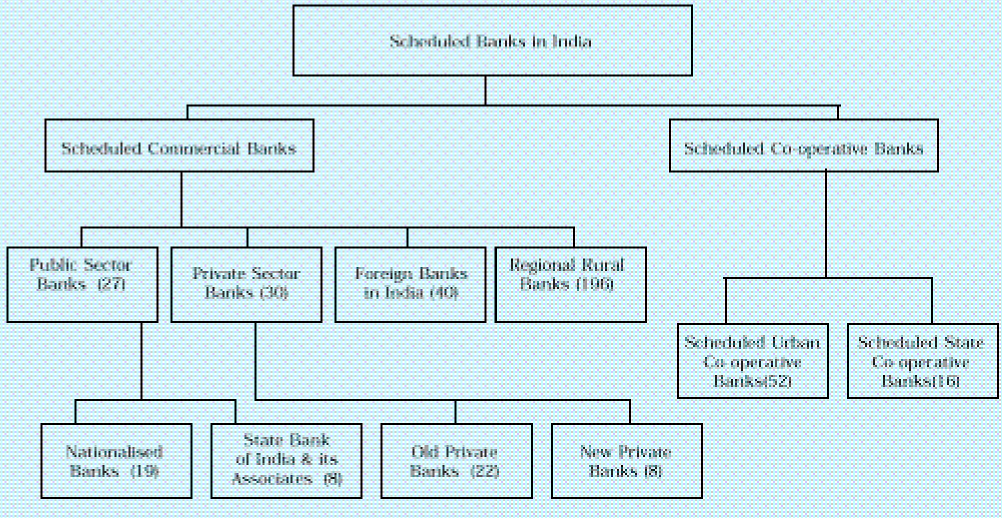
Chapter II

Developments in Commercial Banking

The Indian banking system continued to respond pro-actively to the challenges in its operating environment during the year 2001-02. There was a significant improvement in the performance of the commercial banking system, measured in terms of both operating as well as net profits. As at end-March 2002, 97 commercial banks, 196 Regional Rural Banks, 52 scheduled urban co-operative banks and 16 scheduled state co-operative banks were operating in India as scheduled banks (Chart II.1). Simultaneously, in view of the growing concerns about financial stability, prudential norms have been gradually tightened on par with international best practices. Banks have been also accorded greater operational flexibility in conducting their business. As part of the process, commercial banks have adopted several initiatives to strengthen their business practices, including, among others, greater product sophistication, increased customer orientation, improved risk-management, particularly credit risk management techniques, updated management information systems, greater focus on electronic banking channels and diversification into newer business areas. The salient policy measures pertaining to commercial banks are presented in the Annex.

2.2 The net profits of Scheduled Commercial Banks (SCBs), excluding Regional Rural Banks (RRBs), witnessed a noticeable upturn from Rs.6,403 crore in 2000-01 to Rs.11,572 crore in 2001-02 (excluding the impact of the merger, net profits stood at Rs.11,564 crore in 2001-02). The improvement in net profits, notwithstanding increased provisions and contingencies, was largely due to increased profit from treasury management operations in the soft interest rate scenario and the containment in operating expenses. While income of SCBs witnessed an increase of 14.4 per cent, driven largely by 'other income', the expenditure was, by and large, contained on account of the lower operating expenses, resulting from the decline in wage costs (Table II.1).

Chart II.1: Scheduled Banking Structure in India #
(As on March 31, 2002)



As included in the Second Schedule of the Reserve Bank of India Act, 1934.
Note: Figures in brackets indicate number of banks in each group.

Table II.1: Bank Group-wise Important Financial Indicators

(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		Provisions & Contingencies	Spread (NII)
								Total	*Of which* Wage Bill		
1	2	3	4	5	6	7	8	9	10	11	12
Scheduled Commercial Banks											
1999-2000	18,306.57	7,245.25	1,14,930.47	99,183.88	15,746.59	1,07,685.22	69,040.58	27,583.32	18,442.49	11,061.32	30,143.30
	(1.66)	(0.66)	(10.40)	(8.97)	(1.42)	(9.74)	(6.25)	(2.50)	(1.67)	(1.00)	(2.73)
2000-01	19,756.78	6,403.48	1,32,075.67	1,15,091.13	16,984.54	1,25,672.19	78,140.76	34,178.13	23,218.33	13,353.30	36,950.37
	(1.53)	(0.49)	(10.20)	(8.88)	(1.32)	(9.70)	(6.03)	(2.64)	(1.79)	(1.03)	(2.85)
2001-02	29,814.20	11,572.46 #	1,51,026.08	1,26,969.92	24,056.16	1,39,453.62	87,515.68	33,696.20	21,781.05	18,241.74	39,454.24
Public Sector Banks											
1999-2000	13,042.29	5,116.18	90,911.01	79,413.68	11,497.33	85,794.83	55,374.47	22,494.25	16,394.67	7,926.11	24,039.21
	(1.46)	(0.57)	(10.21)	(8.92)	(1.29)	(9.63)	(6.22)	(2.53)	(1.84)	(0.89)	(2.70)
2000-01	13,801.68	4,316.94	1,03,499.36	91,129.44	12,369.92	99,182.42	61,693.19	28,004.49	20,929.17	9,484.74	29,436.25
	(1.34)	(0.42)	(10.05)	(8.85)	(1.20)	(9.63)	(5.99)	(2.72)	(2.03)	(0.92)	(2.86)
2001-02	21,672.93	8,301.24	1,17,248.75	1,00,721.54	16,527.21	1,08,947.51	69,153.77	26,422.05	19,045.38	13,371.69	31,567.77
	(1.88)	(0.72)	(10.14)	(8.71)	(1.43)	(9.43)	(5.98)	(2.29)	(1.65)	(1.16)	(2.73)
Nationalised Banks											
1999-2000	7,203.15	2,437.00	56,896.43	50,234.01	6,662.42	54,459.43	35,477.41	14,215.87	10,468.28	4,766.15	14,756.60
	(1.30)	(0.44)	(10.27)	(9.06)	(1.20)	(9.83)	(6.40)	(2.57)	(1.89)	(0.86)	(2.66)
2000-01	8,062.06	2,095.09	64,126.52	56,977.36	7,149.16	62,031.43	38,789.64	17,274.82	13,142.78	5,966.97	18,187.72
	(1.29)	(0.33)	(10.23)	(9.09)	(1.14)	(9.90)	(6.19)	(2.76)	(2.10)	(0.95)	(2.90)
2001-02	12,953.25	4,851.75	72,485.95	61,975.51	10,510.44	67,634.20	42,597.86	16,934.84	12,316.55	8,101.50	19,377.65
	(1.83)	(0.69)	(10.26)	(8.78)	(1.48)	(9.58)	(6.03)	(2.40)	(1.74)	(1.15)	(2.74)
State Bank Group											
1999-2000	5,839.14	2,679.18	34,014.58	29,179.67	4,834.91	31,335.40	19,897.06	8,278.38	5,926.39	3,159.96	9,282.61
	(1.74)	(0.80)	(10.11)	(8.67)	(1.44)	(9.32)	(5.91)	(2.46)	(1.76)	(0.94)	(2.76)
2000-01	5,739.62	2,221.85	39,372.84	34,152.08	5,220.76	37,150.99	22,903.55	10,729.67	7,786.39	3,517.77	11,248.53
	(1.42)	(0.55)	(9.77)	(8.47)	(1.30)	(9.21)	(5.68)	(2.66)	(1.93)	(0.87)	(2.79)
2001-02	8,719.68	3,449.49	44,762.80	38,746.03	6,016.77	41,313.31	26,555.91	9,487.21	6,728.83	5,270.19	12,190.12
	(1.94)	(0.77)	(9.96)	(8.62)	(1.34)	(9.19)	(5.91)	(2.11)	(1.50)	(1.17)	(2.71)

Table II.1: Bank Group-wise Important Financial Indicators

(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: Total	Operating Expenses: *Of which* Wage Bill	Provisions & Contingencies	Spread (NII)
1	2	3	4	5	6	7	8	9	10	11	12
Old Private Sector Banks											
1999-2000	1,333.42	591.68	8,282.11	7,065.08	1,217.03	7,690.43	5,362.85	1,585.84	1,017.48	741.74	1,702.23
	(1.82)	(0.81)	(11.33)	(9.66)	(1.66)	(10.52)	(7.33)	(2.17)	(1.39)	(1.01)	(2.33)
2000-01	1,475.75	502.15	9,091.20	8,054.57	1,036.63	8,589.05	5,931.92	1,683.53	1,049.57	973.60	2,122.65
	(1.75)	(0.59)	(10.76)	(9.53)	(1.23)	(10.16)	(7.02)	(1.99)	(1.24)	(1.15)	(2.51)
2001-02	2,516.19	1,004.49	10,946.04	8,725.33	2,220.71	9,941.55	6,494.96	1,934.89	1,178.28	1,511.70	2,230.37
	(2.70)	(1.08)	(11.74)	(9.36)	(2.38)	(10.67)	(6.97)	(2.08)	(1.26)	(1.62)	(2.39)
New Private Sector Banks											
1999-2000	1,243.85	569.42	5,407.46	4,478.31	929.15	4,838.04	3,326.60	837.01	163.36	674.43	1,151.71
	(2.11)	(0.97)	(9.18)	(7.60)	(1.58)	(8.21)	(5.64)	(1.42)	(0.28)	(1.14)	(1.95)
2000-01	1,368.96	639.41	7,498.23	6,437.61	1,060.62	6,858.82	4,752.76	1,376.51	249.55	729.55	1,684.85
	(1.74)	(0.81)	(9.52)	(8.17)	(1.35)	(8.71)	(6.03)	(1.75)	(0.32)	(0.93)	(2.14)
2001-02	2,112.07	774.62 #	9,871.40	7,823.41	2,047.99	9,096.78	5,813.23	1,946.10	434.80	1,337.45	2,010.18
	(1.21)	(0.44)	(5.66)	(4.48)	(1.18)	(5.22)	(3.33)	(1.12)	(0.25)	(0.77)	(1.15)
Foreign Banks											
1999-2000	2,687.01	967.97	10,329.89	8,226.81	2,103.08	9,361.92	4,976.66	2,666.22	866.98	1,719.04	3,250.15
	(3.24)	(1.17)	(12.47)	(9.93)	(2.54)	(11.31)	(6.01)	(3.22)	(1.05)	(2.08)	(3.92)
2000-01	3,110.39	944.98	11,986.88	9,469.51	2,517.37	11,041.90	5,762.89	3,113.60	990.04	2,165.41	3,706.62
	(3.05)	(0.93)	(11.74)	(9.27)	(2.47)	(10.81)	(5.64)	(3.05)	(0.97)	(2.12)	(3.63)
2001-02	3,513.01	1,492.11	12,959.89	9,699.64	3,260.25	11,467.78	6,053.72	3,393.16	1,122.59	2,020.90	3,645.92
	(3.13)	(1.33)	(11.56)	(8.65)	(2.91)	(10.23)	(5.40)	(3.03)	(1.00)	(1.80)	(3.25)

\# The profit after tax for 2001-02 of ICICI Bank includes about Rs. 8 crore attributable to ICICI, ICICI Personal Financial Services Ltd. and ICICI Capital Services Ltd. for March 30 and March 31, 2002.

