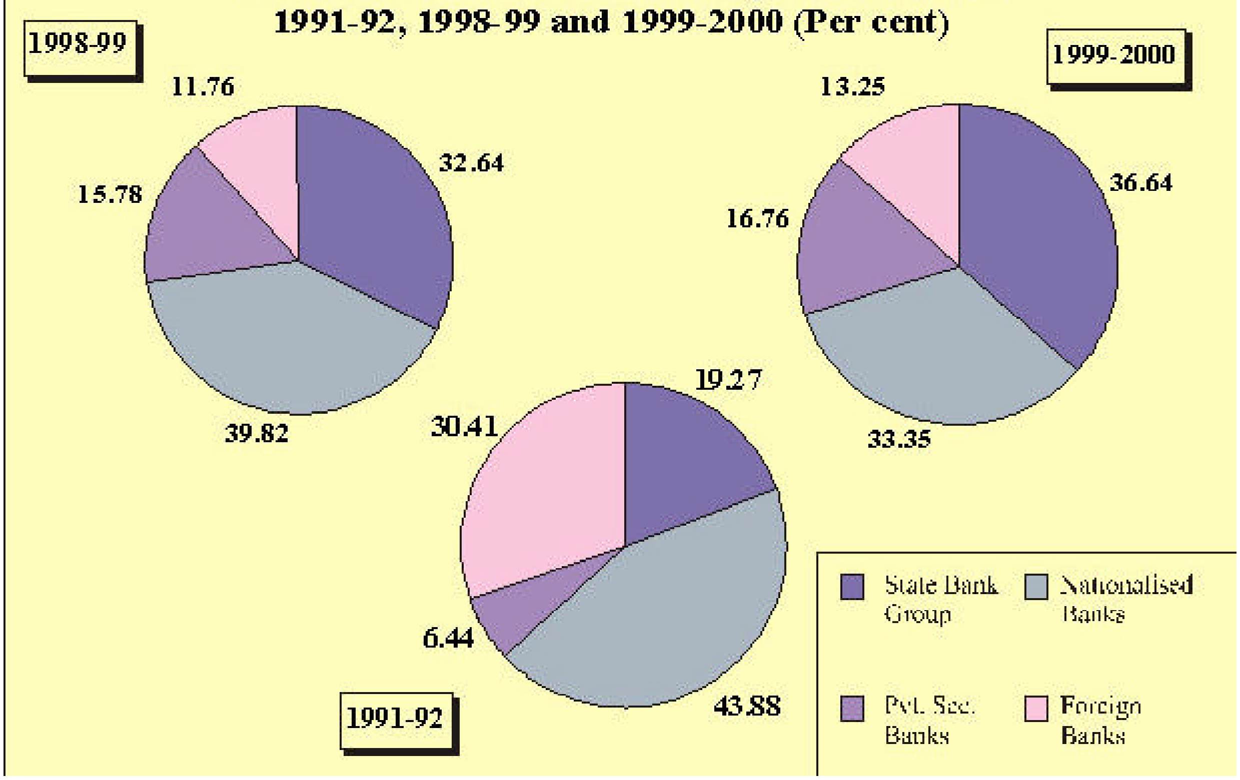
Operating Profit

2.19 The operating profits of SCBs increased by 33.4 per cent to Rs.18,423.4 crore in 1999-2000 from Rs.13,810.7 crore in 1998-99, while the operating profits of PSBs increased by 23.7 per cent to Rs.13,064.0 crore in 1999-2000 from Rs.10,560.8 crore in 1998-99. Among the bank groups, the new private sector banks showed the highest increase in operating profits at 81.8 per cent from Rs.684.3 crore in 1998-99 to Rs.1,243.8 crore in 1999-2000 followed by old private banks with an increase of 80.4 per cent from Rs. 792.2 crore in 1998-99 to Rs.1,428.9 crore in 1999-2000, and then by foreign banks showing an increase at 51.5 per cent from Rs.1,773.5 crore in 1998-99 to Rs.2,686.6 crore in 1999-2000. The operating profits of the State Bank group increased by 25.6 per cent from Rs.4,648.1 crore in 1998-99 to Rs.5,839.1 crore in 1999-2000 [Appendix Tables II.4(A) to (G)]. The relative position of PSBs in terms of operating and net profit as percentage of total assets in terms of the median, excluding three weak banks, are shown in (Chart II.4 and Chart II.5). The ratio of operating profits to total assets of all SCBs increased from 1.45 per cent in 1998-99 to 1.66 per cent in 1999-2000 (Chart II.6). There was an overall improvement in this ratio among all the bank groups during 1999-2000. In the case of PSBs, the ratio increased from 1.37 per cent in 1998-99 to 1.47 per cent in 1999-2000. The State Bank group showed an increase from 1.63 per cent in 1998-99 to 1.74 per cent in 1999-2000. The ratio increased from 1.21 per cent to 1.84 per cent in respect of old private sector banks. The nationalised banks showed a marginal improvement from 1.22 per cent in 1998-99 to 1.30 per cent in 1999-2000. The increase in the ratio of operating profits to total assets was maximum in the case of foreign banks at 0.92 percentage point from 2.32 per cent in 1998-99 to 3.24 per cent in 1999-2000 (Table II.14).

Net Profit

2.20 The net profits of SCBs increased by 62.7 per cent to Rs.7,306.4 crore in 1999-2000 from Rs.4,490.3 crore in 1998-99. Among the bank groups, old private sector banks recorded the maximum percentage increase (110.3 per cent) in net profits from Rs.311.5 crore in

Chart II.1: Shares of Bank Groups in Net Profit: 1991-92, 1998-99 and 1999-2000 (Per cent)



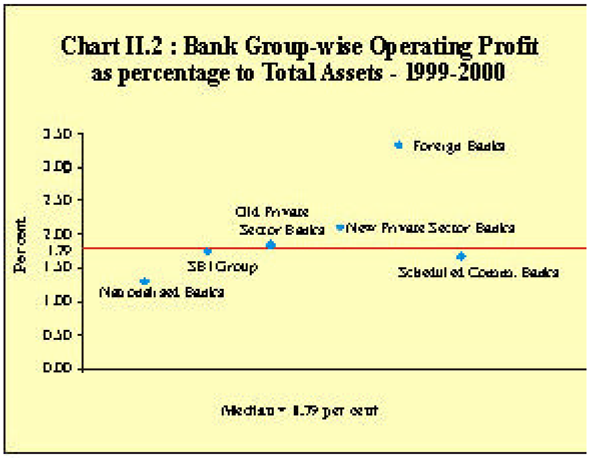


Chart II.2 : Bank Group-wise Operating Profit as percentage to Total Assets - 1999-2000

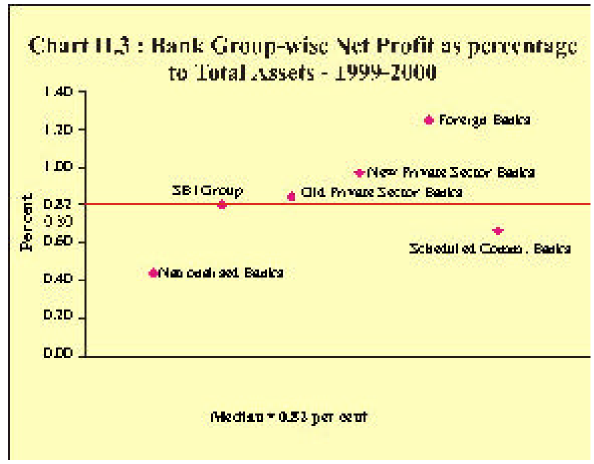


Chart II.3 : Bank Group-wise Net Profit as percentage to Total Assets - 1999-2000

1998-99 to Rs.655.1 crore in 1999-2000 followed by the State Bank group (82.6 per cent) from Rs.1,465.7 crore in 1998-99 to Rs.2,676.9 crore in 1999-2000. The increase in net profit was minimum (36.3 per cent) in the case of 19 nationalised banks in 1999-2000. In line with the trends in the ratio of operating profits to total assets, there was a distinct improvement in the ratio of net profit to total assets among all the bank groups except in the case of new private sector banks which showed a decline [Appendix Tables II.4(A) to (G)]. The ratio of net profit to total assets of SCBs increased from 0.47 per cent in 1998-99 to 0.66 per cent in 1999-2000 (Chart II.7). In the case of PSBs, the ratio increased from 0.42 per cent in 1998-99 to 0.57 per cent in 1999-2000. The State Bank group showed an increase from 0.51 per cent in 1998-99 to 0.80 per cent in 1999-2000. The net profit ratio increased from 0.48 per cent in 1998-99 to 0.84 per cent in 1999-2000 in respect of old private sector banks. The nationalised banks showed a marginal improvement from 0.37 per cent in 1998-99 to 0.44 per cent in 1999-2000. The ratio of net profits to total assets recorded a maximum increase in the case of foreign banks at 0.48 percentage point from 0.69 per cent in 1998-99 to 1.17 per cent in 1999-2000 (Table II.15).

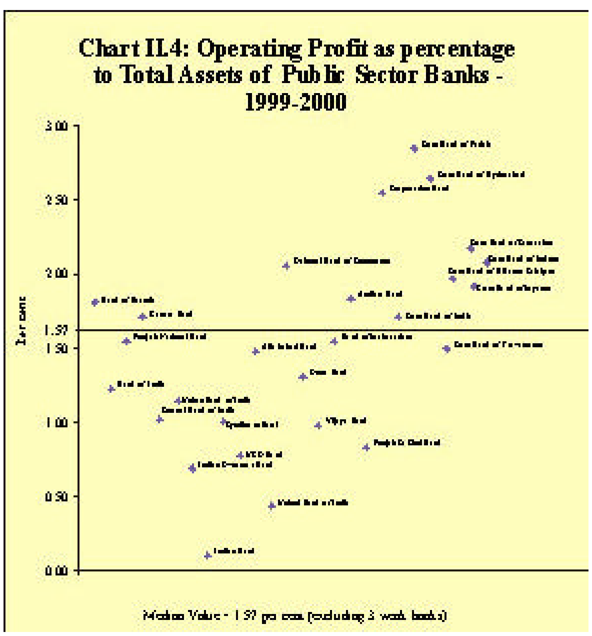


Chart II.4: Operating Profit as percentage to Total Assets of Public Sector Banks - 1999-2000

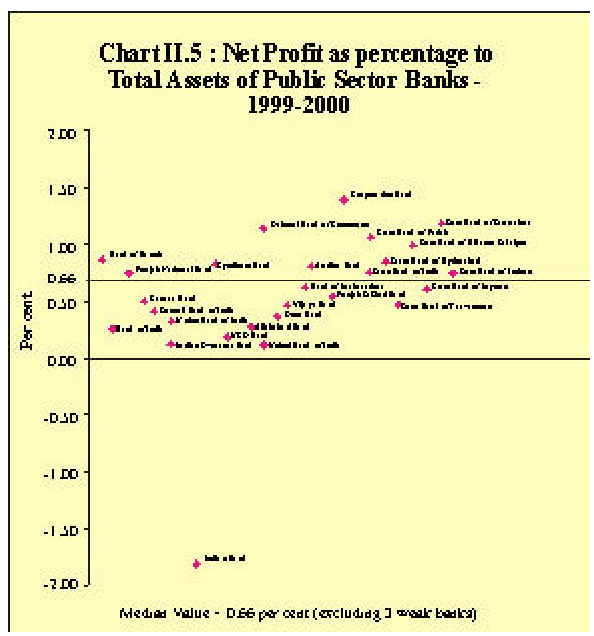


Chart II.5 : Net Profit as percentage to Total Assets of Public Sector Banks - 1999-2000

Table II.14: Bank Group-wise Operating Profit as percentage of Total Assets: 1995-96 to 1999-2000

(Per cent)

Bank Group	1995-96	1996-97	1997-98	1998-99	1999-2000
Scheduled Commercial Banks	1.69	1.82	1.84	1.45	1.66
Public Sector Banks	1.49	1.60	1.58	1.37	1.47
Nationalised Banks	1.14	1.26	1.33	1.22	1.30
State Bank of India & its Associates	2.10	2.18	2.03	1.63	1.74
Old Private Sector Banks	2.10	1.89	1.97	1.21	1.84
New Private Sector Banks	2.77	2.98	2.86	1.78	2.11
Foreign Banks	3.35	3.62	3.91	2.32	3.24

The increase in net profit was the outcome of a sharper rise in income than that in expenditure, mainly on account of a notable increase in 'other income' coupled with a subdued growth in operating expenses.