Notes:
1. The number of Scheduled Commercial Banks (excluding RRBs) in 1999-2000, 2000-01 and 2001-02 were 101, 100 and 97, respectively.
2. The number of Foreign Banks in 1999-2000, 2000-01 and 2001-02 were 42, 42 and 40, respectively.
3. The number of Old Private Banks in 1999-2000, 2000-01 and 2001-02 were 24, 23 and 22, respectively.
4. The number of New Private Banks for the years 1999-2000, 2000-01 and 2001-02 were 8 in each year.
5. Figures in brackets are percentages to Total Assets.
6. NII - Net Interest Income.
7. Scheduled Commercial Banks data for 2000-01 are as reported in the balance sheets for 2001-02 and hence may not tally with those reported in the *Report on Trend and Progress of Banking in India, 2000-01*, to the extent the figures for 2000-01 have been revised by some banks

2.3 Certain other features of the performance of commercial banks are the following. First, buoyed by favourable policy announcements, housing loans showed an accelerated growth of 38.4 per cent and with the result, the share of credit to housing increased three-fold from 3.8 per cent in 2000-01 to 11.6 per cent in 2001-02. Second, in the face of slowdown in industrial activity, banks have aggressively increased the share of credit towards ‘other non-priority sector personal loans’. This has doubled over the same period from 4.9 per cent to 10.0 per cent. Third, provisions and contingencies (P & C) of SCBs witnessed a rise of 36.6 per cent in 2001-02. The sharp increase in P & C, especially provisioning for NPAs, in the light of the gradual tightening of prudential norms, reflects the growing awareness on the part of banks to set aside larger quantum against impaired assets.

2.4 Notwithstanding the significant improvement in the overall performance of SCBs, there was wide divergence across bank groups. For example, the increase in income was the lowest for the foreign bank group (8.1 per cent), due to lower growth in their interest income. Foreign bank group also registered a low growth in expenditure (3.9 per cent), arising out of containment in interest expenses. 'Other income' of all bank groups recorded substantial increases reflecting increasing diversification into non-fund based activities. The maximum increase in this aspect was recorded by old private banks (114.2 per cent). The growth in operating expenses was the highest for new private banks, driven largely by increase in wage costs. PSBs, however, registered lower wage costs, due to cost control measures (organisational restructuring, enhancement of IT capabilities, etc.) and the voluntary retirement scheme (VRS) implemented in the previous year. Provisions and contingencies (P & C) increased for all bank groups, excepting in the case of foreign banks, whose provisioning requirements were low on account of improved asset quality.

2.5 During 2001-02, the total assets of SCBs witnessed an increase of 18.5 per cent over the previous year (excluding the impact of merger, the increase in asset growth was 13.4 per cent). Almost all bank groups witnessed double-digit asset growth during the year under review. Out of this, the increase for the PSBs stood at 12.2 per cent. Reflecting the impact of merger, the asset growth in the new private sector bank category witnessed a substantial jump of over 100 per cent over the previous year (excluding the impact of merger, the increase in asset growth was 19.1 per cent). Accordingly, the share of new private banks, which constituted 6.1 per cent of total assets of SCBs during 2000-01 improved to 11.4 per cent during 2001-02. Correspondingly, there was a decline in the shares of PSBs (75.3 per cent in 2001-02 as compared with 79.5 per cent in 2000-01), old private sector banks and foreign banks (Chart II.2).

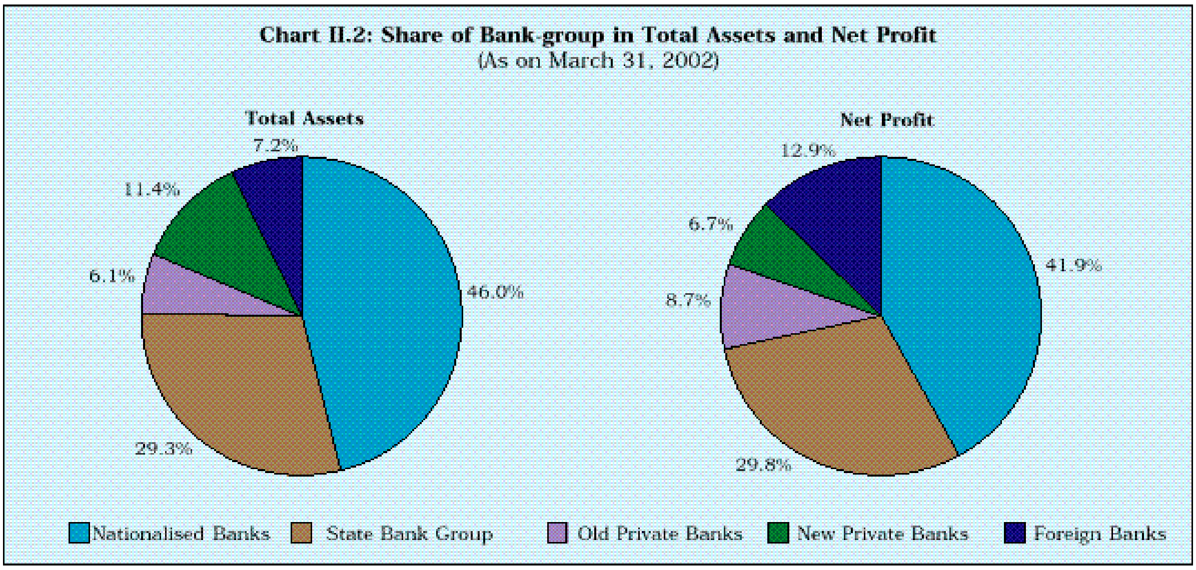


Chart II.2: Share of Bank-group in Total Assets and Net Profit
(As on March 31, 2002)

1. RBI Standing Liquidity Facilities

2.6 The RBI has been providing accommodation to SCBs and primary dealers (PDs) in the form of standing liquidity facilities on certain specific considerations. These facilities comprise (i) export credit refinance (ECR) facility (ii) collateralised lending facility (CLF) to banks (terminated on October 4, 2002) and (iii) liquidity support to PDs. These are in addition to liquidity operations through the liquidity adjustment facility (LAF). The standing liquidity facilities available from RBI are split into: (i) normal facility available at Bank Rate, and (ii) back-stop facility available at variable daily rate at 1 percentage point above reverse repo cut-off rate in LAF auctions, or 2-3 percentage points above repo rate in the absence of emergence of rate at the reverse repo auctions, or 1-3 percentage point above NSE - MIBOR as decided by the RBI, when no bids for repo/ reverse repo auctions have been received/ accepted. While normal facility constitutes two-thirds of total limits under standing liquidity support, back-stop facility comprises one-third. With a view to furthering the progress of phasing out sector-specific standing facility in an environment of low CRR, it was decided that the apportionment of normal and back-stop facilities, which presently is in the ratio of two-thirds to one-third (67:33) would be changed to one-half each (50:50) from the fortnight beginning November 16, 2002.

2.7 The outstanding export credit, which increased from Rs.45,387 crore as on March 23, 2001 to Rs.47,705 crore as on May 4, 2001, declined after some fluctuations to Rs.43,123 crore as on March 22, 2002. As a result, aggregate export credit as percentage of net bank credit dropped from 8.9 per cent to 7.4 per cent over this period. The export credit refinance limit on the other hand which had gone up from Rs.7,192 crore as on March 23, 2001 to Rs.9,221 crore as on June 29, 2001 on account of higher export credit along with change in formula effective the fortnight beginning May 5, 2001, declined subsequently to Rs.9,086 crore as on March 22, 2002 and further to Rs.5,198 crore as on September 20, 2002, reflecting the trend in export credit (Appendix Table II.1).

2.8 The daily average utilisation of export credit refinance (ECR) facility remained subdued during 2001-02 on account of substantial improvement in liquidity conditions in the economy. On fortnightly basis, it ranged between Rs.5,740 crore (69.5 per cent of limits) and Rs.1,135 crore (12.4 per cent of limits) during 2001-02. On average basis, the utilisation of export credit refinance stood at Rs.3,793 crore against the limit of Rs.9,014 crore during 2001-02. The utilisation of export credit refinance, which was subdued in April 2002, picked up somewhat in May 2002 and stood at Rs.2,130 crore as on May 31, 2002 (36.9 per cent of limits). Thereafter, the utilisation of export credit declined and stood at Rs. 11 crore as September 20, 2002 on account of easy liquidity conditions in the economy. ECR remains the only standing facility available for banks since October 5, 2002.

Collateralised Lending Facility (CLF)

2.9 The SCBs were provided CLF against collateral of excess holdings of Central government dated securities/treasury bills over their SLR requirements. The extent of liquidity support available to each bank was stipulated at equivalent to 0.125 per cent of its fortnightly average outstanding aggregate deposits 1997-98.

2.10 The utilisation of CLF during 2001-remained low due to easy liquidity conditions the economy. During the above period, daily average utilisation of CLF ranged between Rs.239 crore (36.3 per cent of limit) and Rs.21 crore (3. per cent of limit). On average, banks utilised Rs.124 crore against the limit of Rs.657 crore during the year. As on May 31, 2002, the average utilisation of CLF was Rs.127 crore (19.4 per cent of limits). However, during June 1 to October 2002, utilisation of CLF virtually remained nil The CLF was completely phased out since October 5, 2002. The option to reintroduce the CLF the future has, however, been retained.

2. Assets and Liabilities of Scheduled Commercial Banks

2.11 The assets and liabilities of SCBs are analysed on the basis of two data sources, viz., audited annual accounts and returns submitted by banks under Section 42(2) of RBI Act, 1934. As per the balance sheet data, during the year 2001-02, assets of SCBs (excluding RRBs) recorded a growth of 18.5 per cent (13.4 per cent, excluding the impact of merger). The shares of advances and investments in total assets stood at 42.1 per cent and 38.3 per cent, respectively. On the liability front, the composition underwent marginal changes with a decline in the share of deposits of SCBs from 81.5 per cent in 2000-01 to 78.3 per cent in 2001-02, and an increase in the share of borrowings from 4.3 per cent to 7.0 per cent during the same period. The share of short-term assets (cash and balances with RBI plus balances with banks and call/notice money) also declined over the period from 14.7 per cent to 13.3 per cent. Bank group-wise details of the consolidated balance sheets are presented in Tables II.2 to II.5.

Table II.2: Consolidated Balance Sheet of Scheduled Commercial Banks

(Amount in Rs. crore)

Item		As on March 31, 2001		As on March 31, 2002	
		Amount	per cent to total	Amount	per cent to total
1		2	3	4	5
	Liabilities				
1.	Capital	19,094.71	1.47	21,472.67	1.40
2.	Reserves & Surplus	48,645.12	3.76	62,686.91	4.08
3.	Deposits	10,55,386.43	81.47	12,02,699.42	78.33
	3.1 Demand Deposits	1,39,732.74	10.79	1,53,069.81	9.97
	3.2 Savings Bank Deposits	2,18,712.78	16.88	2,55,597.80	16.65

	3.3 Term Deposits	6,96,940.91	53.80	7,94,031.81	51.71
4.	Borrowings	55,514.58	4.29	1,07,180.18	6.98
5.	Other Liabilities and Provisions	1,16,764.50	9.01	1,41,473.95	9.21
Total Liabilities		**12,95,405.34**	**100.00**	**15,35,513.13**	**100.00**
Assets					
1.	Cash and balances with RBI	84,503.53	6.52	86,760.51	5.65
2.	Balances with banks and money at call and short notice	1,05,970.66	8.18	1,17,518.25	7.65
3.	Investments	4,91,755.14	37.96	5,88,058.29	38.30
	3.1 In Govt. Securities (a+b)	3,53,190.33	27.26	4,31,753.46	28.12
	a. In India	3,50,701.18	27.07	4,28,363.38	27.90
	b. Outside India	2,489.15	0.19	3,390.08	0.22
	3.2 In other approved Securities	23,800.91	1.84	21,752.96	1.42
	3.3 In non-approved Securities	1,14,763.90	8.86	1,34,551.87	8.76
4.	Loans and Advances	5,26,150.85	40.62	6,45,743.04	42.05
	4.1 Bills purchased & discounted	50,267.48	3.88	53,609.38	3.49
	4.2 Cash Credit, Overdrafts, etc.	2,85,851.62	22.07	3,21,725.86	20.95
	4.3 Term Loans	1,90,031.75	14.67	2,70,407.80	17.61
5.	Fixed Assets	16,237.29	1.25	20,083.30	1.31
6.	Other Assets	70,787.87	5.46	77,349.74	5.04
Total Assets		**12,95,405.34**	**100.00**	**15,35,513.13**	**100.00**

Source: Balance sheets of respective banks

Table II.3: Consolidated Balance Sheet of Public Sector Banks

(Amount in Rs.crore)

Item	Public Sector Banks				Nationalised Banks				State Bank Group			
	As on March 31, 2001		As on March 31, 2002		As on March 31, 2001		As on March 31, 2002		As on March 31, 2001		As on March 31, 2002	
	Amount	per cent to total	Amount	per cent to total	Amount	per cent to total	Amount	per cent to total	Amount	per cent to total	Amount	per cent to total
1	2	3	4	5	6	7	8	9	10	11	12	13
Liabilities												
1. Capital	14,547.08	1.41	15,177.66	1.31	13,511.28	2.15	14,141.86	2.00	1,035.80	0.26	1,035.80	0.23
2. Reserves & Surplus	35,358.25	3.43	42,276.10	3.66	18,998.94	3.03	23,253.09	3.29	16,359.31	4.06	19,023.01	4.23
3. Deposits	8,59,461.95	83.45	9,68,749.32	83.82	5,47,343.50	87.30	6,17,672.68	87.46	3,12,118.45	77.45	3,51,076.64	78.10
3.1 Demand Deposits	1,11,223.79	10.80	1,19,052.32	10.30	60,723.51	9.68	65,783.23	9.31	50,500.28	12.53	53,269.09	11.85
3.2 Savings Bank Deposits	1,96,906.73	19.12	2,28,138.16	19.74	1,33,047.88	21.22	1,53,245.61	21.70	63,858.85	15.85	74,892.55	16.66
3.3 Term Deposits	5,51,331.43	53.53	6,21,558.84	53.78	3,53,572.11	56.39	3,98,643.84	56.45	1,97,759.32	49.07	2,22,915.00	49.59
4. Borrowings	20,108.84	1.95	20,567.37	1.78	8,702.59	1.39	10,515.56	1.49	11,406.25	2.83	10,051.81	2.24
5. Other Liabilities and Provisions	1,00,496.07	9.76	1,08,966.32	9.43	38,431.51	6.13	40,644.82	5.76	62,064.56	15.40	68,321.50	15.20
Total Liabilities	**10,29,972.19**	**100.00**	**11,55,736.77**	**100.00**	**6,26,987.82**	**100.00**	**7,06,228.01**	**100.00**	**4,02,984.37**	**100.00**	**4,49,508.76**	**100.00**
Assets												
1. Cash and balances with RBI	69,866.39	6.78	71,407.46	6.18	45,341.37	7.23	44,120.06	6.25	24,525.02	6.09	27,287.40	6.07
2. Balances with banks and money at call and short notice	82,873.72	8.05	79,474.14	6.88	35,958.20	5.74	31,877.48	4.51	46,915.52	11.64	47,596.66	10.59
3. Investments	3,94,107.33	38.26	4,54,007.90	39.28	2,36,915.01	37.79	2,68,420.61	38.01	1,57,192.32	39.01	1,85,587.29	41.29
3.1 In Govt. Securities (a+b)	2,91,997.88	28.35	3,44,691.24	29.82	1,67,433.29	26.70	1,93,179.82	27.35	1,24,564.59	30.91	1,51,511.42	33.71
a. In India	2,89,592.62	28.12	3,41,397.65	29.54	1,65,317.70	26.37	1,90,180.35	26.93	1,24,274.92	30.84	1,51,217.30	33.64
b. Outside India	2,405.26	0.23	3,293.59	0.28	2,115.59	0.34	2,999.47	0.42	289.67	0.07	294.12	0.07
3.2 In other approved Securities	22,318.71	2.17	20,460.80	1.77	15,065.56	2.40	13,815.13	1.96	7,253.15	1.80	6,645.67	1.48
3.3 In non-approved Securities	79,790.74	7.75	88,855.86	7.69	54,416.16	8.68	61,425.66	8.70	25,374.58	6.30	27,430.20	6.10
4. Loans and Advances	4,14,989.36	40.29	4,80,680.54	41.59	2,64,601.54	42.20	3,16,091.12	44.76	1,50,387.82	37.32	1,64,589.42	36.62
4.1 Bills purchased & discounted	34,124.56	3.31	36,583.72	3.17	17,953.87	2.86	20,833.59	2.95	16,170.69	4.01	15,750.13	3.50
4.2 Cash Credit, Overdrafts, etc.	2,32,731.36	22.60	2,67,890.64	23.18	1,47,927.04	23.59	1,77,169.90	25.09	84,804.32	21.04	90,720.74	20.18
4.3 Term Loans	1,48,133.44	14.38	1,76,206.18	15.25	98,720.63	15.75	1,18,087.63	16.72	49,412.81	12.26	58,118.55	12.93
5. Fixed Assets	10,472.99	1.02	10,420.00	0.90	7,427.83	1.18	7,531.11	1.07	3,045.16	0.76	2,888.89	0.64
6. Other Assets	57,662.40	5.60	59,746.73	5.17	36,743.87	5.86	38,187.63	5.41	20,918.53	5.19	21,559.10	4.80
Total Assets	**10,29,972.19**	**100.00**	**11,55,736.77**	**100.00**	**6,26,987.82**	**100.00**	**7,06,228.01**	**100.00**	**4,02,984.37**	**100.00**	**4,49,508.76**	**100.00**

Source: Balance sheets of respective banks.

Table II.4: Consolidated Balance Sheet of Private Sector Banks

(Amount in Rs.crore)

Item	Private Sector Banks				Old Private Sector Banks				New Private Sector Banks			
	As on March 31, 2001		As on March 31, 2002		As on March 31, 2001		As on March 31, 2002		As on March 31, 2001		As on March 31, 2002	
	Amount	per cent to total	Amount	per cent to total	Amount	per cent to total	Amount	per cent to total	Amount	per cent to total	Amount	per cent to total
1	2	3	4	5	6	7	8	9	10	11	12	13
Liabilities												
1. Capital	1,877.63	1.15	2,718.86	1.02	603.91	0.71	604.79	0.65	1,273.72	1.62	2,114.07	1.21
2. Reserves & Surplus	6,999.26	4.29	13,472.08	5.03	3,948.27	4.67	4,806.25	5.16	3,050.99	3.87	8,665.83	4.97
3. Deposits	1,36,634.57	83.66	1,69,439.55	63.30	73,746.28	87.24	80,447.17	86.29	62,888.29	79.81	88,992.38	51.01
3.1 Demand Deposits	16,613.84	10.17	20,404.39	7.62	7,594.76	8.98	8,114.22	8.70	9,019.08	11.45	12,290.17	7.04
3.2 Savings Bank Deposits	16,177.02	9.90	20,120.17	7.52	10,345.25	12.24	11,828.99	12.69	5,831.77	7.40	8,291.18	4.75
3.3 Term Deposits	1,03,843.71	63.58	1,28,914.99	48.16	55,806.27	66.02	60,503.96	64.90	48,037.44	60.96	68,411.03	39.21
4. Borrowings	8,695.33	5.32	56,857.57	21.24	2,117.03	2.50	2,725.12	2.92	6,578.30	8.35	54,132.45	31.03
5. Other Liabilities and Provisions	9,118.60	5.58	25,191.87	9.41	4,113.42	4.87	4,642.46	4.98	5,005.18	6.35	20,549.41	11.78
Total Liabilities	**1,63,325.39**	**100.00**	**2,67,679.93**	**100.00**	**84,528.91**	**100.00**	**93,225.79**	**100.00**	**78,796.48**	**100.00**	**1,74,454.14**	**100.00**
Assets												
1. Cash and balances with RBI	10,732.70	6.57	11,306.23	4.22	5,783.83	6.84	5,296.35	5.68	4,948.87	6.28	6,009.88	3.44
2. Balances with banks and money at call and short notice	12,571.15	7.70	22,425.74	8.38	6,160.24	7.29	6,500.73	6.97	6,410.91	8.14	15,925.01	9.13
3. Investments	61,891.35	37.89	98,956.83	36.97	29,989.80	35.48	34,030.21	36.50	31,901.55	40.49	64,926.62	37.22
3.1 In Govt. Securities (a+b)	37,828.54	23.16	62,955.57	23.52	20,033.35	23.70	23,840.20	25.57	17,795.19	22.58	39,115.37	22.42
a. In India	37,744.65	23.11	62,859.08	23.48	19,957.42	23.61	23,755.83	25.48	17,787.23	22.57	39,103.25	22.41
b. Outside India	83.89	0.05	96.49	0.04	75.93	0.09	84.37	0.09	7.96	0.01	12.12	0.01
3.2 In other approved Securities	1,262.80	0.77	1,126.90	0.42	1,177.27	1.39	1,012.49	1.09	85.53	0.11	114.41	0.07
3.3 In non-approved Securities	22,800.01	13.96	34,874.36	13.03	8,779.18	10.39	9,177.52	9.84	14,020.83	17.79	25,696.84	14.73
4. Loans and Advances	68,110.71	41.70	116,430.11	43.50	37,947.83	44.89	42,285.68	45.36	30,162.88	38.28	74,144.43	42.50
4.1 Bills purchased & discounted	11,013.64	6.74	10,405.19	3.89	4,981.44	5.89	4,204.38	4.51	6,032.20	7.66	6,200.81	3.55
4.2 Cash Credit, Overdrafts, etc.	34,894.24	21.36	35,529.74	13.27	19,916.33	23.56	22,415.14	24.04	14,977.91	19.01	13,114.60	7.52
4.3 Term Loans	22,202.83	13.59	70,495.18	26.34	13,050.06	15.44	15,666.16	16.80	9,152.77	11.62	54,829.02	31.43
5. Fixed Assets	3,480.73	2.13	7,413.42	2.77	1,433.74	1.70	1,471.98	1.58	2,046.99	2.60	5,941.44	3.41
6. Other Assets	6,538.75	4.00	11,147.60	4.16	3,213.47	3.80	3,640.84	3.91	3,325.28	4.22	7,506.76	4.30
Total Assets	**1,63,325.39**	**100.00**	**2,67,679.93**	**100.00**	**84,528.91**	**100.00**	**93,225.79**	**100.00**	**78,796.48**	**100.00**	**1,74,454.14**	**100.00**

Source: Balance sheets of respective banks.