Income

2.21 The income of SCBs recorded an increase of 15.3 per cent from Rs.1,00,062 crore in 1998-99 to Rs.1,15,386.0 crore in 1999-2000. The income of PSBs also showed an increase of around 15.3 per cent from Rs.78,850.4 crore in 1998-99 to Rs.90,900.4 crore in 1999-2000. There was a compositional shift in favour of non-interest income reflecting the increasing importance of non-fund based activities of the banking sector. Among the individual bank groups, new private sector banks recorded the highest proportional increase in income (30.9 per cent) from Rs.4,130.5 crore in 1998-99 to Rs.5,407.5 crore in 1999-2000, followed by old private sector banks (18.9 per cent) from Rs.7,362.1 crore in 1998-99 to Rs.8,749.9 crore in 1999-2000. The State Bank group recorded an increase of 15.9 per cent from Rs.29,349.4 crore in 1998-99 to Rs.34,014.6 crore in 1999-2000. The foreign banks registered the lowest increase (6.3 per cent) in income from Rs.9,719.0 crore in 1998-99 to Rs.10,328.2 crore in 1999-2000 [Appendix Tables II.4(A) to (G)]. The ratio of income to total assets of SCBs declined marginally from 10.52 per cent in 1998-99 to 10.39 per cent in 1999-2000. There was an overall decline in this ratio among bank groups during 1999-2000 excepting the nationalised banks and old private sector banks. In the case of PSBs the ratio declined marginally from 10.24 per cent in 1998-99 to 10.20 per cent in 1999-2000. The State Bank group showed a fall from 10.27 per cent in 1998-99 to 10.11 per cent in 1999-2000. The ratio increased from 11.24 per cent in 1998-99 to 11.26 per cent in 1999-2000 in respect of old private sector banks. The nationalised banks also showed an

Chart II.6 : Bank Group-wise Operating Profit to Total Assets of Scheduled Commercial Banks: 1998-99 and 1999-2000

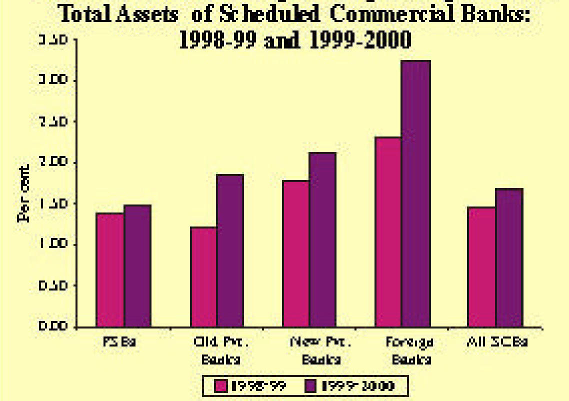


Table II.15: Bank Group-wise Net Profit as Percentage of Total Assets: 1995-96 to 1999-2000

(Per cent)

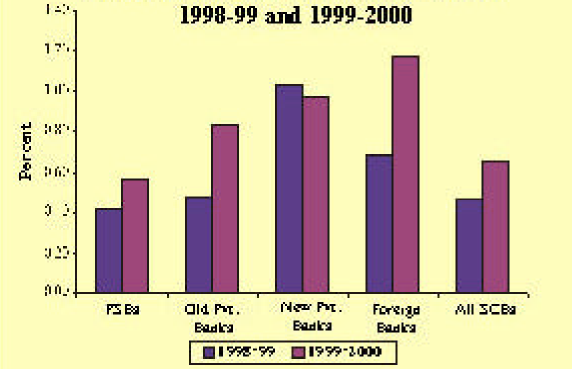
Bank Group	1995-96	1996-97	1997-98	1998-99	1999-2000
Scheduled Commercial Banks	0.16	0.67	0.82	0.47	0.66
Public Sector Banks	-0.07	0.57	0.77	0.42	0.57
Nationalised Banks	-0.36	0.41	0.62	0.37	0.44
State Bank of India & its Associates	0.42	0.84	1.06	0.51	0.80
Old Private Sector Banks	1.06	0.91	0.81	0.48	0.84
New Private Sector Banks	1.85	1.73	1.55	1.03	0.97
Foreign Banks	1.58	1.19	0.97	0.69	1.17

improvement from 10.22 per cent in 1998-99 to 10.26 per cent in 1999-2000. In the case of foreign banks, the ratio declined from 12.69 per cent in 1998-99 to 12.47 per cent in 1999-2000 (Table II.16).

Interest Income

2.22 The interest income of SCBs recorded an increase of around 14.0 per cent from Rs.87,312.0 crore in 1998-99 to Rs.99,506.9 crore in 1999-2000. Among the individual bank groups, new private sector banks showed the highest percentage increase (25.1 per cent) from 3,540.9 crore in 1998-99 to Rs.4,429.2 crore in 1999-2000 followed by the State Bank group(16.2 per cent) from Rs.25,126.2 crore in 1998-99 to Rs.29,186.7 crore in 1999-2000 while the foreign banks showed the lowest increase (4.0 per cent) from Rs.7,860.3 crore in 1998-99 to Rs.8,176.0 crore in 1999-2000 [Appendix Tables II.4(A) to (G)]. The ratio of interest income to total assets of SCBs declined from 9.18 per cent in 1998-99 to 8.96 per cent in 1999-2000. The ratio of interest income to total assets declined in respect of all bank groups during 1999-2000. In the case of PSBs, the ratio declined from 9.01 per cent in 1998-99 to 8.92 per cent in 1999-2000. The State Bank group registered a fall from 8.79 per cent in 1998-99 to 8.68 per cent in 1999-2000. The ratio declined from 9.92 per cent in 1998-99 to 9.58 per cent in 1999-2000 in respect of old private sector banks. The nationalised banks also showed a decline from 9.15 per cent in 1998-99 to 9.06 per cent in 1999-2000. In the case of foreign banks, the ratio declined from 10.27 per cent in 1998-99 to 9.87 per cent in 1999-2000 (Table II.17). The subdued growth in interest income when compared to the growth in assets could be attributed to some softening in the interest rates during the year.

Chart II.7: Bank Group-wise Net Profit to Total Assets of Scheduled Commercial Banks: 1998-99 and 1999-2000



Other Income

2.23 The other income mainly comprising

Table II.16: Bank Group-wise Income as Percentage of Total Assets: 1995-96 to 1999-2000

(Per cent)

Bank Group	1995-96	1996-97	1997-98	1998-99	1999-2000
Scheduled Commercial Banks	10.86	11.33	10.79	10.52	10.39
Public Sector Banks	10.61	11.01	10.42	10.24	10.20
Nationalised Banks	10.37	10.79	10.28	10.22	10.26
State Bank of India & its Associates	11.02	11.39	10.68	10.27	10.11
Old Private Sector Banks	11.71	12.12	11.71	11.24	11.26
New Private Sector Banks	11.08	12.17	11.67	10.72	9.19
Foreign Banks	12.83	13.57	13.36	12.69	12.47

Table II.17: Bank Group-wise Interest Income as Percentage of Total Assets: 1995-96 to 1999-2000

(Per cent)

Bank Group	1995-96	1996-97	1997-98	1998-99	1999-2000
Scheduled Commercial Banks	9.36	9.88	9.27	9.18	8.96
Public Sector Banks	9.20	9.69	9.10	9.01	8.92
Nationalised Banks	9.22	9.65	9.09	9.15	9.06
State Bank of India & its Associates	9.17	9.75	9.11	8.79	8.68
Old Private Sector Banks	10.15	10.65	10.00	9.92	9.58
New Private Sector Banks	9.25	10.14	9.27	9.19	7.53
Foreign Banks	10.46	11.08	10.42	10.27	9.87

'commission, exchange, brokerage', profit on sale of investments, lease income and profit on exchange transactions of SCBs registered an increase of 24.5 per cent from Rs.12,750.0 crore in 1998-99 to Rs.15,879.1 crore in 1999-2000. Among the bank groups, the new private sector banks recorded the highest increase (65.9 per cent) from Rs.589.6 crore in 1998-99 to Rs.978.3 crore in 1999-2000 followed by old private sector banks (50.6 per cent) from Rs.868.7 crore in 1998-99 to Rs.1,308.0 crore in 1999-2000 (Table II.18). The State Bank group showed the lowest increase in other income (14.3 per cent) from Rs.4,223.3 crore in 1998-99 to Rs.4,827.9 crore in 1999-2000 [Appendix Tables II.4(A) to (G)]. There was an improvement in the ratio of other income to total assets among all the groups of banks barring the State Bank group during 1999-2000. The ratio of other income to total assets of SCBs increased from 1.34 per cent in 1998-99 to 1.43 per cent in 1999-2000. In the case of PSBs the ratio increased from 1.22 per cent in 1998-99 to

Table II.18: Bank Group-wise Other Income as Percentage of Total Assets: 1995-96 to 1999-2000

(Per cent)

Bank Group	1995-96	1996-97	1997-98	1998-99	1999-2000
Scheduled Commercial Banks	1.50	1.45	1.52	1.34	1.43
Public Sector Banks	1.41	1.32	1.33	1.22	1.28
Nationalised Banks	1.15	1.14	1.19	1.08	1.19
State Bank of India & its Associates	1.85	1.64	1.57	1.48	1.44
Old Private Sector Banks	1.56	1.48	1.71	1.33	1.68
New Private Sector Banks	1.82	2.03	2.40	1.53	1.66
Foreign Banks	2.37	2.49	2.94	2.43	2.60

1.28 per cent in 1999-2000. The State Bank group showed a fall from 1.48 per cent in 1998-99 to 1.44 per cent in 1999-2000. In respect of old private sector banks, the ratio increased from 1.33 per cent in 1998-99 to 1.68 per cent in 1999-2000. The nationalised banks showed an improvement from 1.08 per cent in 1998-99 to 1.19 per cent in 1999-2000. The ratio increased from 2.43 per cent in 1998-99 to 2.60 per cent in 1999-2000 in the case of foreign banks.

Expenditure

2.24 The expenditure of SCBs registered an increase of 13.1 per cent from Rs.95,571.7 crore in 1998-99 to Rs.1,08,079.6 crore in 1999-2000. Among the bank groups, new private sector banks recorded the maximum increase (29.6 per cent) from Rs.3,733.4 crore in 1998-99 to Rs.4,838.1 crore in 1999-2000, followed by old private sector banks (14.8 per cent) from Rs.7,050.7 crore in 1998-99 to Rs.8,094.8 crore in 1999-2000. The foreign bank group showed the lowest increase in expenditure at around 1.8 per cent from Rs.9,191.0 crore in 1998-99 to Rs. 9,360.2 crore in 1999-2000 [Appendix Tables II.4(A) to (G)]. The ratio of expenditure to total assets of scheduled commercial banks declined marginally from 10.05 per cent in 1998-99 to 9.73 per cent in 1999-2000. There was an overall decline in this ratio among all bank groups during 1999-2000. In the case of PSBs, the ratio declined from 9.82 per cent in 1998-99 to 9.63 per cent in 1999-2000. The State Bank group showed a fall from 9.76 per cent in 1998-99 to 9.32 per cent in 1999-2000. In the case of old private sector banks, the ratio declined from 10.77 per cent in 1998-99 to 10.42 per cent in 1999-2000. The nationalised banks exhibited a decline from 9.85 per cent in 1998-99 to 9.82 per cent in 1999-2000. In the case of foreign banks, the ratio declined from 12.0 per cent in 1998-99 to 11.3 per cent in 1999-2000 (Table II.19).

Interest Expended

2.25 The interest expended of SCBs showed an increase of 13.8 per cent from Rs.60,905.0 crore in 1998-99 to Rs.69,317.0 crore in 1999-2000. Among the bank groups, new private sector banks exhibited the maximum increase (19.8 per cent) from Rs.2,776.9 crore in 1998-99 to Rs.3,326.6 crore in 1999-2000, followed by the State Bank group (17.2 per cent) from Rs.16,982.8 crore in 1998-99 to Rs.19,897.1 crore in 1999-2000. The foreign banks group recorded a decline (4.1 per cent) in interest

Table II.19: Bank Group-wise Expenditure as Percentage of Total Assets: 1995-96 to 1999-2000

(Per cent)

Bank Group	1995-96	1996-97	1997-98	1998-99	1999-2000
Scheduled Commercial Banks	10.70	10.66	9.98	10.05	9.73
Public Sector Banks	10.68	10.45	9.65	9.82	9.63
Nationalised Banks	10.73	10.38	9.66	9.85	9.82
State Bank of India & its Associates	10.59	10.56	9.63	9.76	9.32
Old Private Sector Banks	10.65	11.21	10.91	10.77	10.42
New Private Sector Banks	9.23	10.44	10.12	9.69	8.22
Foreign Banks	11.25	12.38	12.39	12.00	11.30

expended from Rs.5,200.6 crore in 1998-99 to Rs.4,986.2 crore in 1999-2000 [Appendix Tables II.4(A) to (G)]. The ratio of interest expended to total assets of scheduled commercial banks declined from 6.41 per cent in 1998-99 to 6.24 per cent in 1999-2000. The decline in this ratio was seen in all the bank groups during 1999-2000 except in the case of PSBs and nationalised banks. In the case of PSBs, the ratio increased marginally from 6.21 per cent in 1998-99 to 6.22 per cent in 1999-2000. The State Bank group exhibited a fall from 5.94 per cent in 1998-99 to 5.92 per cent in 1999-2000. The ratio declined from 7.77 per cent in 1998-99 to 7.24 per cent in 1999-2000 in respect of old private sector banks. The nationalised banks showed an increase from 6.37 per cent in 1998-99 to 6.40 per cent in 1999-2000. In the case of foreign banks, the ratio declined from 6.79 per cent in 1998-99 to 6.02 per cent in 1999-2000 (Table II.20).

Operating Expenses

2.26 The operating expenses of SCBs showed an increase of 9.1 per cent from Rs.25,346.3

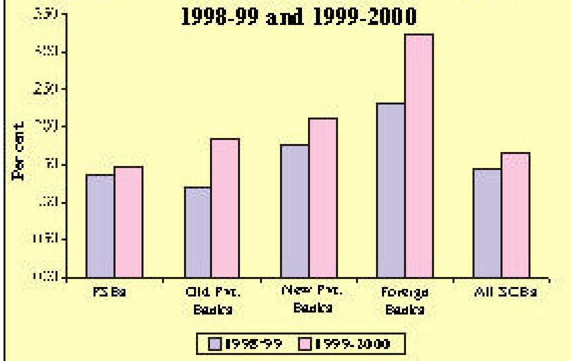
Table II.20: Bank Group-wise Interest Expended as Percentage of Total Assets: 1995-96 to 1999-2000

(Per cent)

Bank Group	1995-96	1996-97	1997-98	1998-99	1999-2000
Scheduled Commercial Banks	6.23	6.66	6.32	6.41	6.24
Public Sector Banks	6.12	6.53	6.19	6.21	6.22
Nationalised Banks	6.30	6.68	6.30	6.37	6.40
State Bank of India & its Associates	5.82	6.27	5.97	5.94	5.92
Old Private Sector Banks	7.01	7.72	7.43	7.77	7.24
New Private Sector Banks	6.41	7.26	7.04	7.21	5.65
Foreign Banks	6.72	6.95	6.49	6.79	6.02

crore in 1998-99 to Rs.27,645.6 crore in 1999-2000. Among the bank groups, the new private sector banks registered the highest percentage increase (25.1 per cent) from Rs.669.3 crore in 1998-99 to Rs.837.0 crore in 1999-2000, followed by old private sector banks (14.2 per cent) from Rs.1,482.3 crore in 1998-99 to Rs.1,692.1 crore in 1999-2000. The foreign bank group registered a decline in operating expenses of 3.3 per cent from Rs.2,745.0 crore in 1998-99 to Rs.2,655.4 crore in 1999-2000 [Appendix Tables II.4(A) to (G)]. The ratio of operating expenses to total assets of SCBs declined from 2.67 per cent in 1998-99 to 2.49 per cent in 1999-2000. The decline in this ratio was characteristic of all the bank groups during 1999-2000. The ratio declined from 2.66 per cent in 1998-99 to 2.52 per cent in 1999-2000 in the case of PSBs. The nationalised banks showed a fall from 2.63 per cent in 1998-99 to 2.56 per cent in 1999-2000. The State Bank group exhibited a decline from 2.70 per cent in 1998-99 to 2.46 per cent in 1999-2000. In the case of new private sector banks, the ratio of operating expenses to total assets declined from 1.74 per cent in 1998-99 to 1.42 per cent in 1999-2000 (Chart II.8). The ratio declined from 2.26 per cent in 1998-99 to 2.18 per cent in 1999-2000 in respect of old private sector banks. In the case of foreign banks the ratio declined from 3.59 per cent in 1998-99 to 3.21 per cent in 1999-2000 (Table II.21).