Table II.5: Consolidated Balance Sheet of Foreign Banks in India

(Amount in Rs.crore)

Item	As on March 31, 2001		As on March 31, 2002	
	Amount	per cent to total	Amount	per cent to total
1	2	3	4	5
Liabilities				
1. Capital	2,670.00	2.61	3,576.15	3.19
2. Reserves & Surplus	6,287.61	6.16	6,938.73	6.19
3. Deposits	59,289.91	58.07	64,510.55	57.55
3.1 Demand Deposits	11,895.11	11.65	13,613.10	12.14
3.2 Savings Bank Deposits	5,629.03	5.51	7,339.47	6.55
3.3 Term Deposits	41,765.77	40.90	43,557.98	38.86
4. Borrowings	26,710.41	26.16	29,755.24	26.54
5. Other Liabilities and Provisions	7,149.83	7.00	7,315.76	6.53
Total Liabilities	**1,02,107.76**	**100.00**	**1,12,096.43**	**100.00**
Assets				
1. Cash and balances with RBI	3,904.44	3.82	4,046.82	3.61
2. Balances with banks and money at call and short notice	10,525.79	10.31	15,618.37	13.93
3. Investments	35,756.46	35.02	35,093.56	31.31
3.1 In Govt. Securities (a+b)	23,363.91	22.88	24,106.65	21.51
a. In India	23,363.91	22.88	24,106.65	21.51
b. Outside India	–	–	–	–
3.2 In other approved Securities	219.40	0.21	165.26	0.15
3.3 In non-approved Securities	12,173.15	11.92	10,821.65	9.65
4. Loans and Advances	43,050.78	42.16	48,632.39	43.38
4.1 Bills purchased & discounted	5,129.28	5.02	6,620.47	5.91
4.2 Cash Credit, Overdrafts, etc.	18,226.02	17.85	18,305.48	16.33
4.3 Term Loans	19,695.48	19.29	23,706.44	21.15
5. Fixed Assets	2,283.57	2.24	2,249.88	2.01
6. Other Assets	6,586.72	6.45	6,455.41	5.76
Total Assets	**1,02,107.76**	**100.00**	**1,12,096.43**	**100.00**

Source: Balance sheets of respective banks

Deposits

2.12 The aggregate deposits of SCBs during 2001-02 (reported under Section 42(2) of RBI Act) registered a growth of 14.6 per cent (Rs.1,40,742 crore) as compared with 18.4 percent (Rs.1,49,274 crore) in 2000-01 (Table II.6). The accretion to deposits was primarily on account of time deposits, which increased by 15.9 per cent; this growth rate, was almost the same rate as that of 15.8 per cent (net of India Millennium Deposits) registered in the previous year. The steady accretion to time deposits with banks despite the downward movement in interest rates, reflect the 'safe haven' sentiments.

Table II.6: Important Banking Indicators - Scheduled Commercial Banks

(Amount in Rs.crore)

	Item	As on					Variations during the financial year		Variations during April - October 4+	
		March 24, 2000	March 23, 2001	March 22, 2002	Oct. 5, 2001	Oct. 4, 2002 (P)	2000-01	2001-02(P)	2001	2002(P)
1		2	3	4	5	6	7	8	9	10
							(3-2)	(4-3)	(5-3)	(6-4)
1	**Total Demand and Time Liabilities @**	**9,48,358**	**11,33,480**	**12,72,174**	**12,15,548**	**14,31,909**	**1,85,122**	**1,38,694**	**82,068**	**1,59,735**
2	**Aggregate Deposits (a+b)**	**8,13,344**	**9,62,618**	**11,03,360**	**10,53,172**	**12,42,166**	**1,49,274**	**1,40,742**	**90,554**	**1,38,806**
							(18.4)	(14.6)	(9.4)	(12.6)
	(a) Demand Deposits	1,27,366	1,42,552	1,53,048	1,44,709	1,61,067	15,186	10,496	2,157	8,019
							(11.9)	(7.4)	(1.5)	(5.2)
	(b) Time Deposits	6,85,978	8,20,066	9,50,312	9,08,463	10,81,099	1,34,088	1,30,246	88,397	1,30,787
							(19.5)	(15.9)	(10.8)	(13.8)
	2a Certificate of Deposits	1,227	771	1,576	825	N.A.	-456	805	54	–
							-(37.2)	(104.4)	(7.0)	
	2b Aggregate Deposits (Excluding Certificate of Deposits)	8,12,117	9,61,847	11,01,784	10,52,347	N.A.	1,49,730	1,39,937	90,500	–
							(18.4)	(14.5)	(9.4)	
3	**Borrowings from RBI**	**6,491**	**3,896**	**3,616**	**2,488**	**95**	**-2,595**	**-280**	**-1,408**	**-3,521**
							-(40.0)	-(7.2)	-(36.1)	-(97.4)
4	**Liability to Banks**	**53,838**	**77,088**	**53,902**	**56,378**	**61,748**	**23,250**	**-23,186**	**-20,710**	**7,846**
							(43.2)	-(30.1)	-(26.9)	(14.6)
5	**Bank Credit (a+b)**	**4,35,958**	**5,11,434**	**5,89,723**	**5,46,098**	**6,73,112**	**75,476**	**78,289**	**34,664**	**83,389**
							(17.3)	(15.3)	(6.8)	(14.1)
	a. Food Credit	25,691	39,991	53,978	50,202	53,226	14,300	13,987	10,211	-752
							(55.7)	(35.0)	(25.5)	-(1.4)
	b. Non-food credit	4,10,267	4,71,443	5,35,745	4,95,896	6,19,886	61,176	64,302	24,453	84,142
							(14.9)	(13.6)	(5.2)	(15.7)
6	**Investments (a+b)**	**3,08,944**	**3,70,160**	**4,38,269**	**4,12,502**	**5,05,007**	**61,216**	**68,109**	**42,342**	**66,738**
							(19.8)	(18.4)	(11.4)	(15.2)
	a. Govt. Securities	2,78,456	3,40,035	4,11,176	3,83,431	4,77,831	61,579	71,141	43,396	66,655
							(22.1)	(20.9)	(12.8)	(16.2)
	b. Other Approved Securities	30,488	30,125	27,093	29,071	27,176	-363	-3,032	-1,054	83
							-(1.2)	-(10.1)	-(3.5)	(0.3)
7	**Cash Balances (a+b)**	**62,749**	**65,202**	**68,647**	**73,210**	**72,147**	**2,453**	**3,445**	**8,008**	**3,499**
							(3.9)	(5.3)	(12.3)	(5.1)
	a. Cash in hand	5,330	5,658	6,245	5,880	6,500	328	587	222	255
							(6.2)	(10.4)	(3.9)	(4.1)
	b. Balances with RBI	57,419	59,544	62,402	67,330	65,646	2,125	2,858	7,786	3,244
							(3.7)	(4.8)	(13.1)	(5.2)
Memorandum Items :										
A	Credit-Deposit (CD) Ratio	53.6	53.1	53.4	51.9	54.2				
B	Incremental CD Ratio	67.6	50.6	55.6	38.3	60.1				
C	Reserve-Deposit Ratio	7.7	6.8	6.2	7.0	5.8				
D	Investment/Deposit Ratio	38.0	38.5	39.7	39.2	40.7				
E	Investment+Credit/Deposit Ratio	91.6	91.6	93.2	91.0	94..8				

P Provisional. N.A. Not Available. + Corresponding day of the previous year.

@Excluding borrowings from RBI/IDBI/NABARD.

Note:
1. Figures in brackets are percentage variations.
2. Incremental credit deposit ratio calculated as ratio of increase in credit to increase in deposit during the financial year.
3. Constituent items may not add up to the totals due to rounding off.

2.13 During 2002-03 (upto October 4, 2002), aggregate deposits recorded a growth of 12.6 per cent (Rs.1,38,806 crore) as compared with 9.4 per cent (Rs.90,554 crore) in the corresponding period of the previous year. The increase was also primarily through accretion in time deposits, which recorded a growth of 13.8 percent which was substantially higher than the growth rate of 10.8 per cent registered in the corresponding period of the previous year.

Certificates of Deposit (CDs)

2.14 The outstanding deposits raised through issuance of CDs by SCBs which had declined from Rs. 1,042 crore as on April 06, 2001 to Rs.758 crore as on August 24, 2001 went up to Rs.1,007 crore as on August 23, 2002 and subsequently to Rs.1,236 crore as on September 20, 2002. The discount rates on the primary issuance of CDs also witnessed a declining trend during the same period. The range of discount rate which was 6.50 to 11.00 per cent as on April 06, 2001 declined to 5.00 to 10.00 per cent as on August 24, 2001 and further to 5.50 to 8.75 per cent as on September 20, 2002 (Appendix II.2). The typical discount rate on CDs (for three month maturity) also declined from 9.75 per cent as on April 06, 2001 to 8.00 per cent as on August 24, 2001 and further to 6.85 per cent as on August 23, 2002. The discount rate further softened to 6.20 per cent as on September 20, 2002 commensurate with the decline in the deposit rates.

Bank Credit

2.15 According to the data obtained under Section 42(2) of the RBI Act, during 2001-02, bank credit increased by Rs.78,289 crore (15.3 per cent) as compared with an increase of Rs.75,476 crore (17.3 per cent) recorded in the previous year. The deceleration in the growth rate was both in respect of food and non-food credit. While food credit increased by Rs.13,987 crore (35.0 per cent) as compared with an increase of Rs.14,300 crore (55.7 per cent) in the previous year, the increase in non-food bank credit was Rs.64,302 crore (13.6 per cent) as compared with an increase of Rs.61,176 crore (14.9 per cent). The credit-deposit ratio in terms of outstandings, moved up marginally to 53.4 per cent as on March 22, 2002 from 53.1 per cent as on March 23, 2001. Non-food credit adjusted for non-SLR investments of banks, including bills rediscounted with financial institutions recorded growth of 12.7 per cent to Rs. 6,17,650 crore as at end-March 2002 on top of a growth of 16.0 per cent in the previous year. The adjusted non-food credit-deposit ratio in terms of outstandings was 56.0 per cent as at end-March 2002 as compared with 56.9 per cent as at end-March 2001 (Table II.6 and Table II.7).