Chart II.8: Bank Group-wise Intermediation Cost to Total Assets of Scheduled Commercial Banks: 1998-99 and 1999-2000



Wage Bill

2.27 The ratio of wage bill to total assets showed large divergences among the bank groups. While it was the highest in the case of nationalised banks, it was the lowest in the case of new private sector banks reflecting the greater impact of computerisation in the latter. The wage bill of SCBs exhibited an increase of 10.9 per cent from Rs.16,649.5 crore in 1998-99 to Rs.18,467.4 crore in 1999-2000. Among the bank groups, new private sector banks showed the maximum proportional increase (36.0 per cent) from Rs.120.0 crore in 1998-99 to Rs.163.2 crore in 1999-2000

Table II.21: Bank Group-wise Operating Expenses as Percentage of Total Assets: 1995-96 to 1999-2000

(Per cent)

Bank Group	1995-96	1996-97	1997-98	1998-99	1999-2000
Scheduled Commercial Banks	2.94	2.85	2.63	2.67	2.49
Public Sector Banks	2.99	2.88	2.66	2.66	2.52
Nationalised Banks	2.93	2.85	2.65	2.63	2.56
State Bank of India & its Associates	3.10	2.94	2.68	2.70	2.46
Old Private Sector Banks	2.60	2.52	2.31	2.26	2.18
New Private Sector Banks	1.89	1.94	1.76	1.74	1.42
Foreign Banks	2.77	3.00	2.97	3.59	3.21

followed by old private sector banks (17.4 per cent) from Rs.920.0 crore in 1998-99 to Rs.1,080.3 crore in 1999-2000. The share of wage bill in the case of new private sector banks in their operating expenses was 19.5 per cent in 1999-2000 in sharp contrast to the respective shares at 72.8 per cent, 73.6 per cent, 71.6 per cent and 63.8 per cent for the 27 PSBs, 19 nationalised banks, SBI group and the 24 old private sector banks respectively [Appendix Tables II.4(A) to (G)]. There was an overall decline in the ratio of wage bill to total assets among all the groups of banks excepting the foreign bank group which showed a marginal rise. The ratio of wage bill to total assets of scheduled commercial banks declined from 1.75 per cent in 1998-99 to 1.66 per cent in 1999-2000. The wage bill ratio of PSBs declined from 1.93 per cent in 1998-99 to 1.84 per cent in 1999-2000. The State Bank group exhibited a fall from 1.92 per cent in 1998-99 to 1.76 per cent in 1999-2000. The nationalised banks showed a decline from 1.93 per cent in 1998-99 to 1.88 per cent in 1999-2000. The ratio declined from 1.41 per cent in 1998-99 to 1.39 per cent in 1999-2000 in the case of old private sector banks. However, in the case of foreign banks, the ratio increased from 1.01 per cent in 1998-99 to 1.04 per cent in 1999-2000 (Table II.22).

Provisions and Contingencies

2.28 The provisions and contingencies of SCBs showed an increase of 19.3 per cent from Rs.9,320.4 crore in 1998-99 to Rs.11,117.0 crore in 1999-2000. Among the bank groups, new private sector banks showed the highest increase (134.8 per cent) from Rs.287.2 crore in 1998-99 to Rs.674.4 crore in 1999-2000, followed by old private sector banks (61.0 per cent) from Rs.480.7 crore in 1998-99 to Rs.773.8 crore in 1999-2000. The foreign bank group registered an increase of 38.0 per cent from Rs.1,245.5 crore in 1998-99 to Rs.1,718.6 crore in 1999-2000. The State Bank group was the only one which showed a decline of 0.6 per cent in provisions and contingencies from Rs.3,182.4 crore in 1998-99 to Rs.3,162.3 crore in 1999-2000 [Appendix Tables II.4(A) to (G)]. The ratio of provisions and contingencies to total assets of SCBs increased marginally from 0.98 per cent in 1998-99 to 1.0 per cent in 1999-2000. The increase was maximum in the case of foreign banks by 0.44 percentage point from 1.63 per cent in 1998-99 to 2.07 per cent in 1999-2000. In the case of PSBs, the share of provisions and contingencies in total assets declined from 0.95 per cent in 1998-99 to 0.89 per cent in 1999-2000 which was lowest in the banking sector

Table II.22: Bank Group-wise Wage Bill as Percentage of Total Assets: 1995-96 to 1999-2000

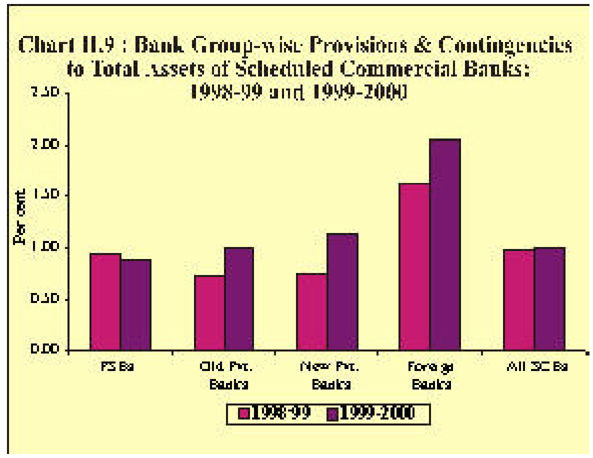
(Per cent)

Bank Group	1995-96	1996-97	1997-98	1998-99	1999-2000
Scheduled Commercial Banks	2.05	1.92	1.77	1.75	1.66
Public Sector Banks	2.20	2.09	1.94	1.93	1.84
Nationalised Banks	2.14	2.07	1.91	1.93	1.88
State Bank of India & its Associates	2.31	2.13	2.01	1.92	1.76
Old Private Sector Banks	1.70	1.53	1.40	1.41	1.39
New Private Sector Banks	0.27	0.30	0.31	0.31	0.28
Foreign Banks	0.98	1.06	0.95	1.01	1.04

(Chart II.9). The State Bank group showed a decline from 1.11 per cent in 1998-99 to 0.94 per cent in 1999-2000. Old private sector banks exhibited an increase from 0.73 per cent in 1998-99 to 1.0 per cent in 1999-2000. New private sector banks also showed an increase in this ratio from 0.75 per cent in 1998-99 to 1.15 per cent in 1999-2000 (Table II.23).

Spread

2.29 The ratio of spread (net interest income) to total assets of SCBs declined from 2.78 per cent in 1998-99 to 2.72 per cent in 1999-2000 [Appendix Tables II.4(A) to (G)]. There was a decline in this ratio among all the bank groups except the old private sector banks and foreign



financial parameters of foreign banks in India are given in Appendix Tables II.7(A) to (H).

Table II.23: Bank Group-wise Provisions and Contingencies as Percentage of Total Assets: 1995-96 to 1999-2000

(Per cent)

Bank Group	1995-96	1996-97	1997-98	1998-99	1999-2000
Scheduled Commercial Banks	1.54	1.15	1.02	0.98	1.00
Public Sector Banks	1.56	1.03	0.81	0.95	0.89
Nationalised Banks	1.50	0.85	0.71	0.85	0.86
State Bank of India & its Associates	1.67	1.35	0.98	1.11	0.94
Old Private Sector Banks	1.04	0.98	1.16	0.73	1.00
New Private Sector Banks	0.92	1.24	1.32	0.75	1.15
Foreign Banks	1.77	2.44	2.94	1.63	2.07

banks which showed an improvement in 1999-2000. In the case of old private sector banks the spread ratio increased from 2.15 per cent in 1998-99 to 2.33 per cent in 1999-2000.The ratio of spread to total assets in the case of foreign banks increased to 3.85 per cent in 1999-2000 from 3.47 per cent in 1998-99 (Chart II.10 and Table II.24). The details in respect of financial parameters of individual PSBs are furnished in Appendix Tables II.5(A) to (I), while Bank-wise details for private sector banks are given in Appendix Tables II.6(A) to (H). Bank-wise details of the

2.30 In view of the indifferent performance of a few banks in the public sector in the recent past, a committee was appointed by the Reserve Bank in consultation with the Government of India to suggest measures for strengthening of weak banks. The Committee on Restructuring Weak PSBs identified three banks as ‘weak’, requiring restructuring. Globally the process of restructuring is a common phenomenon to strengthen the banking system. In this context, the strategies adopted in different countries towards the restructuring of weak banks has been quite varied (Box II.2).

Table II.24: Bank Group-wise Spread (Net Interest Income) as Percentage of Total Assets: 1995-96 to 1999-2000

(Per cent)

Bank Group	1995-96	1996-97	1997-98	1998-99	1999-2000
Scheduled Commercial Banks	3.13	3.22	2.95	2.78	2.72
Public Sector Banks	3.08	3.16	2.91	2.80	2.70
Nationalised Banks	2.92	2.97	2.78	2.77	2.67
State Bank of India & its Associates	3.34	3.48	3.14	2.85	2.76
Old Private Sector Banks	3.14	2.93	2.57	2.15	2.33
New Private Sector Banks	2.84	2.88	2.23	1.98	1.87
Foreign Banks	3.74	4.13	3.93	3.47	3.85

Off-Balance Sheet Activities of Scheduled Commercial Banks

2.31 The off-balance sheet activities of scheduled commercial banks include activities relating to forward exchange contracts, guarantees and acceptances, endorsements, etc. The off-balance sheet exposures of all SCBs showed an increase of 27.6 per cent from Rs.4,58,092 crore in 1998-99 to Rs.5,84,440.9 crore in 1999-2000. The off-balance sheet exposure (contingent liabilities) as a proportion of total liabilities of all SCBs also increased by 4.4 percentage points from 48.2 per cent in 1998-99 to 52.6 per cent in 1999-2000. The increase in off-balance sheet exposures resulted primarily from a 31.4 per cent increase in forward exchange contracts whose share in total contingent liabilities increased by 4.4 percentage points from 35.2 per cent in 1998-99 to 39.6 per cent in 1999-2000. The proportion of guarantees in the total liabilities of all SCBs

Box II.2: Strategies for Strengthening Weak Banks: Cross-Country Experience

Bank restructuring gained prominence in the recent past in view of the occurrence of banking crises in developing countries in the 1980s as well as in the 1990s emanating from multiple factors, *viz.*, higher volatility in macroeconomic variables in these countries, tendency of banks to lend liberally during the upswings of business cycles with excessive concentration of credit in real estate and equity markets, sharp increase in the ratio of broad money to GNP due to deregulation and financial innovation without a commensurate increase in bank capital, booming output and rapidly rising collateral values which gave banks a false sense of security and allowed firms to become highly leveraged, inadequate preparation for financial liberalisation particularly in respect of banking supervision, large scale government involvement in the banking sector and loose controls on connected lending, accounting conventions which are not rigorous enough to prevent banks and their borrowers from concealing the true size of the non-performing loan portfolio and bad loans made to look good many a time by additional lending to troubled borrowers (evergreening), etc. Moreover, major international banks in the industrial world were ready to extend loans to poorly rated banks in emerging markets to fund an increasing proportion of their domestic assets by foreign borrowing, where the exchange rate risk in such overseas borrowing was often ignored. Much of the borrowing was short-term and required frequent rollover, leaving banks vulnerable to swings in confidence of overseas lenders.

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Cross-country experience reveals that several strategies were adopted to restructure the banking systems. Bank restructuring process adopted in many countries seek to achieve some important goals: preventing bank runs, avoiding a credit crunch, improving the efficiency of the financial intermediation process and attracting new equity into the banking industry. Andrew Sheng (1996) lists the conditions of successful bank restructuring as clear links with enterprise restructuring, stable macroeconomic environment, strong political will, effective restructuring agency, transparent accounting standards, legal framework, financial discipline, incentives favouring private sector growth and competition, availability of professional bankers and effective bank supervision and enforcement. The early step in any bank restructuring programme is to measure correctly how far loans are impaired. Supervisors generally require banks to distinguish three types of Non-performing Loans (NPLs): substandard, doubtful and loss. In line with the practice adopted in G-10 countries and recommendations of the Basle Committee on Banking Supervision, there is a growing tendency to define loans more than three months overdue as substandard.

In both industrial and emerging economies, bank rescues and mergers are far more common than outright closure. There are several restructuring methods, *viz.*, government capital injection, establishment of asset management corporations, domestic bank mergers and foreign bank takeover. The greater participation of foreign banks has played a key role in restructuring the Brazilian financial system. The main channels have been, first, capital increases in banking institutions where foreign banks were already minority shareholders and, secondly, the entry of new banks. Foreign institutions have also setup or taken over non-banking financial institutions. Brazil also introduced a deposit insurance scheme encompassing all financial institutions subject to liquidation or intervention. This was meant to protect the interest of small depositors who can not be expected to monitor the soundness of their asset portfolio and also to promote savings and better exploit the benefits of a large scale payments system. Sheng (1996) stresses that if a deposit insurance scheme is established, the agency needs adequate powers: "The creation of deposit insurance scheme with insufficient resources or legal powers to deal with the problems can be disastrous. These institutions give the illusion of a responsible agency without the substance. Deposit protection agencies in Kenya and Philippines were not provided with sufficient resources to deal with the level of bank problems, and in the end the rescuer had to be rescued". The comprehensive approach to bank restructuring undertaken in Brazil has prevented a systemic crisis.

In China, bank restructuring process included not only the restructuring of commercial banks, but also non-bank financial institutions. From 1995 to 1998, more than 2000 urban credit co-operatives were merged into 88 city commercial banks on the basis of assessing assets and capital, writing off some bad debts, estimating net worth of equity and encouraging new shareholders. During 1997 and 1998 one insolvent bank and three trust and investment companies have been closed in China. The asset management company responsible for dealing with NPLs of state banks was established in April 1999.

In Korea, the government is helping the viable banks to recapitalise and dispose of non-performing loans by injecting public funds on the condition that they make efforts on their own to rehabilitate by mergers, injection of foreign capital and improvement of management. Seven banks have been carrying out their rehabilitation plans through mergers, capital increase by inducement of foreign capital, consolidation with subsidiaries, and partial limitation of their banking business activities. To increase the efficiency of bank management through downsizing their organisation and staff, all conditionally approved banks shed more than 32 per cent of their workforce as of end-1997. To resolve the large amounts of NPLs held by financial institutions, the government setup the Non-performing Asset Management Fund in KAMCO in November 1997. In Mexico, the policies adopted for bank restructuring succeeded in avoiding bank runs in the context of very acute problems of the banking system. Banks and governments shared the cost of restructuring. Only a few banks remained with shareholders who had acquired them at the beginning of the 1990s. In Saudi Arabia, to strengthen the banking system a number of steps were undertaken: tax holidays, tax deductibility of provisions for doubtful accounts, withholding tax on inter-bank transactions, creation of banking disputes committee, strengthening of the technological infrastructure, corporate governance and exchange of information on large borrowers and on delinquent loans.

Policy responses have similarities in Thailand, Malaysia and Indonesia in 1997 and early 1998 in

(Contd....)

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the restructuring process; all have setup agencies to manage bad assets and introduced schemes to inject public money as capital into the banks. Asset Management Corporations (AMCs) have been established in all these economies. The first AMC in the region was that in Thailand entrusted with disposing off the assets of the insolvent finance companies. Malaysia established a public company owned by the Ministry of Finance, Danaharta in June 1998 whose objectives are to acquire, manage, finance and dispose of assets and liabilities of financial institutions to allow them to focus on the core business of lending. In Indonesia, the Asset Management Unit is a component of the Indonesia Bank Restructuring Agency (IBRA). In September 1998 the authorities in Indonesia announced that four state owned banks would be merged into the new bank Mandiri. Their bad assets will be transferred to IBRA. The Malaysian authorities announced plans for the country's banks and finance companies to be merged into six large groups by September 1999. There were schemes to support the recapitalisation of the banking system in all the three economies.

In India the banking system is predominantly under the state ownership. A number of initiatives have been undertaken to strengthen the banking system since 1992 as an integral part of the financial sector reforms, through the introduction of prudential norms on capital adequacy, asset classification, income recognition and provisioning based on the recommendations of the Committee on Financial System (Chairman: Shri M. Narasimham) to strengthen the accounting standards and transparency in the banking system. The CAMEL (Capital Adequacy, Asset Quality, Management, Earnings and Liquidity) method was adopted in 1997 with a modification to it, adding an 'S' for systems, to assess the bank performance. The Committee on Banking sector Reforms (Narasimham Committee-II) had recommended that a weak bank would be one a) where accumulated losses and net NPAs exceed the net worth of the bank or b) one whose operating profit less the income on recapitalisation bonds has been negative for three consecutive years. The Working Group on Restructuring Weak Public Sector Banks (Chairman: Shri M.S. Verma) has recommended the use of seven parameters in conjunction with the two suggested by Narasimham Committee II: i) capital adequacy ratio, ii) coverage ratio, iii) return on assets, iv) net interest margin, v) ratio of operating profit to average working funds, vi) ratio of cost to income and vii) ratio of staff cost to net interest income (NII) plus all other income. After taking into account the above criteria, three banks were identified as weak, *viz.,* Indian Bank, UCO Bank and United Bank of India. Among the various types of methods available in the bank restructuring process, in the Indian context recapitalisation and mergers were resorted to, primarily the former. The total amount of capital injected into the 19 public sector banks during 1992-93 to 1998-99 amounted to Rs.20,446.12 crores, of which Rs.5,729.3 crore (28.0 per cent of the total) was injected into the above three weak banks.

The Working Group recommended an overall cost of restructuring over the next three years of the order of Rs.5,500 crore. In the case of mergers, two have taken place so far in the public sector *viz.,* New Bank of India merged with Punjab National Bank in May 1993 and a non-scheduled bank, Bareily Corporation Bank Limited, merged with Bank of Baroda in June 1999. The Narasimham Committee has recommended the setting up of Asset Reconstruction Fund to manage the bad debts of the banking sector, which is yet to be established. As a part of the restructuring process, the Working Group on Restructuring Weak Public Sector Banks had suggested the constitution of a Financial Restructuring Authority (FRA). As a sequel to this, the Union Government expressed its intention to have a modified version of the FRA. The Government has decided to consider recapitalisation of the weak banks to achieve the prescribed capital adequacy norms, provided a viable restructuring programme is made available by the concerned banks which is also acceptable to the Government and the Reserve Bank. Tarapore (2000) added a note of caution regarding FRA that, 'It would be highly desirable to setup the FRA as part of the Reserve Bank infrastructure rather than create a new institution and a predictable turf war'. In view of the severe budgetary strain of the Government, the capital has to be raised from the public which leads to reduction in Government shareholding. In order to facilitate this process, the Government has decided to accept the recommendations of Narasimham Committee-II on Banking Sector Reforms for reducing the requirement of minimum shareholding in nationalised banks to 33 per cent. This is imperative due to the fact that the restructuring process through the government has its attendant fiscal costs. In an IMF study, Sundararajan and Balino (1991) have observed that the use of public money for recapitalisation often endangers efforts to rein in budget deficits. Even if budget deficits are viewed as (domestic) transfers rather than as real economic costs, it could compel the authorities towards less benign ways of deficit financing (e.g. an inflation tax); the rescue process itself can

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weaken the incentives for creditors to monitor the behaviour of banks on a continuous basis.

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declined by 0.5 percentage point while that of acceptances, endorsements, etc. increased by 0.6 percentage points during 1999-2000 as compared to the previous year (Table II.25).

2.32 A bank group-wise analysis indicates that the new private banks recorded the highest growth rate in off-balance sheet exposures (43.5 per cent), followed by old private banks with a 31.7 per cent increase over the previous year. As a proportion of total liabilities, the off-balance sheet exposures (contingent liabilities) of PSBs increased by 1.7 percentage points from 24.6 per cent in 1998-99 to 26.3 per cent in 1999-2000, 2.7 percentage points in the case of old private banks (from 24.2 per cent to 26.9 per cent) and 53.7 percentage points in the case of foreign banks (from 288.3 per cent to 342.0 per cent) and it declined for new private banks by 5.0 percentage points from 83.1 per cent in 1998-99 to 78.0 per cent in 1999-2000. (Table II.25) (Chart II.11).

3. Non-Performing Assets

2.33 The gross non-performing assets of the SCBs stood at Rs.60,841 crore at end-March 2000 as compared with Rs.58,722 crore in the corresponding period of the preceding year (Table II.26). However, during the year 1999-

Chart II.10 : Bank Group-wise Spread to Total Assets of Scheduled Commercial Banks: 1998-99 and 1999-2000

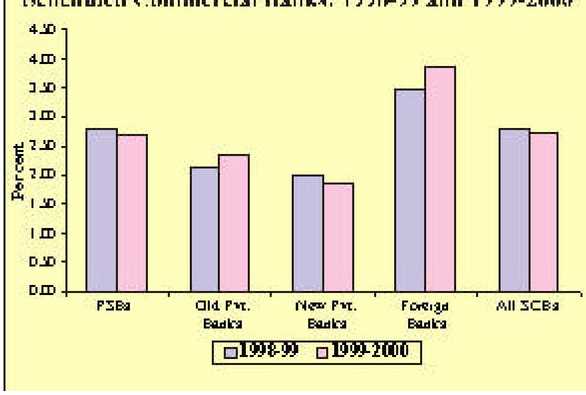


Chart II.11: Bank Group-wise Off-Balance Sheet Items to Total Liabilities of Scheduled Commercial Banks: 1998-99 and 1999-2000

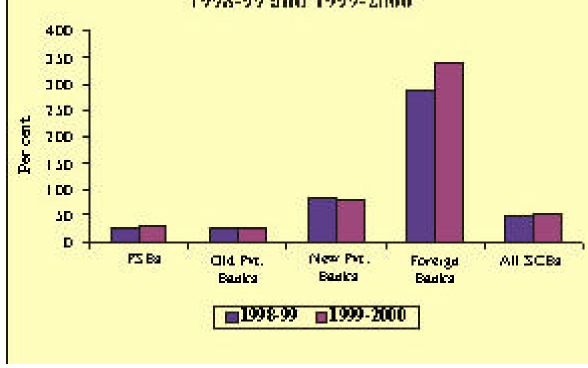


Table II.25 : Off-Balance Sheet Exposure of Scheduled Commercial Banks in India : 1998-99 and 1999-2000

(Amount in Rs. crore)

Item	State Bank Group			Nationalised Banks			Public Sector Banks		
	1998-99	1999-2000	variations	1998-99	1999-2000	variations	1998-99	1999-2000	variations
1	2	3	4	5	6	7	8	9	10
1. Forward exchange contract	42,572.15 (14.89)	56,680.72 (16.85)	33.14 1.96	64,608.26 (13.34)	85,157.77 (15.35)	31.81 2.01	1,07,180.41 (13.92)	1,41,838.49 (15.92)	32.34 2.00
2. Guarantees given	17,670.05 (6.18)	17,616.79 (5.24)	-0.30 -0.94	24,321.51 (5.02)	25,220.81 (4.55)	3.70 -0.47	41,991.56 (5.45)	42,837.60 (4.81)	2.01 -0.64
3. Acceptances, endorsements, etc.	16,564.52 (5.80)	22,798.68 (6.78)	37.64 0.98	23,710.74 (4.90)	26,769.54 (4.83)	12.90 -0.07	40,275.26 (5.23)	49,568.22 (5.56)	23.07 0.33
Total Contingent Liabilities	**76,806.72** **(26.87)**	**97,096.19** **(28.87)**	**26.42** **2.00**	**1,12,640.51** **(23.26)**	**1,37,148.12** **(24.73)**	**21.76** **1.47**	**1,89,447.23** **(24.60)**	**2,34,244.31** **(26.29)**	**23.65** **1.69**

Item	New Pvt. Sec. Banks			Old Pvt. Sec. Banks			Foreign Banks			All SCBs		
	1998-99	1999-2000	variations	1998-99	1999-2000	variations	1998-99	1999-2000	variations	1998-99	1999-2000	variations
1	11	12	13	14	15	16	17	18	19	20	21	22
1. Forward exchange contract	23,663.41 (61.41)	35,357.44 (60.07)	49.42 -1.34	11,270.35 (17.21)	15,313.19 (19.71)	35.87 2.49	1,92,645.03 (251.60)	2,47,472.95 (298.70)	28.46 47.10	3,34,759 (35.21)	43,9982.1 (39.62)	31.43 4.41
2. Guarantees given	4,116.02 (10.68)	5741.2 (9.75)	39.48 -0.93	2,540.44 (3.88)	2,906.94 (3.74)	14.43 -0.14	14,166.63 (18.50)	15,878.41 (19.17)	12.083 0.66	62,814.7 (6.61)	67,364.15 (6.07)	7.24 -0.54
3. Acceptances, endorsements, etc.	4,223.39 (10.96)	4,836.17 (8.22)	14.51 -2.74	2,062.78 (3.15)	2,685.58 (3.46)	30.19 0.31	13,956.68 (18.23)	20,004.68 (24.15)	43.33 5.92	60,518.1 (6.37)	77,094.65 (6.94)	27.39 0.58
Total Contingent Liabilities	**32,002.82** **(83.06)**	**45,934.81** **(78.04)**	**43.53** **-5.01**	**15,873.57** **(24.24)**	**20,905.71** **(26.90)**	**31.70** **2.66**	**2,20,768.34** **(288.33)**	**2,83,356.04** **(342.01)**	**28.35** **53.68**	**4,58,092.0** **(48.18)**	**5,84,440.9** **(52.63)**	**27.60** **4.45**

Notes :
1. Figures in brackets are percentages to Total Liabilities.
2. The variations relating to the ‘amounts’ indicate the percentage variation in 1999-2000 over 1998-99.
3. The variations relating to the ‘percentage to Total Liabilities given in brackets’ indicate the simple change in percentage points during 1999-2000 as compared to 1998-99.

Table II.26: Bank Group-wise Gross and Net NPAs of Scheduled Commercial Banks: 1998 to 2000 (As at end-March)

(Amount in Rs. crore)

Bank Groups/Years	Gross Advances	Gross NPAs			Net Advances	Net NPAs		
		Amount	Per cent to Gross Advances	Per cent to Total Assets		Amount	Per cent to Net Advances	Per cent to Total Assets
1	2	3	4	5	6	7	8	9
Scheduled Commercial Banks								
1998	3,52,696	50,815	14.4	6.4	3,25,522	23,761	7.3	3.0
1999	3,99,436	58,722	14.7	6.2	3,67,012	28,020	7.6	2.9
2000	4,75,758	60,841	12.8	5.5	4,44,526	30,152	6.8	2.7
Public Sector Banks								
1998	2,84,971	45,653	16.0	7.0	2,60,459	21,232	8.2	3.3
1999	3,25,328	51,710	15.9	6.7	2,97,789	24,211	8.1	3.1
2000	3,80,077	53,294	14.0	6.0	3,52,914	26,188	7.4	2.9
All Private Sector Banks								
1998	36,753	3,186	8.7	3.9	35,411	1,863	5.3	2.3
1999	43,049	4,655	10.8	4.5	39,731	2,943	7.4	2.8
2000	58,249	4,932	8.5	3.6	56,069	3,120	5.6	2.3
Old Private Sector Banks								
1998	25,580	2,794	10.9	5.1	24,353	1,572	6.5	2.9
1999	28,979	3,784	13.1	5.8	26,017	2,332	9.0	3.6
2000	35,433	3,986	11.3	5.1	33,906	2,484	7.3	3.2
New Private Sector Banks								
1998	11,173	392	3.5	1.5	11,058	291	2.6	1.1
1999	14,070	871	6.2	2.3	13,714	611	4.5	1.6
2000	22,816	946	4.2	1.6	22,163	636	2.9	1.1
Foreign Banks in India								
1998	30,972	1,976	6.4	3.0	29,652	666	2.2	1.0
1999	31,059	2,357	7.6	3.1	29,492	866	2.9	1.1
2000	37,432	2,615	7.0	3.2	35,543	844	2.4	1.0

Notes: 1. Figures are provisional.
2. Constituent items may not add up to the totals due to rounding off.

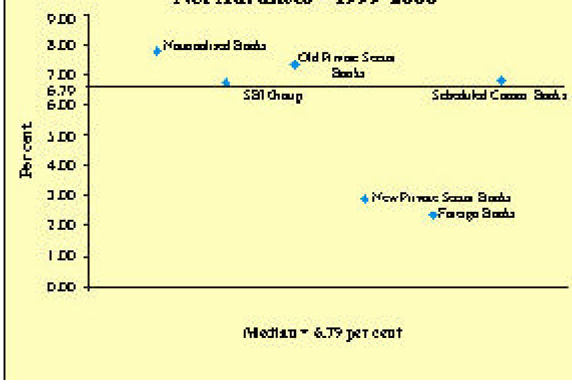
Source: 1. Returns submitted by respective banks.
2. Balance sheets of respective banks.