Table II.7:Scheduled Commercial Bank's Investments in NonSLR Securities Issued by the Non financial Commercial Sector

(Rs. crore)

Outstanding as on	March 26, 1999	March 24, 2000	March 23, 2001	March 22, 2002
1	2	3	4	5
1. Commercial Paper	4,006	5,037	8,049	8,497

2. Investment in Shares issued by (a+b)	3,899	4,784	5,690	5,914
a. Public Sector Undertakings	867	876	1,342	1,587
b. Private Corporate Sector	3,033	3,908	4,348	4,327
3. Investments in Bonds/Debentures issued by (a+b)	40,470	51,587	62,105	66,589
a. Public Sector Undertakings	24,072	30,376	36,568	39,520
b. Private Corporate Sector	16,398	21,211	25,537	27,069
Total	**48,376**	**61,408**	**75,844**	**81,000**

Note: Data upto March 2000 are based on information submitted by SCBs through Special Fortnightly Returns(SFR)VII. Subsequent data are based on Section 42(2) Return.

2.16 During 2002-03, (upto October 4, 2002) bank credit increased by Rs.83,389 crore (14.1 per cent) as against an increase of Rs.34,664 crore (6.8 per cent) in the corresponding period of the previous year. Food credit declined by Rs. 752 crore (1.4 per cent) as against an increase of Rs.10,211 crore (25.5 per cent) in the corresponding period of the previous year. The increase in non-food bank credit was Rs.84,142 crore (15.7 per cent) as against a modest rise of Rs.24,453 crore (5.2 per cent) in the corresponding period of the previous year. The sharp increase in non-food credit during the current financial year reflects the accounting effect of the impact of merger since May 3, 2002. On a year-on-year basis, bank credit increased by 23.3 per cent, while non-food credit increased by 25.0 per cent.

Investments

2.17 According to the data obtained under Section 42 (2) of the RBI Act, investments of SCBs in government and other approved securities continued to record a strong growth and increased by Rs.68,109 crore (18.4 per cent) in 2001-02 as compared to a rise of Rs.61,216 crore (19.8 per cent) in 2000-01. The high degree of market absorption of Government borrowings has led to the holding of Government securities by SCBs at 36.5 per cent of their net demand and time liabilities at end-March 2002, which is markedly higher than the statutory requirements of 25.0 per cent. The preference of banks towards government securities was primarily driven by lack-lustre credit demand.

2.18 During 2002-03 (upto October 4, 2002), investments of SCBs in government and other approved securities increased by a further Rs.66,738 crore (15.2 per cent) as compared with an increase of Rs. 42,342 crore (11.4 per cent) in the comparable period of 2001-02. The high growth in investments has led to an increase in the investment-deposit ratio (on an outstanding basis) from 39.7 per cent as on March 22, 2002 to 40.7 per cent as on October 4, 2002. On a year-on-year basis, banks' investments increased by 22.4 per cent, with investments in government securities registering 24.6 per cent growth.

Total Flow of Resources to Commercial Sector

2.19 Investments by banks in Commercial Paper (CPs) shares/bonds/debentures of PSUs and private corporate sector along with bills rediscounted with financial institutions recorded a growth of Rs. 5,181 crore (6.8 per cent) during 2001-02 as against Rs.14,533 crore (23.5 per cent) in the previous year. Together with these investments, the increase in total flow of resources to commercial sector (excluding food credit) from SCBs amounted to Rs.69,483 crore (12.7 per cent) in the financial year 2001-02 as compared with the increase of Rs.75,709 crore (16.0 per cent) in the previous year. SCBs investments in instruments issued by financial institutions and mutual funds increased by Rs.1,598 crore during 2001-02 as compared with Rs.1,708 crore a year ago. Including resource flow through capital issues, GDRs and those by financial institutions (FIs), the aggregate resource flow to the commercial sector was Rs.1,42,082 crore during 2001-02 as compared with Rs.1,71,124 crore in 2000-01. During 2002-03 (upto October 4, 2002), such flows at Rs.1,01,448 crore were higher than the flow of Rs.50,152 crore in the corresponding period of 2001-02.

Commercial Bill Market

2.20 During 2001-02, there was some improvement in activity in the market for bills rediscounting. The outstanding amount of commercial bills rediscounted by commercial banks with various financial institutions (FIs) aggregating Rs.711 crore at the end of April 2001 was higher than that of Rs. 371 crore during the corresponding period of previous year. The outstandings which amounted to Rs.1,921 crore at end-September 2001 declined to Rs. 512 crore by end-September 2002 with some fluctuations in between.

Inter-bank Repos

2.21 During 2001-02, the weekly transaction volume (first leg only) in the repo market segment ranged between Rs.1,350 crore and Rs.13,578 crore. The volumes of repo transactions were, however, mostly in the range of Rs.3,000 to Rs. 9,000 crore, except during the months of January 2002 and March 2002, when the volume of transactions had crossed Rs. 10,000 crore. The amount transacted in this segment witnessed a spurt and touched Rs. 13,185 crore in the second week of January 2002. Generally, repo rates ranged 4.00 to 10.25 per cent during 2001-02, except for occasional high rates, particularly during the first week of April 2001, when it increased to 14.0 per cent due to temporary tightness in the market.

2.22 During 2002-03 (upto October 11, 2002), the weekly volume (first leg only) in this market has been range bound between Rs.6,429 crore and Rs.14,579 crore, with the rates prevailing between 2.50 to 9.20 per cent.

Rupee Derivatives

2.23 In order to facilitate hedging of interest rate risks and ensuring orderly development of the derivatives market, policy guidelines for forward rate agreement (FRAs)/interest rate swaps (IRS) were issued to SCBs (excluding RRBs), PDs and all-India FIs, allowing them to undertake FRAs/IRS as a product for their own balance sheet management and for market making purposes. To provide more flexibility for pricing of rupee interest rate derivatives and facilitate some integration between money and foreign exchange markets, use of "interest rates implied in the foreign exchange forward market" were permitted as benchmarks, in addition to existing domestic money and debt market rates.

2.24 There was sharp increase in the volume of FRAs /IRS market during 2001-02. Available data show that FRAs /IRS transactions, both in terms of number of contracts and outstanding notional principal amount, rose from 1,615 contracts amounting to Rs.22,865 crore as on April 6, 2001 to 4,379 contracts for Rs. 86,749 crore as at end-March 2002. During 2002-03, till September 20, 2002, transaction in this segment recorded 5,675 contracts for Rs. 1,31,898 crore. Although there has been a significant increase in the number and amount of contracts, participation continues to be restricted mainly to select foreign and new private sector banks and PDs. In a majority of these contracts, NSE-MIBOR was used as the benchmark rate. The other benchmark rates used include 3-month benchmark rate on Reuters, MIFOR, government securities yield for 1 year, primary cutoff yield on 364-day treasury bills, etc.

Term Money Market

2.25 The volume of transactions was quite low in this segment of the market, reflecting, in part, the inability of players to build interest rate expectations in the medium-term. Hence, there was a tendency to lock in for shorter periods. Secondly, while PSBs are generally in surplus, foreign and private sector banks are in deficit in respect of short-term resources. Since these deficit banks depend heavily on call/notice money, the surplus banks exhaust their exposure limit to them, thereby constraining the growth of the term money market. Thirdly, corporates' preferences for "cash credit" rather than "loan credit" generally force banks to deploy a large amount of resources in call/notice money market rather than in term money market to meet their demands. In addition to the exemption of term money of original maturity between 15 days and 1 year from CRR, the gradual phasing out of non-bank participants from the call money market, the stipulation of prudential limit on lending and borrowing in the call/notice money market for banks and PDs, and the full scale operationalisation of CCIL are expected to activate the repo and term money market.

2.26 The average outstanding volume of transactions in the term money market rose from Rs. 199 crore in May 2001 to Rs. 320 crore in July 2001, but subsequently declined to Rs. 65 crore in December 2001. Thereafter, it recovered to Rs. 118 crore in March 2002 with intervening fluctuations. During the year 2002-03 so far, the volume increased from Rs. 225 crore in April 2002 to Rs. 1,198 crore in August 2002, before declining to Rs. 224 crore in September 2002.

Sectoral Deployment of Bank Credit

2.27 The gross bank credit of select SCBs (covering major banks accounting for over 90-95 per cent of bank credit of all SCBs) recorded a growth of Rs.67,574 crore (14.4 per cent) during 2001-02 as against Rs.68,335 crore (17.0 per cent) in the previous year (Table II.8). Out of this amount, food procurement credit recorded a rise of 35.0 per cent in 2001-02, which was less than that of 55.7 per cent registered in 2000-01. Reflecting the slowdown in industrial activity, growth in non-food credit slipped to 12.5 per cent in 2001-02 from 14.4 per cent in the previous year. This was mainly due to the deceleration in credit to industry (medium and large) to 5.8 per cent (Rs.9,487 crore) in 2001-02 as compared to 10.5 per cent (Rs.15,518 crore) in the previous year. Credit to priority sectors also witnessed a decelerated growth at 13.5 per cent as compared with 17.1 per cent in the previous year. The growth in credit to wholesale trade and 'other sectors' increased to 14.6 per cent and 21.9 per cent, respectively, in 2001-02. Within the ambit of ‘other sectors’, the share of credit to housing and other non-priority sector personal loans witnessed significant increases. In particular, housing loans, a component of other sectors, showed an accelerated growth of 38.4 per cent. Accordingly, the share of credit to housing increased threefold from 3.8 per cent in 2000-01 to 11.6 per cent in 2001-02. Secondly, in the face of slowdown in industrial activity, banks have aggresively increased the share of credit towards ‘other non-priority sector personal loans’. This has doubled over the same period from 4.9 per cent to 10.0 per cent. During the review period, the outstanding export credit decreased from Rs.43,321 crore as on March 23, 2001 to Rs.42,978 crore as on March 22, 2002, with a decline in its share in net bank credit from 9.3 per cent to 8.0 per cent. The decline in the growth of export credit largely reflected the slowdown in exports, which after having increased in US dollar terms by 21.0 per cent in 2000-01, declined by 2.2 per cent in 2001-02.

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

(Amount in Rs.crore)

Sectors	**March 24, 2000**	**March 23, 2001**	**March 22, 2002**	**June 29, 2001**	**June 28, 2002**	**Variations during Financial year 2000-01**	**Financial year 2001-02**	**April-June 2001**	**April-June 2002**
1	2	3	4	5	6	7	8	9	10
						(3-2)	(4-3)	(5-3)	(6-4)
I. Gross Bank Credit (1+2)	**4,00,818**	**4,69,153**	**5,36,727**	**4,74,954**	**5,50,855**	**68,335**	**67,574**	**5,801**	**14,128**
1. Public Food Procurement Credit	25,691	39,991	53,978	50,340	64,008	14,300	13,987	10,349	10,030
2. Non-Food Gross Bank Credit (A+B+C+D)	3,75,127	4,29,162	4,82,749	4,24,614	4,86,847	54,035	53,587	-4,548	4,098
						[100.0]	[100.0]		
A. Priority Sectors ##	**1,31,827**	**1,54,414**	**1,75,259**	**1,53,499**	**1,70,949**	**22,587**	**20,845**	**-915**	**-4,310**
						(41.8)	**(38.9)**		
(i) Agriculture	44,381	51,922	60,761	51,664	60,707	7,541	8,839	-258	-54
						(14.0)	(16.5)		
(ii) Small Scale Industries	52,814	56,002	57,199	53,405	55,579	3,188	1,197	-2,597	-1,620
						(5.9)	(2.2)		
(iii) Other Priority Sectors	34,632	46,490	57,299	48,430	54,663	11,858	10,809	1,940	-2,636
						(21.9)	(20.2)		
B. Industry (Medium & Large)	**1,47,319**	**1,62,837**	**1,72,324**	**1,58,841**	**1,78,199**	**15,518**	**9,487**	**-3,996**	**5,875**
						(28.7)	**(17.7)**		
C. Wholesale Trade (other than food procurement)	**16,818**	**17,845**	**20,459**	**16,211**	**19,748**	**1,027**	**2,614**	**-1,634**	**-711**
						(1.9)	**(4.9)**		
D. Other Sectors	**79,163**	**94,066**	**114,707**	**96,063**	**1,17,951**	**14,903**	**20,641**	**1,997**	**3,244**
of which :						**(27.6)**	**(38.5)**		
(i) Housing	14,100	16,143	22,346	16,851	26,983	2,043	6,203	708	4,637
						(3.8)	(11.6)		
(ii) Consumer durables	3,855	5,566	7,015	6,587	6,864	1,711	1,449	1,021	-151
						(3.2)	(2.7)		
(iii) Non-banking financial	7,178	7,810	9,653	7,589	10,628	632	1,843	-221	975

	Companies						(1.2)	(3.4)		
(iv)	Loans to individuals against shares/bonds	2,146	1,697	1,520	1,463	1,615	-449 -(0.8)	-177 -(0.3)	-234	95
(v)	Real Estate Loans	1,644	1,766	2,596	1,978	2,627	122 (0.2)	830 (1.5)	212	31
(vi)	Other non-priority sector personal loans	15,409	18,064	23,402	18,969	22,737	2,655 (4.9)	5,338 (10.0)	905	-665
(vii)	Advances against Fixed Deposits	18,876	19,942	21,243	19,449	21,419	1,066 (2.0)	1,301 (2.4)	-493	176
(viii)	Tourism and tourism related hotels	900	996	1,540	1,183	1,687	96 (0.2)	544 (1.0)	187	147
II.	**Export Credit (included under item I.2)**	**39,118**	**43,321**	**42,978**	**39,859**	**42,601**	**4,203**	**-343**	**-3,462**	**-377**
III.	**Net Bank Credit (including inter-bank participation)**	**3,98,205**	**4,67,206**	**5,35,063**	**4,73,034**	**5,49,841**	**69,001**	**67,857**	**5,828**	**14,778**
Memorandum Item :										
Export Sector credit as % to NBC		9.8	9.3	8.0	8.4	7.7				

: The data in this statement may not agree with those quoted elsewhere in the Report as the data base are different.

Notes: 1. Data are provisional and relate to selected scheduled commercial banks (49 banks in March 2001 onwards) 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 financial institutions.

2. Figures in brackets are proportions to variation in non-food gross bank credit.

Industry-wise Deployment of Credit

2.28 Industrial credit as a percentage of net bank credit declined from 46.8 per cent in 2000-01 to 42.9 per cent in 2001-02. The incremental credit to industrial sector decelerated to 4.9 per cent (Rs. 10,684 crore) in 2001-02 as compared to 9.3 per cent (Rs.18,706 crore) in 2000-01. Industry-wise, significant credit growths were observed in infrastructure (30.5 per cent or Rs.3,460 crore), chemical, dyes, etc. (8.0 per cent or Rs.1,923 crore), other textiles (12.0 per cent or Rs.1,443 crore), food processing (14.7 per cent or Rs.931 crore) and construction (26.0 per cent or Rs. 825 crore). However, 7 out of 26 industries showed decline in credit during 2001-02 and the important among these were: cotton textiles (decline of Rs.1,500 crore or -11.3 per cent), and petroleum (decline of Rs.252 crore or -2.2 per cent) (Table II.9).

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

(Amount in Rs.crore)

Sectors	Outstanding as on					Variations during			
	March 24, 2000	March 23, 2001	March 22, 2002	June 29, 2001	June 28, 2002*	Financial year 2000-01	2001-02	2001	April-June 2002*
1	2	3	4	5	6	7 (3-2)	8 (4-3)	9 (5-3)	10 (6-4))
Industry (Total of Small, Medium and Large Scale)	**2,00,133**	**2,18,839**	**2,29,523**	**2,12,246**	**2,33,778**	**18,706**	**10,684**	**-6,593**	**4,255**
1 Coal	1,126	1,034	1,409	866	1,647	-92	375	-168	238
2 Mining	1,240	1,303	1,593	1,230	1,502	63	290	-73	-91
3 Iron & Steel	18,799	19,406	20,042	20,100	19,905	607	636	694	-137
4 Other Metals and Metal Products	6,294	6,351	6,496	6,131	6,605	57	145	-220	109
5 All Engineering	23,069	23,397	24,199	21,443	22,654	328	802	-1,954	-1,545
of which : Electronics	5,133	5,291	5,941	5,605	5,829	158	650	314	-112
6 Electricity	7,438	8,590	9,343	8,639	9,526	1,152	753	49	183
7 Cotton Textiles	11,682	13,244	11,744	12,547	12,396	1,562	-1,500	-697	652
8 Jute Textiles	894	844	737	737	724	-50	-107	-107	-13
9 Other Textiles	13,003	12,012	13,455	12,083	13,498	-991	1,443	71	43

10 Sugar	3,832	4,682	5,028	4,753	5,068	850	346	71	40
11 Tea	1,034	1,058	986	1,017	1,126	24	-72	-41	140
12 Food Processing	5,986	6,354	7,285	6,634	7,043	368	931	280	-242
13 Vegetable Oils and Vanaspati	2,958	2,876	2,729	2,702	2,637	-82	-147	-174	-92
14 Tobacco and Tobacco Products	993	963	861	840	966	-30	-102	-123	105
15 Paper and Paper Products	3,143	3,468	3,741	3,562	3,899	325	273	94	158
16 Rubber and Rubber products	2,063	2,195	2,246	2,245	2,204	132	51	50	-42
17 Chemicals, Dyes, Paints, etc.	23,440	24,065	25,988	24,711	25,778	625	1,923	646	-210
of which :									
i) Fertilisers	4,577	5,233	5,463	5,002	5,531	656	230	-231	68
ii) Petro-chemicals	6,185	6,115	6,663	6,020	6,707	-70	548	-95	44
iii) Drugs & Pharmaceuticals	5,693	5,389	6,393	6,494	6,485	-304	1,004	1,105	92
18 Cement	3,624	3,842	4,224	3,702	4,467	218	382	-140	243
19 Leather and Leather products	2,664	2,764	2,852	2,956	2,688	100	88	192	-164
20 Gems and Jewellery	5,406	6,581	6,456	6,591	6,746	1,175	-125	10	290
21 Construction	2,736	3,175	4,000	3,449	4,308	439	825	274	308
22 Petroleum	8,969	11,572	11,320	7,674	12,976	2,603	-252	-3,898	1,656
23 Automobiles including trucks	4,028	4,409	4,454	4,300	4,474	381	45	-109	20
24 Computer Software	1,022	1,223	1,665	1,396	1,718	201	442	173	53
25 Infrastructure	7,243	11,349	14,809	11,160	15,310	4,106	3,460	-189	501
of which :									
i) Power	3,289	5,246	7,373	5,426	8,207	1,957	2,127	180	834
ii) Telecommunications	1,992	3,644	3,972	3,294	3,647	1,652	328	-350	-325
iii) Roads and Ports	1,962	2,459	3,464	2,440	3,456	497	1,005	-19	-8
26 Other Industries	37,447	42,082	41,861	40,777	43,913	4,635	-221	-1,305	2,052
Memorandum Item :									
Industrial Credit as proportion to Net Bank Credit	50.3	46.8	42.9	44.9	42.5				

* Provisional.

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

Bank Credit to Sick/Weak Industries

2.29 There has been a decline in the number of sick-SSI and non-SSI (sick/weak) industrial units financed by the SCBs from 3,07,399 as at end-March 2000 to 2,52,947 as at end-March 2001 (Appendix Table II.3).

2.30 The bank credit locked up in sick/weak industries, however, showed a rise of 9.0 per cent from Rs. 23,656 crore as at end-March 2000 to Rs. 25,776 crore as at end-March 2001. As a proportion of industrial credit, the bank credit locked up in sick industrial units marginally decreased from 11.9 per cent to 11.8 per cent during 2000-01.

2.31 Owing to certain extraneous circumstances, the operations of the wood and panel based industry in the north-eastern region have been adversely affected, resulting in closure of a number of units during the last four years. Considering the importance of this industry in the north-eastern region and with a view to enabling the industry to regain its financial health, it was decided that banks may extend financial assistance, by way of rehabilitation package as indicated by RBI to such of the manufacturing units in the industry which are considered potentially viable by the banks.

Survey on Export Credit

2.32 At the instance of RBI, the National Council of Applied Economic Research (NCAER), New Delhi, conducted a survey to obtain feedback on the simplification of procedures for export credit delivery as also to assess the level of exporters' satisfaction with bank services. The findings of the survey revealed that more than three-fourths of exporters are satisfied with the overall bank services relating to export credit delivery. Nearly one-fourth of exporters have perceived it as 'excellent' and more than half as 'good'.

Credit-Deposit Ratio

2.33 As per BSR data[1] , the credit-deposit (C-D) ratio of SCBs as on March 31, 2002 (as per sanctions)2 stood at 62.3 per cent as compared with 56.7 per cent as at end-March 2001. The total flow of resources, as reflected in the credit and investment to deposit (IC-D) ratio showed an increase (as per utilisation) for the northern, northeastern and western regions as at end-March 2001. The IC-D ratio was the highest for the western region (79.2 per cent), followed by southern (75.3 per cent) and northern regions (57.7 per cent), respectively (Appendix Table II.4).