2000, there has been an overall decline in gross and net NPAs as percentage of gross and net advances as well total assets among all bank groups. Among the major bank groups, in the case of new private sector banks and foreign banks the ratio of net NPAs to net advances were below the median value (6.77 per cent) whereas nationalised banks and old private sector banks remained above the median value (Chart II.12). Similarly, with respect to the ratio of net NPAs to total assets, new private sector banks and foreign banks were below the median value (2.66 per cent) whereas the nationalised banks and old private sector banks remained above the median value (Chart II.13). The Reserve Bank of India has undertaken a number of initiatives to enhance the disclosure standards and transparency in the operations of the banks and also the accounting standards which have a bearing on the overall robustness of the banking system in an increasingly integrated global financial environment (Box II.3).

Public Sector Banks

2.34 The public sector banks accounted for

Chart II.12 : Bank Group-wise Net NPAs to Net Advances - 1999-2000



Box II.3: Accounting Standards

The need for sound accounting standards in the banking system came to the fore in the light of the occurrence of banking crises in many countries. There are significant differences in the accounting practices across emerging economies. Many analysts, therefore, felt that the existing accounting systems, disclosure practices and legal frameworks are hindering the operation of market discipline and the exercise of effective banking supervision. Neither the private investors nor bank supervisors will be able to discipline errant banks without timely, accurate, comprehensive and transparent information on their creditworthiness, as well as on the creditworthiness of their customers. In many countries, accounting conventions for classifying bad assets as impaired or non-performing are not tight enough to prevent banks from making bad loans look good by lending more money to troubled borrowers. The publicly reported figures gave little early warning of the banking crises in Chile and Colombia in the early 1980s. Distinguishing healthy from unhealthy banks is often hindered by the absence of financial statements on the consolidated exposure of banks, by the lack of uniform reporting requirement for banks within a country, by differences in accounting standards across countries, by the lack of published key financial data on individual banks, by the absence of serious penalties for submitting inaccurate reports to supervisors or the public and by the paucity of private credit ratings for banks.

There is an urgent need to have a sound accounting standards particularly in the financial sector in the context of increasing integration of domestic economies with the rest of the world. “The US Generally Accepted Accounting Principles (GAAP)” is a very useful document relating to accounting standards, encompassing the conventions, rules, and procedures necessary to define accepted accounting practices at a particular time. The standards of generally accepted accounting principles includes not only broad guidelines of general application but also detailed practices and procedures. The generally accepted principles are conventional, that is, they become generally accepted by agreement rather than by formal derivation from a set of postulates or basic concepts. These principles have been developed on the basis of experience, reason, custom, usage, and to a significant extent by practical necessity. There are two broad categories of accounting principles–measurement and disclosure. The measurement principles determine the timing and basis of items which enter the accounting cycle and influence the financial statements. The disclosure principles deal with factors that are not always numerical. Such disclosures involve qualitative features that are essential ingredients of a full set of financial statements. The disclosure principles complement the measurement standards by explaining these standards and giving other information on accounting policies, contingencies, uncertainties, etc., which are essential ingredients in the analytical process of accounting.

In India, the Accounting Standards Board (ASB) was setup in 1977 by the Institute of Chartered Accountants of India (ICAI) to hormonise diverse accounting policies and practices in the country through the formulation of various accounting standards. The ASB has made sustained efforts for improving the quality of financial reporting in the country and bringing about an overall improvement in accounting and disclosure by enterprises in India. The ASB has so far formulated sixteen Accounting Standards: disclosure of accounting policies, valuation of inventories, cash flow statements, contingencies and events occurring after the balance sheet date, net profit or loss for the period (prior period items and changes in accounting policies), depreciation accounting, accounting for construction contracts, accounting for research and development, revenue recognition, accounting for fixed assets, accounting for the effects of changes in foreign exchange rates, accounting for government grants, accounting for investments, accounting for amalgamations, accounting for retirement benefits in the financial statements of employers and borrowing costs.

An Advisory Group on International Accounting and Auditing (Chairman: Shri Y.H. Malegam) was constituted by the efficiency 'Standing Committee on International Financial Standards and Codes' to examine the availability of internationally accepted accounting standards in India. In the Indian context although the accounting standards are not co-terminus with US GAAP and International Accounting Standards, a number of measures were undertaken to improve the transparency in the financial statements of the banking sector. The Reserve Bank achieved this by mandating disclosure of some of the essential indicators and performance related parameters as part of the notes on accounts in the annually published accounts of the banks. Some of the important items relate to disclosure of accounting policies, capital adequacy ratio separately under Tier I and II, percentage of government shareholding, percentage of net NPAs to net advances, category-wise provisions towards depreciation, NPAs, the extent of sub-ordinated debt, the gross value of investments less cumulative depreciation, income ratios, business and profit per employee. As a sequel to the recommendations of the Narasimham Committee (II), RBI has advised banks, effective March 31, 2000, to disclose maturity pattern of loans and advances, investment securities, deposits and borrowings, foreign currency assets and liabilities, movement in NPAs, lending to sensitive sectors as defined from time to time. On prudential considerations, in India, it is necessary to adopt the best practices in line with international standards, while duly reflecting local conditions. The improvement of the existing accounting standards in line with the international best practices would help to attain the internationally harmonised public disclosure of bank performance which in turn could help to strengthen foreign banks to do more business with Indian banks.

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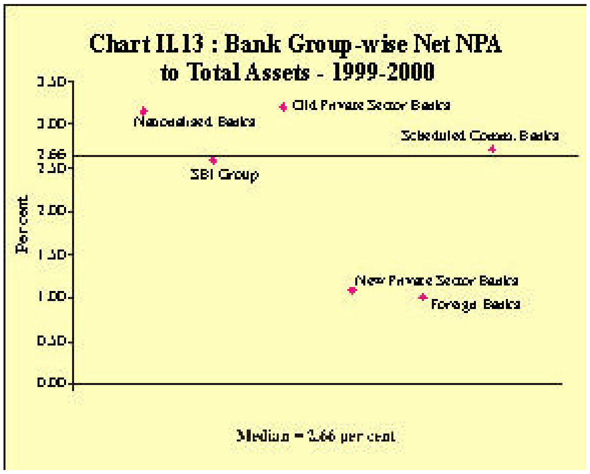
the maximum share of NPAs among all the bank groups. During 1999-2000, there was an overall decline in the share of NPAs to total advances as well as total assets reflecting the impact of the revised guidelines/directives regarding the prudential norms for banks resulting in the reduction in doubtful and loss assets. The share of standard assets in total advances of PSBs increased from 84.1 per cent in 1998-99 to 86.0 per cent in 1999-2000 (Table II.27). However, in absolute terms, both gross and net NPAs increased during 1999-2000. While gross NPAs increased from Rs.51,710 crore in 1998-99 to Rs.53,294 crore in 1999-2000, that of net NPAs also increased from Rs.24,211 crore in 1998-99 to Rs.26,188 crore

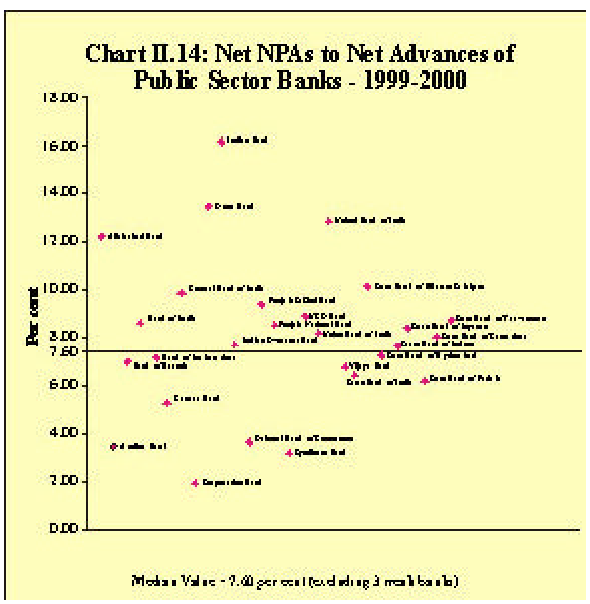


in 1999-2000. As a result, the ratio of gross NPAs to gross advances of PSBs declined from 15.9 per cent in 1998-99 to 14.0 per cent in 1999-2000 and net NPAs to net advances also showed a decline from 8.1 per cent in 1998-99 to 7.4 per cent in 1999-2000. The Gross NPAs to total assets declined from 6.7 per cent in 1998-1999 to 6.0 per cent in 1999-2000 and net NPAs to total assets also declined from 3.1 per cent in 1998-99 to 2.9 per cent in 1999-2000 (Details in Appendix Tables II.8(A) and II.8(B)). The distribution of Net NPAs of PSBs showed an improvement in 1999-2000. The number of banks having Net NPAs between 10 and up to 20 per cent declined from 8 in 1998-99 to 5 in 1999-2000. No bank recorded above 20 per cent net NPAs in 1999-2000 as against 1 bank in 1998-99. Number of banks having NPAs up to 10 per cent increased to 22 in 1999-2000 from 18 in 1998-99 (Table II.29). The comparative position of NPAs based on median NPA (excluding weak banks) in terms of the ratio of net NPAs to net advances and net NPAs to total assets are presented in Chart II.14 and Chart II.15.

2.35 The sector-wise analysis of NPAs of PSBs showed that the share of NPAs of priority sector increased marginally from 43.7 per cent at end-March 1999 to 44.5 per cent at end-March 2000. The share of NPAs in respect of public sector declined from 2.9 per cent at end-March 1999 to 2.0 per cent at end-March 2000 while the share of NPAs of non-priority sector increased marginally from 53.4 per cent at end-March 1999 to 53.5 per cent by March 2000. (Table II.28).

Private Sector Banks

2.36 During the year 1999-2000, NPAs of private sector banks (both old and new private sector banks) recorded a considerable decline as percentage of total assets as well as advances reflecting the impact of increase in standard assets from 89.2 per cent in 1998-99



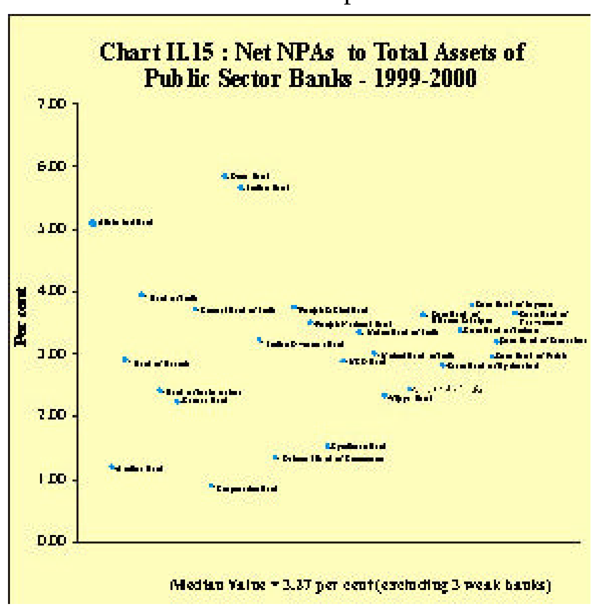


Table II.27: Bank Group-wise classification of Loan Assets of Scheduled Commercial Banks: 1998 to 2000 (As at end-March)

(Amount in Rs.crore)

Bank Group/ Years	Standard Assets		Sub-standard Assets		Doubtful Assets		Loss Assets		**Total NPAs**		**Total Advances**
	Amount	per cent	Amount	per cent	Amount	per cent	Amount	per cent	Amount	per cent	Amount
1	2	3	4	5	6	7	8	9	10	11	12
Scheduled Commercial Banks											
1998	3,01,881	85.6	17,428	4.9	27,146	7.7	6,242	1.8	50,815	14.4	3,52,696
1999	3,40,714	85.3	19,926	5.0	31,350	7.8	7,444	1.9	58,722	14.7	3,99,436
2000	4,14,917	87.2	19,594	4.1	33,688	7.1	7,558	1.6	60,841	12.8	4,75,758
Public Sector Banks											
1998	2,39,318	84.0	14,463	5.1	25,819	9.1	5,371	1.9	45,653	16.0	2,84,971
1999	2,73,618	84.1	16,033	4.9	29,252	9.0	6,425	2.0	51,710	15.9	3,25,328
2000	3,26,783	86.0	16,361	4.3	30,535	8.0	6,398	1.7	53,294	14.0	3,80,077
All Private Sector Banks											
1998	33,567	91.3	1,766	4.8	1,077	2.9	343	0.9	3,186	8.7	36,753
1999	38,394	89.2	2,655	6.2	1,591	3.7	407	0.9	4,655	10.8	43,049
2000	53,317	91.5	2,137	3.7	2,355	4.0	439	0.8	4,932	8.5	58,249
Old Private Sector Banks											
1998	22,786	89.1	1,402	5.5	1,068	4.2	324	1.3	2,794	10.9	25,580
1999	25,195	86.9	1,920	6.6	1,463	5.0	401	1.4	3,784	13.1	28,979
2000	31,447	88.8	1,577	4.5	2,061	5.8	347	1.0	3,986	11.3	35,433
New Private Sector Banks											
1998	10,781	96.5	365	3.3	9	0.1	19	0.2	392	3.5	11,173
1999	13,199	93.8	737	5.2	128	0.9	6	0.0	871	6.2	14,070
2000	21,870	95.9	560	2.5	294	1.3	92	0.4	946	4.2	22,816
Foreign Banks in India											
1998	28,996	93.6	1,198	3.9	250	0.8	528	1.7	1,976	6.4	30,972
1999	28,702	92.4	1,238	4.0	507	1.6	612	2.0	2,357	7.6	31,059
2000	34,817	93.0	1,096	2.9	798	2.1	721	1.9	2,615	7.0	37,432

Notes:
1. Figures are provisional.
2. NPAs consist of assets including (i) Sub-standard, (ii) Doubtful, and (iii) Loss Assets. An asset becomes (i) Sub-standard when it is classified as NPA for a period not exceeding two years, (ii) Doubtful when it remains NPA for a period exceeding two years, and (iii) Loss when it is identified asset either by a bank or an internal or external auditors or under RBI instructions, but not written off.
3. Constituent items may not add up to the totals due to rounding off.