Exposure Norms

2.34 Ceilings on exposure to single/group borrowers serve to limit credit risk in banks' portfolios and have been linked to capital funds of banks as reckoned for capital adequacy purposes. Effective March 2002, exposure limit for individual borrowers was lowered from 20.0 per cent to 15.0 per cent and for group borrowers, from 50.0 per cent to 40.0 per cent of banks' capital funds. This is in line with international best practices (Box II.1). For borrowers belonging to a group, exposure may exceed the 40.0 per cent by an additional 10.0 per cent (*i.e.*, upto 50.0 per cent), provided the additional exposure is on account of extension of credit to infrastructure projects. The additional exposure of 10 per cent in group exposure limit has been extended to projects in all infrastructure sectors as defined in Section 10(23G) of the Income Tax Act, 1961. For the purpose of prudential exposure limits, foreign banks were allowed to reckon foreign currency loans deployed in India in their capital funds. Effective March 31, 2002, foreign banks were brought on par with Indian banks for the purpose of exposure ceiling based on the capital funds as reckoned for capital adequacy purposes in India. With this revised concept, a number of foreign banks exceeded the prudential exposure ceiling. To enable smooth transition the RBI allowed banks on a case-by-case basis, to continue with the existing level of exposure in excess of the limit upto March 31, 2003.

Lending to Sensitive Sectors

2.35 The overall exposure of SCBs to the sensitive sectors comprising capital market, real estate and commodities[3] stood at Rs.23,224 crore (3.6 per cent of total loans and advances) as at end-March 2002, showing a marginal rise of 3.1 per cent during 2001-02 as compared to that during the previous year, driven primarily by a rise in real estate lending and, to a lesser extent, advances to commodities sector (Table II.10 and Chart II.3).

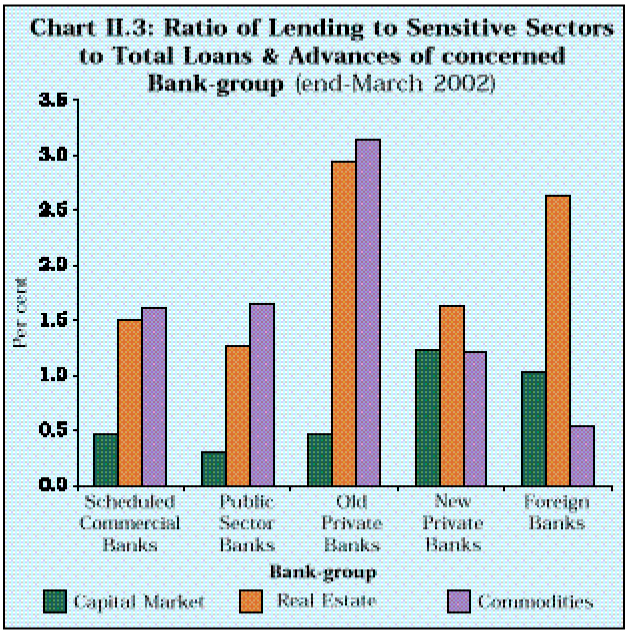
Table II.10: Lending to Senstive Sectors

(Amount in Rs.

Advances to	Nationalised Banks			State Bank Group			Public Sector Banks		
	2000-01	2001-02	variations	2000-01	2001-02	variations	2000-01	2001-02	Var
1	2	3	4	5	6	7	8	9	
1. Capital Market	1,334.48	1,268.65	-4.93	116.52	166.72	43.08	1,451.00	1,435.37	
	(0.50)	(0.40)		(0.08)	(0.10)		(0.35)	(0.30)	
2. Real Estate	4,413.30	5,423.45	22.89	1,354.27	620.26	-54.20	5,767.57	6,043.71	
	(1.67)	(1.72)		(0.90)	(0.38)		(1.39)	(1.26)	
3. Commodities	5,903.14	6,503.93	10.18	1,476.37	1,409.38	-4.54	7,379.51	7,913.31	
	(2.23)	(2.06)		(0.98)	(0.86)		(1.78)	(1.65)	
Total Advances to Sensitive Sectors	11,650.92	13,196.03	13.26	2,947.16	2,196.36	-25.48	14,598.08	15,392.39	
	(4.40)	(4.17)		(1.96)	(1.33)		(3.52)	(3.20)	

Advances to	New Private Sector Banks			Old Private Sector Banks			Foreign Banks			Scheduled Commercial Banks		
	2000-01	2001-02	Variations	2000-01	2001-02	Variations	2000-01	2001-02	Variations	2000-01	2001-02	Var
	11	12	13	14	15	16	17	18	19	20	21	
1. Capital Market	1,786.75	912.73	-48.92	545.09	194.61	-64.30	828.62	502.48	-39.36	4,611.46	3,045.19	
	(5.92)	(1.23)		(1.44)	(0.46)		(1.92)	(1.03)		(0.88)	(0.47)	
2. Real Estate	876.94	1,208.34	37.79	1,197.24	1,243.32	3.85	523.79	1,277.43	143.88	8,365.54	9,772.80	
	(2.91)	(1.63)		(3.15)	(2.94)		(1.22)	(2.63)		(1.59)	(1.51)	
3. Commodities	672.73	899.65	33.73	1,199.75	1,327.56	10.65	298.89	265.04	-11.33	9,550.88	10,405.56	
	(2.23)	(1.21)		(3.16)	(3.14)		(0.69)	(0.54)		(1.82)	(1.61)	
Total Advances to Sensitive Sectors	3,336.42	3,020.72	-9.46	2,942.08	2,765.49	-6.00	1,651.30	2,044.95	23.84	22,527.88	23,223.55	
	(11.06)	(4.07)		(7.75)	(6.54)		(3.84)	(4.20)		(4.28)	(3.60)	

Note: Figures in brackets are percentage to Total Loans & Advances of the concerned bank-group.



Box II.1: Exposure Norms-Cross Country Practices

The need for countries to limit risk concentration by banks is widely recognised. Large credit exposure by banks to an individual borrower, group of related borrowers or a sector of the economy may lead to extensive financial loss and even failure of the bank should that creditor or economic sector experience financial difficulties. One approach employed by bank supervisors to limit credit risk includes setting a limit on large exposures to a single borrower or a group of related borrowers. This method has been employed in several countries through setting a maximum ratio to bank's regulatory capital for exposure to a single or a related group of borrowers or even a sectoral cap.

There are several major issues that arise in the context of exposure norms. The first is the issue of appropriate level of the large exposure limit. The second is the issue of the items to be included under credit exposure. The third is the issue of group of related borrowers. The final issue is that of exposure to selected sectors.

Credit Exposure

The Basel Committee on Banking Supervision (BCBS) and The World Bank separately recommended that 25 per cent of a bank's capital be the limit for an individual large exposure to a private sector non-bank borrower or a closely related group of borrowers. The World Bank further recommended that the unsecured credit limit should not exceed 15 per cent of capital funds. The directives of the European Union also impose a 25 per cent limit.

Table 1: Cross Country Limits for Loan Exposure to Single Borrower

Countries	Single Borrower (% of capital)
Chile	5
China, Colombia, Mexico	10
Korea, Israel, United States*, Argentina, India#	15
Hong Kong, Malaysia, Philippines, Singapore, Thailand**, Brazil, Hungary, Poland, Russia, Japan	25
Australia	30

* 10-25 per cent for state-chartered banks.

** Of tier I capital.

\# Since April 2002, the banks' exposure limits to single and group borrowers has been reduced to 15 per cent and 40 per cent respectively of banks capital base. For financing, infrastructure projects, the group exposure limit is extendable upto 50 per cent.

Internationally, most countries primarily follow a 'single borrower' limit (Table 1). Although, they do not have a separate group exposure limit, they treat a group of related borrowers (related through common ownership, control or management) as a single borrower for the purpose of exposure limit. This is in consonance with the Basel Committee recommendations that banking supervisors need not reckon exposure to a group of related counter parties (which represent a single risk to the lending institution) for determining the exposure limits.

The BCBS and The World Bank separately recommend that 'exposure' includes all claims and transactions, on-balance sheet as well as off-balance sheet. The differences identified among countries concern the application of the limits on a consolidated basis, whether exclusions are specified from the exposure limits and the use of risk weights.

In India effective March 31, 2002, the exposure ceiling is computed in relation to total capital of banks as defined under capital adequacy standards (tier I and tier II), and includes credit exposure (funded and non-funded credit limits) and investment exposure (underwriting and similar commitments). The sanctioned limits or outstandings, whichever are higher, are reckoned for arriving at exposure limits. However, in respect of non-funded credit limits, only 50 per cent of such limits or outstanding, whichever is higher are taken into account for the purpose. Effective April 1, 2003, non-fund based exposures will be reckoned at hundred per cent.

Definition of Group of Related Borrowers

The *Core Principles for Effective Banking Supervision* of the Basel Committee has observed that "banking supervisors must be satisfied that banks have management information systems that enable management to identify concentrations within the portfolio and supervisors must set prudential limits to restrict banks' exposures to single borrowers or groups of related borrowers" (Principle 9). The definition of group of related borrowers would thus include not only legally related companies, but also financially related companies, *e.g.*, common ownership and physical persons (i.e., large shareholders). The international position in this regard in select countries is summarised in Table 2.

In India, the task of identification of borrowers belonging to specific industrial groups was left to the perception of the banks themselves, within the overall guiding principle for identification of 'Group' being commonality of management and effective control, as banks were aware of the basic constitution of their clientele.

Exposures to Selected Sectors

Few countries also have had limits on exposures to certain sectors. These include, among others, the limits on property in Hong Kong until 1998, limits on the share of the outstanding advances of the previous financial year-end which Indian banks are permitted to invest in equity or convertible debt instruments, and restrictions on property or share-related loans in Singapore. In Bulgaria and Latvia, banks are expected in their internal credit rules to prescribe restrictions on concentrations of exposures to an economic region and or geographic region. In contrast, the Central Bank of Peru is prohibited from imposing sectoral or regional ratios on the composition of loan portfolios of financial institutions.

In India, within the overall exposure to sensitive sectors (capital market, real estate and commodities), a bank's exposure to the capital market in all forms should not exceed 5 per cent of outstanding domestic credit (including commercial paper) as on March 31 of the previous year. The ceiling of 5 per cent would cover (i) direct investment in equity shares and convertible bonds and debentures; (ii) advances against shares to individuals for investment in equity shares (including IPOs), bonds and debentures, units of equity-oriented mutual funds; and (iii) secured and unsecured advances to stock brokers and guarantees issued on behalf of stock brokers. Apart from limiting exposure to individual or group borrowers, the banks were advised to also consider fixing internal limits for aggregate commitments to specific sectors (e.g., textiles, jute, tea, etc.) so that the exposures are evenly spread over various sectors.

Table 2: Definition of Connected or Related Group

Country	Definition of Connected or Related Group
USA	Credit extended to one borrower is attributed to another when (a) proceeds used for direct benefit of the other, (b) common enterprise exist. Common enterprise exists when (a) expected source of repayment is the same and no other source of repayment exists, (b) extensions of credit made (i) to borrowers related through common control and (ii) substantial financial

	interdependence exists.
Switzerland	Two or more entities are considered as related group when (a) one directly or indirectly holds more than half the voting rights of other and exercises controlling influence (b) recognisable interdependencies exist which render it probable that if one falls into financial difficulties, the other will encounter payment difficulties and (c) they form a consortium.
Australia	Counter parties related where linked by cross-guarantees, common ownership, ability to control, financial interdependency or other connections, which identify the counter parties as a single risk.
Canada	A connection exists where two or more entities are a common risk. Common risk exists where (a) expected source of repayment is the same for each entity or (b) the entities are part of a corporate group and there is material financial interdependence between them.
European Union (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and UK). Source: IMF (2001).	A group of connected clients means (a) two or more persons who, unless otherwise, are a single risk because one of them, directly or indirectly, has control over the other or (b) two persons between whom there is no relationship or control but who are regarded as a single risk because they are so interconnected that if one of them were to experience financial problems, the other is likely to encounter payment difficulties.