Source :
1. Returns submitted by respective banks.
2. Balance sheets of respective banks.

Table II.28: Sector-wise NPAs of Public Sector Banks: 1995-96 to 1999-2000

(Amount in Rs. Crore)

Bank Group	Priority Sector	Non-priority Sector	Public Sector	Total
1	2	3	4	5
March 1996				
1. State Bank Group	7,041	5,263	816	13,120
	(53.7)	(40.1)	(6.2)	(100.0)
2. Nationalised Banks	12,065	13,804	595	26,464
	(45.6)	(52.2)	(2.3)	(100.0)
3. PSBs (1+2)	19,106	19,067	1,411	39,584*
	(48.3)	(48.2)	(3.6)	(100.0)
March 1997				
1. State Bank Group	7,247	6,291	829	14,368
	(50.4)	(43.8)	(5.7)	(100.0)
2. Nationalised Banks	13,527	15,050	632	29,209
	(46.3)	(51.5)	(2.2)	(100.0)
3. PSBs (1+2)	20,774	21,341	1461	43,577
	(47.7)	(49.0)	(3.3)	(100.0)
March 1998				
1. State Bank Group	7,470	7,390	662	15,522
	(48.1)	(47.6)	(4.3)	(100.0)
2. Nationalised Banks	13,714	15,717	700	30,130
	(45.5)	(52.2)	(2.3)	(100.0)
3. PSBs (1+2)	21,184	23,107	1,362	45,653
	(46.4)	(50.6)	(3.0)	(100.0)
March 1999				
1. State Bank Group	8,318	9,668	655	18,641
	(44.6)	(51.9)	(3.5)	(100.0)
2. Nationalised Banks	14,288	17,940	841	33,069
	(43.2)	(54.3)	(2.5)	(100.0)
3. PSBs (1+2)	22,606	27,608	1,496	51,710
	(43.7)	(53.4)	(2.9)	(100.0)
March 2000				
1. State Bank Group	8,947	10,266	560	19,773
	(45.2)	(52.0)	(2.8)	(100.0)
2. Nationalised Banks	14,768	18,258	495	33,521
	(44.0)	(54.5)	(1.5)	(100.0)
3. PSBs (1+2)	23,715	28,524	1,055	53,294
	(44.5)	(53.5)	(2.0)	(100.0)

Notes: 1. * Revised to Rs. 41,661 crore.
2. Figures in brackets are percentages to the total.

Table II.29: Distribution of Net NPAs by Number of Public Sector Banks: 1996 to 2000

(No. of banks)

Net NPAs/ Net Advances	End-March				
	1996	1997	1998	1999	2000
1. Upto 10 per cent	19	17	17	18	22
2. Above 10 and upto 20 per cent	6	9	9	8	5
3. Above 20 per cent	2	1	1	1	—

to 91.5 per cent in 1999-2000. Gross NPAs to gross advances of all private sector banks declined from 10.8 per cent in 1998-99 to 8.5 per cent in 1999-2000 and net NPAs to net advances also showed a decline from 7.4 per cent in 1998-99 to 5.6 per cent in 1999-2000. Gross NPAs to total assets declined from 4.5 per cent in 1998-1999 to 3.6 per cent in 1999-2000 and net NPAs to total assets also declined from 2.8 per cent in 1998-99 to 2.3 per cent in 1999-2000. The details are given in Appendix Tables II.8(C) and II.8(D).

Old Private Sector Banks

2.37 The gross as well as net NPAs of old sector banks recorded a decline during 1999-2000 due to the increase in standard assets from 86.9 per cent in 1998-99 to 88.8 per cent in 1999-2000. Gross NPAs to total advances of old private sector banks declined from 13.1 per cent in 1998-99 to 11.3 per cent in 1999-2000. Net NPAs to net advances also declined from 9.0 per cent in 1998-99 to 7.3 per cent in 1999-2000. Gross NPAs to total assets of these banks declined from 5.8 per cent in 1998-99 to 5.1 per cent in 1999-2000 and net NPAs to total assets also declined from 3.6 per cent in 1998-99 to 3.2 per cent in 1999-2000 (Appendix Table II.8(C)). The distribution of Net NPAs of old private sector banks indicates that 1 bank recorded above 20 per cent net NPAs in 1999-2000 as against 3 in 1998-99. The number of banks recording net NPAs up to 10 per cent increased to 18 in 1999-2000 from 17 in 1998-99. The number of banks above 10-20 per cent range continued to remain at 5 in 1999-2000 (Table II.30).

New Private Sector Banks

2.38 The new private sector banks continued to maintain the highest share (95.9 per cent) of standard assets to total advances during 1999-2000 as compared to all other bank groups. Gross NPAs to gross advances of these banks declined from 6.2 per cent in 1998-99 to 4.2 per cent in 1999-2000. Net NPAs to net advances declined substantially from 4.5 per cent in 1998-99 to 2.9 per cent in 1999-2000. Gross NPAs to total assets declined from 2.3 per cent in 1998-99 to 1.6 per cent in 1999-2000. Similarly, net NPAs to total assets also declined from 1.6 per cent in 1998-99 to 1.1 per cent in 1999-2000. All the new private sector banks (8) had registered net NPAs below 10 per cent in 1999-2000 (Table II.30).

Foreign Banks

2.39 The NPA ratios of foreign banks also showed declines during 1999-2000 mainly on account of a decline in sub-standard assets. The share of sub-standard assets to total advances declined from 4.0 per cent in 1998-99 to 2.9 per cent in 1999-2000. The gross NPAs to gross advances of foreign banks declined from 7.6 per cent in 1998-99 to 7.0 per cent in 1999-2000 and the net NPAs to net advances also showed a decline from 2.9 per cent in

1998-99 to 2.4 per cent in 1999-2000. Gross NPAs to total assets increased from 3.1 per cent in 1998-1999 to 3.2 per cent in 1999-2000 while net NPAs to total assets declined from 1.1 per cent in 1998-99 to 1.0 per cent in 1999-2000. The details are given in Appendix Tables II.8(E) and II.8(F). In the case of foreign banks, the number of banks reporting net NPAs as percentage of Net Advances above 20 per cent increased to 4 in 1999-2000 from 3 in 1998-1999. The number of banks having this ratio in the range of 10-20 per cent declined to 7 in 1999-2000 from 11 in 1998-99. The number of banks with net NPAs ratio up to 10 per cent increased to 31 in 1999-2000 from 27 in 1998-99 (Table II.30).

Incremental Non-Performing Assets

2.40 A number of prudential measures have been undertaken in recent years to reduce the non-performing assets of the banking sector. Reflecting this, the incremental NPAs showed a distinct improvement during 1999-2000. An analysis of the incremental gross and net NPAs shows that gross as well as net NPAs as percentage of total assets and gross and net advances among the major bank groups suggest there has been a uniform decline in these ratios during 1999-2000. The ratio of incremental gross NPAs as percentage of incremental gross advances of SCBs declined from 16.9 per cent in 1998-99 to 2.8 per cent in 1999-2000 while the ratio of net NPAs to net advances declined from 10.3 per cent in 1998-99 to 2.7 per cent in 1999-2000. The ratio of incremental gross and net NPAs to total assets in the case of SCBs declined from 5.1 per cent and 2.7 per cent respectively in 1998-99 to 1.3 per cent each in 1999-2000. In the case of foreign banks, the incremental gross NPAs as percentage of total assets increased from 3.3 per cent and in 1998-99 to 4.1 per cent in 1999-2000 while net NPAs to total assets declined from 1.7 per cent in 1998-99 to (-) 0.4 per cent in 1999-2000 (Table II.31). In absolute terms incremental gross NPAs of SCBs amounted to Rs.2,118 crore in 1999-2000 as compared to Rs.7,908 crore in 1998-99 while, net NPAs stood at Rs.2,131 crore in

Table II.30: Distribution of Net NPAs by Number of Indian Private Sector Banks and Foreign Banks in India: 1996 to 2000

(No. of banks)

Net NPAs/Net Advances	End-March				
	1996	**1997**	**1998**	**1999**	**2000**
Old Indian Private Sector Banks					
1. Upto 10 per cent	22	22	21	17	18
2. Above 10 and upto 20 per cent	3	3	4	5	5
3. Above 20 per cent	Nil	Nil	Nil	3	1
New Indian Private Sector Banks					
1. Upto 10 per cent	9	9	9	9	8
2. Above 10 and upto 20 per cent	Nil	Nil	Nil	Nil	Nil
3. Above 20 per cent	Nil	Nil	Nil	Nil	Nil
Foreign Banks in India @					
1. Upto 10 per cent	30	36	34	27	31
2. Above 10 and upto 20 per cent	1	1	6	11	7
3. Above 20 per cent	Nil	2	2	3	4

Note: @ No. of banks having nil NPAs for 1996, 1997, 1998 , 1999 and 2000 were 12, 16, 14, 9 and 8 respectively.

Table II.31: Bank Group-wise Incremental Ratio of Gross and Net NPAs: 1998-99 to 1999-2000

(Per cent)

Bank Group	Incremental Ratio of Gross NPAs to				Incremental Ratio of Net NPAs to			
	Gross Advances		Total Assets		Net Advances		Total Assets	
	1998-99	1999-2000	1998-99	1999-2000	1998-99	1999-2000	1998-99	1999-2000
1	2	3	4	5	6	7	8	9
Scheduled Commercial Banks	16.9	2.8	5.1	1.3	10.3	2.7	2.7	1.3
Public Sector Banks	15.0	2.9	5.0	1.3	8.0	3.6	2.5	1.6
Nationalised Banks	10.5	1.4	4.3	0.6	4.9	4.8	1.9	2.3
State Bank Group	25.0	5.3	5.9	2.2	15.3	1.6	3.2	0.7
Old Private Sector Banks	29.1	3.1	9.4	1.7	45.7	1.9	7.2	1.2
New Private Sector Banks	16.5	0.9	3.8	0.4	12.1	0.3	2.5	0.1
Foreign Banks in India	437.9	4.0	3.3	4.1	-125.0	-0.4	1.7	-0.4

Table II.32: Bank Group-wise Incremental Gross and Net NPAs: 1998-99 to 1999-2000

(Amount in Rs.crore)

Bank Group	**Incremental Gross NPAs**		**Incremental Net NPAs**	
	1998-99	1999-2000	1998-99	1999-2000
1	2	3	4	5
Scheduled Commercial Banks	7,908	2,118	4,260	2,131
Public Sector Banks	6,058	1,583	2,979	1,976
Nationalised Banks	2,939	451	1,297	1,641
State Bank Group	3,119	1,132	1,683	335
Old Private Sector Banks	990	202	760	152
New Private Sector Banks	479	75	320	25
Foreign Banks in India	381	258	200	-22

1999-2000 as against Rs.4,260 crore in 1998-99. In the case of foreign banks the incremental gross and net NPAs amounted to Rs. 258 crore and Rs.(-) 22 crore respectively in 1999-2000 as compared to Rs. 381 crore and Rs. 200 crore in 1998-99 (Table II.32).

4. Capital to Risk-Weighted Assets Ratio

2.41 The position of capital adequacy ratio in respect of the PSBs improved marginally in 1999-2000. The capital adequacy ratios was above 10 per cent in the case of 22 banks,as compared to 21 banks in 1998-99, 9-10 per cent range in respect of 4 banks while the ratio remained below 4 per cent in the case of 1 bank (Indian Bank) (Table II.33). Two banks *viz.*, Bank of Maharashtra and Syndicate Bank moved up from the 9-10 per cent CRAR range to the above 10 per cent range, while two other banks *viz.*, Canara Bank and Indian Overseas Bank moved from above 10 per cent CRAR range to the 9-10 per cent range. The State Bank of India and its Associates continued to maintain CRAR in excess of 10 per cent during 1999-2000. Indian Bank continued to have a negative capital adequacy ratio. Out of the 18 nationalised banks having positive CRAR, 9 banks recorded increases in the ratio. In the SBI Group, the State Bank of India recorded a decline in the ratio, while 6 of its 7 associates registered increases (Appendix Table II.9(A)).

2.42 The number of old private sector banks having capital adequacy ratios above 10 per cent increased to 19 in 1999-2000 from 18 in the previous year, while those having CRAR in the range 9-10 per cent remained stable at 2 in 1999-2000. The number of new private sector banks having CRAR in excess of 10 per cent continued to remain 7 in 1999-2000, while the number of foreign banks having CRAR above 10 per cent increased to 37 from 28 in 1998-99 (Table II.34). The capital adequacy ratios of individual banks belonging to the Indian Private sector bank group and foreign banks are given in Appendix Tables II.9 (B) and II.9 (C).

5. Regional Rural Banks

Mobilisation and Deployment of Funds

2.43 The outstanding deposits of Regional Rural Banks (RRBs) recorded a significant increase of 19.0 per cent from Rs.26,319.0 crore as on March 26, 1999 to Rs.31,306.0 crore as on March 24, 2000. On the assets side, bank credit showed an increase of 15.0 per cent from Rs.11,016.0 crore in 1998-99 to 12,663.0 crore in 1999-2000. The investments of RRBs continued to exhibit improvement during 1999-2000. Investments-deposits ratio increased from19.7 per cent in 1998-99 to 20.0

Table II.33: Distribution of CRAR - Public Sector Banks: 1998-99 and 1999-2000

(No. of banks)

Banks	1998-99				1999-2000			
	Below 4 per cent	4 per cent and upto 9 per cent	Above 9 and upto 10 per cent	Above 10 per cent	Below 4 per cent	4 per cent and upto 9 per cent	Above 9 and upto 10 per cent	Above 10 per cent
1	2	3	4	5	6	7	8	9
1. SBI	—	—	—	1	—	—	—	1
2. SBI Associates	—	—	—	7	—	—	—	7
3. Nationalised Banks	1	—	5	13	1	—	4	14
Total	**1**	**—**	**5**	**21**	**1**	**—**	**4**	**22**

Table II.34: Distribution of CRAR - Indian Private Sector Banks and Foreign Banks in India: 1998-99 and 1999-2000

(No. of banks)

Banks	1998-99				1999-2000			
	Below 4 per cent	4 per cent and upto 9 per cent	Above 9 and upto 10 per cent	Above 10 per cent	Below 4 per cent	4 per cent and upto 9 per cent	Above 9 and upto 10 per cent	Above 10 per cent
1	2	3	4	5	6	7	8	9
1. Old Pvt. Sector Banks	2	3	2	18	1	2	2	19
2. New Pvt. Sector Banks	—	1	1	7	—	—	1	7
3. Foreign Banks	—	3	12	28	—	—	5	37

per cent in 1999-2000. The investment and credit to deposit ratio declined from 63.0 per cent in 1998-99 to 62.1 per cent in 1999-2000 (Table II.35).

Purpose-wise Disbursement of Loans and Advances

2.44 As on March 31, 1999, the loans and advances disbursed by RRBs for

Table II.35: Important Banking Indicators of RRBs: 1998 to 2000

(Amount in Rs.crore)

Item	March 27, 1998	March 26, 1999	March 24, 2000	Variations 1998-99	Variations 1999-2000
1	2	3	4	5 (3-2)	6 (4-3)
1 Liabilities to the Banking System	137	151	183	14 (10.2)	32 (21.2)
2 Liabilities to Others	21,660	26,319	31,306	4,659 (21.5)	4,987 (18.9)
2.1 Aggregate Deposits (a+b)	20,977	25,428	30,051	4,451 (21.2)	4,623 (18.2)
(a) Demand Deposits	3,805	4,688	5,105	883 (23.2)	417 (8.9)
(b) Time Deposits	17,172	20,740	24,946	3,568 (20.8)	4,206 (20.3)
2.2 Borrowings	4	8	52	4 (100.0)	44 (550.0)
2.3 Other Demand & Time Liabilities*	679	883	1,203	204 (30.0)	320 (36.2)
3 Assets with the Banking System	9,415	11,319	13,454	1,904 (20.2)	2,135 (18.9)
4 Bank Credit	9,687	11,016	12,663	1,329 (13.7)	1,647 (15.0)
5 Investments (a+b)	3,528	5,007	6,009	1,479 (41.9)	1,002 (20.0)
a. Govt. Securities	1,011	1,191	1,223	180 (17.8)	32 (2.7)
b. Other Approved Securities	2,517	3,816	4,786	1,299 (51.6)	970 (25.4)
6 Cash Balances	253	300	343	47 (18.6)	43 (14.3)
Memorandum Items :					
a Cash Balance-Deposit Ratio	1.21	1.18	1.14		
b Credit-Deposit Ratio	46.18	43.32	42.14		
c Investment/Deposit Ratio	16.82	19.69	20.00		
d Investment+Credit/Deposit Ratio	63.00	63.01	62.13		

Notes: 1. Figures in brackets are percentage variations.
2. * includes issue of Participation Certificates.

agriculture accounted for 46.3 per cent of the total advances. The major share of agricultural loans was in the form of short-term crop loans. As at end-March 1999, the short-term crop loans at Rs.1,756.6 crore constituted 68.6 per cent of agricultural advances while the share of term loans constituted 30.2 per cent. The share of non-agricultural advances *viz.*, advances to rural artisans, village and cottage industries, retail trade and self-employed, etc., and others constituted 53.7 per cent of total loans and advances as at end-March 1999 (Table II.36).

Financial Performance of RRBs

2.45 For the year 1999-2000, of the 196 RRBs, the audited results are available for 193 RRBs. An analysis of the financial performance of RRBs indicates that there has been an improvement in terms of profitability. Out of 193 RRBs, the number of profit making banks stood at 160 in 1999-2000 as compared with 147 out of 196 in 1998-1999. The operating profits increased by 58.4 per cent from Rs.335.0 crore in 1998-99 to Rs.530.7 crore in 1999-2000. The net profits of these banks increased by 73.1 per cent from Rs.247.8 crore in 1998-99 to Rs.428.9 crore in 1999-2000 (Table II.37). The ratio of operating profits to total assets increased from 0.91 per cent in 1998-99 to 1.37 per cent in 1999-2000 and the ratio of net profit to assets total also increased from 0.67 per cent in 1998-99 to 1.11 per cent in 1999-2000. The increase in profits of RRBs could be primarily attributed to the rise in the ratio of interest income to total assets and partly to the decline in the ratio

Table II.36: Purpose-wise Disbursements of Loans and Advances of RRBs: 1998 and 1999

(Amount in Rs. crore)

	Purpose	As at End-March	
		1998	1999
	1	2	3
1.	Short term (crop loans)	1,457.09	1,756.55
2.	Term loan for agriculture and allied activities	645.36	774.52
3.	Indirect Advances	6.36	29.48
I	**Total Agriculture (1 to 3)**	**2,108.81 (45.1)**	**2,560.55 (46.3)**
4.	Rural artisans, village and cottage industries	198.32	196.18
5.	Other Industries	162.17	199.71
6.	Retail trade and Self- employed, etc.	629.82	864.57
7.	Other purposes	1,568.53	1,699.93
II	**Total Non-Agriculture (4 to 8)**	**2,558.84 (54.9)**	**2,960.39 (53.7)**
	Total (I+II)	**4667.65 (100.0)**	**5520.94 (100.0)**

Note: Figures in brackets are percentages to the total.

Source: NABARD.

Table II.37: Financial Performance of Regional Rural Banks: 1998-99 and 1999-2000

(Rs.crore)

	Particulars	1998-99 Loss Making [49]	1998-99 Profit Making [147]	1998-99 All RRBs (196)	1999-2000 Loss Making [33]	1999-2000 Profit Making [160]	1999-2000 RRBs (193)	Variation Col. (7) over Col. (4)
	1	2	3	4	5	6	7	8
A.	**Income (i+ii)**	**587.89**	**2,855.05**	**3,442.94**	**450.41**	**3,650.55**	**4,100.96**	**658.02** (19.11)
	i) Interest income	553.37	2,732.87	3,286.24	415.60	3,479.83	3,895.43	609.19 (18.54)
	ii) Other income	34.52	122.18	156.70	34.81	170.72	205.53	48.83 (31.16)
B.	**Expenditure (i+ii+iii)**	**765.98**	**2,429.20**	**3,195.18**	**559.04**	**3,113.02**	**3,672.06**	**476.88** (14.92)
	i) Interest expended	476.14	1,649.17	2,125.31	361.16	2,168.10	2,529.26	403.95 (19.01)
	ii) Provisions and contingencies	28.15	59.07	87.22	7.45	94.34	101.79	14.57 (16.7)
	iii) Operating expenses	261.69	720.96	982.65	190.43	850.58	1,041.01	58.36 (5.94)
	of which: Wage Bill	229.93	626.22	856.15	170.53	731.27	901.80	45.65 (5.33)
C.	**Profit**							
	i) Operating Profit/Loss	**-149.94**	**484.92**	**334.98**	**-101.18**	**631.87**	**530.69**	**195.71** (58.42)
	ii) Net Profit/Loss	**-178.09**	**425.85**	**247.76**	**-108.63**	**537.53**	**428.90**	**181.14** (73.11)
D.	**Total Assets**	**7,960.98**	**28,829.44**	**36,790.42**	**5,606.91**	**33,043.71**	**38,650.62**	**1,860.20** (5.06)
E.	**Financial Ratios $**							
	i) Operating Profit	-1.88	1.68	0.91	-1.80	1.91	1.37	0.46
	ii) Net Profit	-2.24	1.48	0.67	-1.94	1.63	1.11	0.44
	iii) Income	7.38	9.90	9.36	8.03	11.05	10.61	1.25
	iv) Interest income	6.95	9.48	8.93	7.41	10.53	10.08	1.15
	v) Other Income	0.43	0.42	0.43	0.62	0.52	0.53	0.11
	vi) Expenditure	9.62	8.43	8.68	9.97	9.42	9.50	0.82
	vii) Interest expended	5.98	5.72	5.78	6.44	6.56	6.54	0.77
	viii) Operating expenses	3.29	2.50	2.67	3.40	2.57	2.69	0.02
	ix) Wage Bill	2.89	2.17	2.33	3.04	2.21	2.33	0.01
	x) Provisions and Contingencies	0.35	0.20	0.24	0.13	0.29	0.26	0.03
	xi) Spread (Net Interest Income)	0.97	3.76	3.16	0.97	3.97	3.53	0.38

Note : 1. Data for 1999-2000 relate to 193 RRBs for which audited balance sheets were available.

2. $ Ratios to Total Assets.

Source : NABARD.

of intermediation cost to total assets. The spread of RRBs increased marginally from 3.16 per cent in 1998-99 to 3.53 per cent in 1999-2000.

Non-performing Assets

2.46 The RRBs showed significant improvement in terms of the reduction in their NPAs during 1998-99. The share of NPAs in total assets declined from 32.8 per cent as at end-March 1998 to 27.9 per cent as end-March 1999. The share of sub-standard, doubtful and loss assets declined during the year 1998-99. As a result, the share of standard assets increased from 67.2 per cent as at-end March 1998 to 72.2 per cent as at end-March 1999 (Table II.38).

Table II.38: Classification of Loan Assets of all RRBs: as Percentage to Total Assets

(Per cent)

	Category	As at end-March			
		1996	1997	1998	1999
	1	2	3	4	5
1.	**Standard Assets**	**56.9**	**63.2**	**67.2**	**72.2**
2.	**Non-Performing Assets**	**43.1**	**36.8**	**32.8**	**27.9**
	Sub-standard	9.3	8.2	8.5	8.2
	Doubtful	28.0	24.0	20.4	17.0
	Loss	5.8	4.6	3.9	2.7

Source: NABARD.

6. Regional Spread of Banking

2.47 As a part of the ongoing financial sector reforms, banks have been given freedom in respect of opening up of new branches subject to the criteria laid down by the Reserve Bank. The number of branches of commercial banks increased to 65,340 as at end-June 2000 from 64,996 in the corresponding period of the previous year. The share of the southern region in the total number of branches constituted the maximum at 27.3 per cent, followed by the central region (20.4 per cent) (Appendix Table II.10 and 11).

7. Scheduled Commercial Banks' Operations in Certificates of Deposit and Commercial Paper

Certificates of Deposit

2.48 During the financial year 1999-2000, owing to comfortable liquidity conditions brought about by large deposit growth and a cut in CRR effective May 1999, banks reduced their dependence on high cost deposits. The outstanding amount of certificates of deposit (CDs) issued by banks declined from Rs.3,494 crore as on April 9, 1999 to Rs.1,227 crore as on March 24, 2000. During the above period, the discount rates were in the range of 9.5 - 11.0 per cent on CDs with a maturity of 3 months and were in the range of 9.75 - 12.50 per cent for those with a maturity of one year. As at the end of August 25, 2000, an amount of Rs.1,149 crore was outstanding and the typical discount rate for a 3 month maturity period was 10.25 per cent and that for a maturity period of 1 year was 10.50 per cent (Appendix Table II.12). With effect from May 3, 2000, in order to bring it at par with other instruments such as commercial paper and term deposits, the minimum maturity period of CDs was reduced to 15 days. Again, with a view to providing flexibility and depth to the secondary market, the restriction on transferability period for CDs issued by both banks and financial institutions stands withdrawn, effective October 10, 2000.

Commercial Paper

2.49 During the financial year 1999-2000, discount rate on commercial paper (CP) witnessed a divergent trend. Reflecting the liquidity conditions and the trend of declining interest rates in other segments of the money market, discount rates on CPs declined during the first half of the financial year 1999-2000. The weighted average discount rate on CP rose from 10.16 per cent in the fortnight ended April 15, 1999 to 10.30 per cent in the fortnight ended September 15, 1999 and further to 10.96 per cent during the fortnight ended October 31, 1999. Subsequently, with the easing of liquidity conditions, discount rates started falling and reached a level of 10.62 per cent in the fortnight ended March 31, 2000 and eased further to 9.55 per cent by the fortnight ended May 15, 2000. Subsequently, there was an all time increase in the range of discount rates of CPs (11.24 - 12.75 per cent) issued during the fortnight ended September 30, 2000.

2.50 The amount of primary issues of CPs increased substantially owing to the relatively low discount rates during most part of the year and a turnaround in manufacturing activity. The cumulative amount of primary issues of CP during 1999-2000 was Rs.31,126 crore as compared with Rs.24,721 crore in 1998-99. As a result, fortnightly average outstanding amount of CP during 1999-2000 was much higher at Rs.5,663 crore as compared with Rs.4,770 crore in the preceding year. The outstanding amount of CPs increased from Rs.6,311 crore as at the end of the first fortnight of July 1999 to a high of Rs.7,814 crore as on January 31, 2000 and declined steadily thereafter to reach the lowest level of Rs.5,606 crore as on April 30,2000. Subsequently, there was an increase in the outstanding amount of CPs at Rs.7,627 crore in the fortnight ended June 30, 2000, which continued till July end; gradually easing to Rs.5,931 crore as at September 30, 2000 (Appendix Table II.13). Manufacturing companies continued to account for bulk of CP issues, while the large amount of CPs were also held by banks.

8. Interest Rates of Scheduled Commercial Banks

Interest Rates

2.51 During the year July 1999-June 2000, there was a general softening of interest rates mainly on account of easing of monetary measures announced by the Reserve Bank. The banks revised both the Prime Lending Rates (PLRs) and domestic deposit rates in consonance with the reductions and later increase in the Bank rate, Reserve Bank repo rate and cash reserve requirements, during the year.

Lending Rates

2.52 The major PSBs reduced their Prime Lending Rates by 0.75 to 1.25 percentage points during the year 1999-2000. As at the end of September 2000, the PLRs of PSBs were in the range of 11.75 - 13.00 per cent and for all the scheduled commercial banks the PLRs were in the range of 10.00 - 17.50 percent as against 12.0 - 18.5 percent in September 1999 (Table II.39).

2.53 Prior to the measures announced in April 2000, Prime Term Lending Rate (PTLR) was generally less than PLR by 1.00 - 1.75 percentage points, which is now maintained at a difference of about 0.5 percentage points between the PLR and the PTLR. Since April 1999, as banks were given freedom to operate different PLRs for different maturities, 43 scheduled commercial banks, predominantly foreign and private sector banks, have so far reported introduction of tenor linked PLRs. The highest spread over PLR for majority of banks remained unchanged at 4.0 percentage points.

Domestic Deposit Rates

2.54 On the deposits side, the interest rate on saving accounts continues to be regulated. The rate was reduced from 4.5 to 4.0 per cent on April 1, 2000. The interest rates on term deposits softened during the year 1999-2000. Following the announcement of reduction in the Bank Rate, repo rate and CRR by 1.0 percentage point each in April 2000, there has been a general reduction in the deposit rates of most of the scheduled commercial banks across all maturities by 50 to 200 basis points.

Table II.39: Distribution of Prime Lending Rate of Public Sector Banks

Month/ Year	PLR Range						
	<12.0	12.0-12.25	12.5	12.75	13.0	13.25 – 13.75	Total No. of Banks
1	2	3	4	5	6	7	8
1999							
29-January	—	—	—	1 (3.7)	10 (37.03)	16 (59.3)	27
26-February	—	—	—	1 (3.7)	10 (37.03)	15 (55.6)	27
26-March	—	7 (25.9)	1 (3.7)	2 (7.4)	5 (18.5)	12 (44.4)	27
23-April	—	7 (25.9)	3 (11.1)	2 (7.4)	5 (18.5)	9 (33.3)	27
21-May	—	6 (22.2)	4 (14.8)	2 (7.4)	5 (18.5)	9 (33.3)	27
18-June	—	5 (18.5)	5 (18.5)	2 (7.4)	5 (18.5)	9 (33.3)	27
30-July	—	9 (33.3)	6 (22.2)	2 (7.4)	5 (18.5)	5 (18.5)	27
27-August	—	9 (33.3)	6 (22.2)	2 (7.4)	6 (22.2)	4 (14.8)	27
24-September	—	9 (33.3)	6 (22.2)	2 (7.4)	6 (22.2)	4 (14.8)	27
October	—	9 (33.3)	6 (22.2)	2 (7.4)	6 (22.2)	4 (14.8)	27
November	—	9 (33.3)	6 (22.2)	2 (7.4)	6 (22.2)	4 (14.8)	27
December	—	9 (33.3)	6 (22.2)	2 (7.4)	6 (22.2)	4 (14.8)	27
2000							
January	—	9 (33.3)	6 (22.2)	2 (7.4)	6 (22.2)	4 (14.8)	27
February	—	9 (33.3)	6 (22.2)	2 (7.4)	6 (22.2)	4 (14.8)	27
March	—	9 (33.3)	6 (22.2)	2 (7.4)	6 (22.2)	4 (14.8)	27
April	10 (37.1)	7 (25.9)	5 (18.5)	2 (7.4)	1 (3.7)	2 (7.4)	27
May	12 (44.5)	8 (29.6)	7- (25.9)	—	—	—	27
June	12 (44.5)	8 (29.6)	7 (25.9)	—	—	—	27
July	12 (44.5)	7 (25.9)	8 (29.6)	—	—	—	27
August	1 (3.7)	9 (33.3)	14 (51.9)	1 (3.7)	2 (7.4)	—	27
September	1 (3.7)	9 (33.3)	13 (48.1)	2 (7.4)	2 (7.4)	—	27

Note: * Figures in brackets represents percentage distribution of banks.

2.55 Consequent upon the increase in the Bank Rate, and CRR on July 21, 2000, there was a fall in the range of deposit rates. At present, the deposit rates of scheduled commercial banks (PSBs) are in the range of 4.00- 8.50 per cent for maturity periods up to one year and 8.00 - 10.50 per cent for maturity period above one year (Table II.40).

2.56 An analysis of the range of PLR of SCBs indicates that the lower and upper bounds of this range for PSBs were lower in September 2000 than the levels of October 1999. However, as the upper bound fell more than the lower bound, PLR range declined. Similar figures for other bank groups indicate that private sector banks and foreign banks

Table II.40: Interest Rates on Deposits and Lendings

(in per cent)

Category of Banks	Range of PLR	
	October 1999	September 2000
Public sector Banks	12.00 –13.50	11.75 - 13.00
Private Sector Banks	10.50 – 17.50	10.25 - 15.50
Foreign Banks	10.50 – 16.00	10.00 - 17.50
	Range of Domestic Term Deposit Rates	
Public Sector Banks	5.00 - 11.00	4.00 - 10.50
Private Sector Banks	5.00 - 12.50	4.50 - 11.50
Foreign Banks	4.00 - 12.50	4.00 - 12.00

typically operated on much broader ranges for both periods under consideration. Further, the range of domestic term deposit rates of private and foreign banks were greater than those for PSBs. This could be reflective of the successful practising of price discrimination by private and foreign banks to increase their profits as also the wide divergences between the management, operations and services offered by individual banks in these bank groups.

9. Rural Credit and Priority Sector Lending

2.57 Further efforts were made during 1999-2000 to enhance the flow of rural credit. NABARD is the primary agency for co-ordinating and facilitating the extension of rural credit. Commercial banks supplement the efforts of NABARD and co-operative banks in meeting the credit requirements of rural India. The credit extended by Scheduled Commercial Banks (SCBs) primarily cover priority sector lending and the sponsoring of RRBs. The operation of RRBs has been discussed in section 4. Here the contribution of SCBs to rural credit is briefly discussed.

Bank Group-wise Distribution of Rural Credit

Priority Sector Advances by Public Sector Banks

2.58 As on the last reporting Friday of March 2000, the total priority sector advances of PSBs constituted 43.6 per cent of the Net Bank Credit (NBC) (Rs.1,27,807 crore) as against 43.5 per cent (Rs.1,07,200 crore) as on the last reporting Friday of March 1999. The agricultural advances of PSBs increased by Rs.6,112 crore (15.3 per cent) from Rs.40,078 crore as on the last reporting Friday of March 1999 (16.3 per cent of net bank credit) to Rs.46,190 crore as on the last reporting Friday of March 2000 (15.8 per cent of net bank credit). In the priority sector advances, the share of agriculture was maximum at 36.1 per cent as on the last reporting Friday of March 2000, followed by small scale industries (35.8 per cent) and the other priority sector advances (25.1 per cent) (Appendix Table II.14).

Priority Sector Advances by Private Sector Banks

2.59 Private sector commercial banks are also required to meet similar targets and sub-targets which are applicable to PSBs for lending to the priority sector. The total priority sector credit (provisional) extended by the private sector banks as on the last reporting Friday of March 2000 amounted to Rs.18,019 crore constituting 38.7 per cent of net bank credit provided by these banks as compared to Rs.14,155 crore as on the last reporting Friday of March 1999. The share of small scale industries was highest at 15.7 per cent of NBC, followed by other priority sector advances (13.9 per cent) and agriculture (9.1 per cent) (Appendix Table II.15).

Priority Sector Advances by Foreign Banks

2.60 The foreign banks operating in India are required to fulfil an overall target of 32 per cent of net bank credit in lending to the priority sector, within which two sub-targets of 10 per cent for SSI and 12 per cent for exports have been stipulated. As on the last reporting Friday of March 2000, the total priority sector advances of foreign banks constituted 34.5 per cent of net bank credit provided by these banks. The export credit increased by 11.3 per cent from Rs.5,678 crore in March 1999 to Rs.6,322 crore in March 2000 and constituted 22.5 per cent of NBC. The credit provided to small scale industries increased by 16.7 per cent from Rs.2,460 crore in March 1999 to Rs.2,872 in March 2000 constituting 10.2 per cent of NBC (Appendix Table II.16).

Differential Rate of Interest (DRI) Scheme

2.61 The outstanding advances of the PSBs under the DRI scheme stood at Rs.432.82 crore as at the end of March 2000 which accounted for 0.18 per cent of the total outstanding advances of these banks as at end-March 1999. The advances to SC/STs under DRI by the PSBs amounted to Rs.257.6 crore forming 59.5 per cent of total DRI advances as at end-March 2000 as against Rs.324.29 crore forming 63.8 per cent at end-March 1999.

Lead Bank Scheme

2.62 The main focus of the Lead Bank Scheme (LBS) is to enhance the proportion of bank finance to the priority sector. The objective of the scheme has been to co-ordinate the activities of banks and other developmental agencies to facilitate the flow of credit to the priority sector The LBS has covered 575 districts as on March 31, 2000 as against 567 districts as on March 31, 1999. During the year 1999-2000, 8 new districts have been formed as a result of reorganisation/ bifurcation and the lead responsibility in respect of these districts was allotted to PSBs. The sectoral targets set for the years 1998-99 and 1999-2000 under the Annual Credit Plan are given in Table II.42. As high as 96.7 per cent of the target was achieved during the year 1998-99. Sectorally, the achievement was 96.3 percent of the target in the case of agriculture and allied activities, 98.3 per cent in the case of small-scale industries, and 95.9 per cent in the case of services sector during the year 1998-99. The all India sector-wise data under Annual Credit Plan during 1998-99 and 1999-2000 are furnished in Table II.41.

Advances to Weaker Sections

2.63 The total advances to weaker sections provided by PSBs stood at Rs.19,244 crore, Rs.19,608 crore and Rs.21,145 crore as on the last reporting Friday of March 1999, September 1999 and March 2000, respectively. This worked out to 7.82 per cent, 7.71 per cent and 7.22 per cent, respectively of the net bank credit as against the stipulated target of 10 per cent.

Table II.41: Annual Credit Plan of Financial Institutions under Lead Bank Scheme

(Amount in Rs. crore)

Sector	1998-99			1999-2000
	Target	Achievement	Per cent to Achievement	Target
1	2	3	4	5
a) Agriculture and Allied activities	33,573.19	32,337.55	96.32	39,167.87
b) Small Scale Industries	11,629.67	11,431.19	98.29	12,772.81
c). Services	10,670.59	10,232.80	95.90	12,945.29
Total	**55,873.45**	**54,001.54**	**96.65**	**64,885.97**

PMRY- Performance of Banks from 1993-94 to 1999-2000

2.64 The Prime Minister's Rozgar Yojana for Educated Unemployed Youth is an important rural employment programme for which banks provide financial assistance to the beneficiaries. The PMRY scheme aims at ameliorating the economic conditions of the unemployed youth throughout the country through various forms of financial/technical assistance. The progress under the scheme is given in Table II.42. The assistance provided by banks towards PMRY scheme showed a declining trend from 1996-97 onwards, both in terms of the number of cases and the amounts disbursed. Besides, the share of disbursements to sanctions continued to decline while the average size of loans sanctioned remained about Rs.60,316 during the period (Table II.42).

10. Credit to Sick Industrial Units

2.65 The outstanding credit provided by Scheduled Commercial Banks as at the end of March 1999, in respect of sick Small-Scale Industrial Units (SSI) numbering 3,06,221 stood at Rs.4,313.48 crore. Of the 3,06,221 sick SSI units, banks have taken decisions regarding viability in respect of 2,89,885 units. Out of these, 18,692 units were found to be

Table II.42 : Financial Assistance under PMRY

(Amount in Rs. crore)

Year	Target (Number of youth)	Sanctions		Disbursements	
		No. of youth	Amount	No. of youth	Amount
1	2	3	4	5	6
1993-94	42,040	30,029	188.55	23,060	137.15
1994-95	2,39,215	1,85,803	1,054.99	1,58,863	872.67
1995-96	3,21,360	2,87,218	1,678.88	2,41,485	1,378.80
1996-97	3,07,163	2,71,768	1,653.06	2,28,496	1,352.16
1997-98	3,45,000	2,63,622	1,592.02	2,09,103	1,218.27
1998-99*	3,54,350	2,72,704	1,624.89	1,89,850	1,082.92
1999-2000*	3,54,450	2,50,544	1,562.90	1,37,774	825.95
Total	**19,63,578**	**15,61,688**	**9,419.49**	**11,88,991**	**6,867.92**

Note: * Provisional

viable and their outstanding bank credit amounted to Rs.376.96 crores (i.e. about 8.74 per cent of the total amount). There were 2,71,193 non-viable units with outstanding bank credit of Rs.3,746.07 crore which accounted for 88.7 per cent and 86.85 per cent of the total sick SSI units and their outstanding bank credit, respectively. The banks have yet to decide on the viability of the remaining 16,336 units with outstanding bank credit of Rs.190.45 crore. Banks have extended assistance to 12,759 units with an outstanding credit of Rs.194.91 crore under the nursing programme.

11. Audit Command Language

2.66 Audit Command Language (ACL) is a powerful auditing software that allows the user to download data from any platform and interrogate the downloaded data without modifying the downloaded data in any way. A major training programme on ACL was started by the Reserve Bank with the support of outside consultants from March 2000. The training programme is being conducted in two phases *viz.* introductory and advanced. Phase II will result in development of at least 100 Computer Assisted Audit Techniques (CAATs) which will be documented and made available to all regional offices for future use during inspection of automated branches. The case studies and CAATs will broadly cover important areas, such as treasury, credit, off-balance sheet items, ALM, regulatory compliance etc. At present, the officers identified for Phase II advanced program are involved in the development of CAATs. The use of CAAT is expected to substantially increase over the next few years and will become a permanent tool in the armoury of bank supervisors in India.

Sub-Committee (Audit)

2.67 There was no change in the composition of the Sub-Committee (Audit) since its inception. The tenure of the Sub-Committee was extended up to March 27, 2001 or till the Central Board of the Reserve Bank is reconstituted whichever is earlier. The Sub-Committee met twice during the period under review. To enable it to take a final decision with regard to the introduction of half-yearly review of accounts of PSBs, which the Sub-Committee had been considering for some time, a Working Group was setup as indicated by the Sub-Committee to examine the feasibility/modalities of introducing half-yearly review of accounts of these banks. The Working Group has submitted its report in June 2000 and the Sub-Committee in its subsequent meeting decided to introduce from the half-year ended September 2001 a system of half-yearly review of accounts in these banks.

12. Frauds/Robberies in Banks

2.68 During the year 1999 (January-December), commercial banks (excluding RRBs) reported 3,185 cases of frauds involving an amount of Rs.640.04 crore. This includes 17 cases of frauds, involving an amount of Rs.117.20 crore, reported in the overseas branches during the same period. These cases were followed up with the banks for necessary remedial measures and fixing staff accountability. During the period 1999-2000 (July-June), 113 cases of robberies/dacoities involving an amount of Rs. 10.32 crore were reported by PSBs.

13. Y2K Compliance

2.69 The Year 2000 (Y2K) problem was a major supervisory challenge addressed by the financial system supervisors across the world. The preparations made by the banks and financial institutions were closely monitored and reviewed during the year. Year 2000 risk assessments, mitigation measures, validation processes and outcomes were documented and subjected to independent verification. Contingency plans conforming to the critical minimum parameterisation recommended by the Reserve Bank were drawn up for operationalisation in the event of system failure. Moreover, hard copies of all important books, including customer accounts and treasury operation, were prepared and kept in readiness to ease temporary switch over to manual processing in the event of need. With elaborate preparations, all banks and financial institutions have reported successful transition across the Century Date Change. Banks and financial institutions have reported a smooth leap year and financial year transition as well.