References:

Hawkins, J and P.Turner (1999), *'Bank Restructuring in Practice:* An Overview', in Bank Restructuring in Practice, BIS Policy Paper No.6, Basel, Switzerland.

Morris, J (2001), 'Risk Diversification in the Credit Portfolio: An Overview of Country Practices', *IMF Working Paper* No.200.

2.36 Among bank groups, exposure to sensitive sectors was the highest for PSBs at Rs.15,392 crore (comprising 66.3 per cent of the total exposure of SCBs to sensitive sectors), followed in order by new private banks (13.0 per cent), old private banks (11.9 per cent) and foreign banks (8.8 per cent). Except for nationalised and foreign banks, the other bank groups witnessed a reduction in their exposure to sensitive sectors over the period. The maximum decline was recorded by the State Bank group, whose exposure to sensitive sectors during 2001-02 declined by 25.5 per cent to Rs.2,196 crore.

2.37 Almost all bank groups, excepting State Bank Group, unwound their exposure to the capital market during 2001-02. While nationalised banks exposure to capital markets registered a decline of 4.9 per cent to Rs.1,269 crore, the largest fall was witnessed by old private banks whose capital market exposure declined by 64.3 per cent to Rs.195 crore. Following the liberalisation of prudential requirements for housing finance for banks, lending to real estate witnessed a sharp upturn for most bank groups and the largest increase was observed in the case of foreign banks (143.9 per cent). The State Bank group was again an exception, and it lowered its real estate exposure by over 50.0 per cent to Rs.620 crore. Most bank groups witnessed modest to significant increases in their exposure to the commodities sector, with the increase for new private banks being the largest at 33.7 per cent; foreign banks, however, lowered their exposure to commodities sector.

Stock Prices of Indian Banks

2.38 The number of bank shares available for trading on the National Stock Exchange (NSE) remained constant at 31 as at end-March 2002, with no additional listings/de-listings during the year. There were 12 PSBs and 19 private sector banks whose shares were available for trading on NSE. The movements in share prices are given in Table II.11.

Table II.11: Changes in Share Prices of Banks

	Name of the Bank	Closing Price (Rs.) 2000-01	Closing Price (Rs.) 2001-02	Percentage Change in Share Price
	1	2	3	4
	Public Sector Banks			
1	Andhra Bank	*	9.10	—
2	Bank of Baroda	60.45	47.60	-21.26
3	Bank of India	11.40	25.00	119.30
4	Corporation Bank	110.10	133.30	21.07
5	Dena Bank	8.75	6.70	-23.43
6	Indian Overseas Bank	7.75	8.85	14.19
7	Oriental Bank of Commerce	39.80	39.45	-0.88
8	State Bank of Bikaner & Jaipur	276.50	295.00	6.69
9	State Bank of India	201.05	219.95	9.40
10	State Bank of Travancore	240.00	275.30	14.71
11	Syndicate Bank	8.90	10.85	21.91
12	Vijaya Bank	7.15	8.45	18.18
	Private Sector Banks			
1	Bank of Punjab Ltd.	14.55	13.90	-4.47
2	The Bank of Rajasthan Ltd.	12.30	11.45	-6.91
3	Centurion Bank Ltd.	11.45	11.85	3.49
4	City Union Bank Ltd.	23.80	24.25	1.89
5	The Federal Bank Ltd.	45.85	104.40	127.70
6	Global Trust Bank Ltd.	35.70	26.30	-26.33
7	HDFC Bank Ltd.	228.35	236.60	3.61
8	ICICI Bank Ltd.	166.50	123.90	-25.59
9	IDBI Bank Ltd.	17.05	28.00	64.22
10	IndusInd Bank Ltd.	14.00	16.70	19.29
11	The Jammu & Kashmir Bank Ltd.	37.30	73.35	96.65
12	The Karur Vysya Bank Ltd.	273.65	384.55	40.53
13	The Karnataka Bank Ltd.	70.30	127.90	81.93
14	The Laxmi Vilas Bank Ltd.	48.55	61.10	25.85
15	The Nedungadi Bank Ltd.	92.00	38.65	-57.99
16	The South Indian Bank Ltd.	22.05	43.95	99.32
17	United Western Bank Ltd.	32.00	22.00	-31.25
18	UTI Bank Ltd.	24.95	39.85	59.72
19	Vysya Bank Ltd.	121.35	237.15	95.43

Source : National Stock Exchange.

Notes: 1. *Trading in the shares of Andhra Bank started on April 04, 2001.
2. Closing price figures are of the last trading day of the financial year.
3. Punjab National Bank was listed on April 26, 2002.

2.39 As Table II.11 reveals, PSBs scrips have recorded a mixed reaction. The contribution of the bank scrips to the NSE total turnover increased from 1.0 per cent in 2000-01 to 1.3 per cent in 2001-02 (Table II.12). The turnover of the top 5 banks at Rs.5,690 crore in 2001-02 was lower than the previous year.

Table II.12: Turnover Details of Bank Shares

(Amount in Rs. crore)

Item	Turnover	
	2000-01	2001-02
1	2	3
All Banks	13,992	6,804
Top 5 Banks	12,226	5,690
NSE Total (including bank shares)	13,39,511	5,13,167
Per cent share of all Banks to NSE Total	1.00	1.33
Per cent share of top 5 Banks to All Banks	87.38	83.63

Source: National Stock Exchange.

3. Financial Performance of Scheduled Commercial Banks

2.40 During the year 2001-02, there was a significant improvement in the profitability of the SCBs owing to the rise in trading profits attributable to the softer interest rate regime coupled with the containment in operating expenses, notwithstanding the higher provisions and contingencies (Table II.13 and Chart II.4).

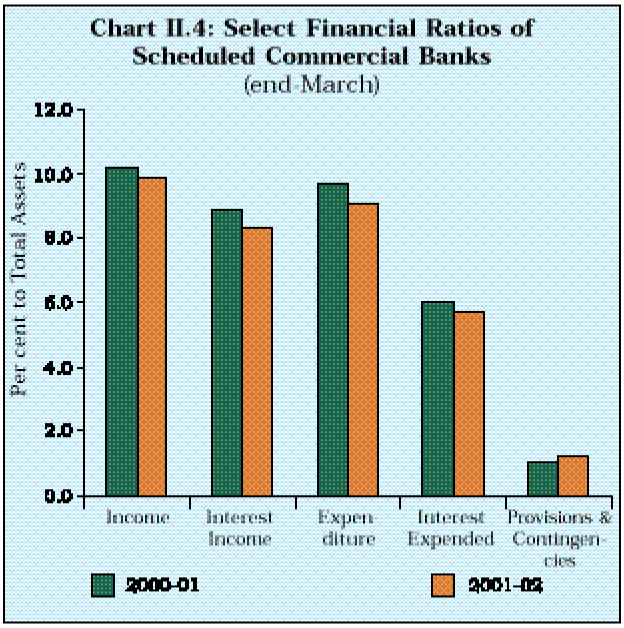


Table II.13: Bank Group-wise Select Indicators of Financial Performance
(As percentage of Total Assets)

Bank Group/ Year	Operating Profit	Net Profit	Income	Interest Income	Other Income	Expen-diture	Interest Expended	Operating Expenses: Total	Operating Expenses: *of which* Wage Bill	Provisions and Cont-ingencies
1	2	3	4	5	6	7	8	9	10	11
Scheduled Commercial Banks										
2000-01	1.53	0.49	10.20	8.88	1.32	9.70	6.03	2.64	1.79	1.03
2001-02	1.94	0.75	9.84	8.27	1.57	9.08	5.70	2.19	1.42	1.19
Public Sector Banks										
2000-01	1.34	0.42	10.05	8.85	1.20	9.63	5.99	2.72	2.03	0.92
2001-02	1.88	0.72	10.14	8.71	1.43	9.43	5.98	2.29	1.65	1.16
Nationalised Banks										
2000-01	1.29	0.33	10.23	9.09	1.14	9.90	6.19	2.76	2.10	0.95
2001-02	1.83	0.69	10.26	8.78	1.48	9.58	6.03	2.40	1.74	1.15
State Bank Group										
2000-01	1.42	0.55	9.77	8.47	1.30	9.21	5.68	2.66	1.93	0.87
2001-02	1.94	0.77	9.96	8.62	1.34	9.19	5.91	2.11	1.50	1.17
Old Private Sector Banks										
2000-01	1.75	0.59	10.76	9.53	1.23	10.16	7.02	1.99	1.24	1.15
2001-02	2.70	1.08	11.74	9.36	2.38	10.67	6.97	2.08	1.26	1.62
New Private Sector Banks										
2000-01	1.74	0.81	9.52	8.17	1.35	8.71	6.03	1.75	0.32	0.93
2001-02	1.21	0.44	5.66	4.48	1.18	5.22	3.33	1.12	0.25	0.77
Foreign Banks										
2000-01	3.05	0.93	11.74	9.27	2.47	10.81	5.64	3.05	0.97	2.12
2001-02	3.13	1.33	11.56	8.65	2.91	10.23	5.40	3.03	1.00	1.80

Note : The ratios are compiled from the balance sheets of the respective banks and include the impact of merger, wherever applicable.

Income

2.41 The income of SCBs increased by 14.4 per cent during 2001-02 to Rs.1,51,026 crore. This was higher than the average growth rate of 11.7 per cent registered during the period 1997-2001. Among bank groups, while the increase in income for PSBs was 13.3 per cent, the same for old private and foreign banks increased by 20.4 per cent and 8.1 per cent, respectively. For new private sector banks, total income increased by 31.7 per cent [Appendix Table II.5(A) to (G)].

2.42 Owing to the higher growth in assets *vis-à-vis* the growth in income, the ratio of income to total assets of SCBs declined from 10.2 per cent in 2000-01 to 9.8 per cent in 2001-02. Except the PSBs group and old private sector banks, other bank groups, recorded declines in this ratio. The decline was most significant in the case of new private sector banks from 9.5 per cent to 5.7 per cent.

Interest Income

2.43 The interest income of SCBs witnessed a rise of 10.3 per cent. A large chunk of the interest income was accounted for by interest on advances (39.3 per cent in 2001-02), which was followed by income on investments, on account of valuation of the stock of investments held by banks as also on account of trading of such investments actively in the market (Box II.2)

2.44 Despite the rise in interest income, the ratio of interest income to total assets for SCBs stood lower at 8.3 per cent in 2001-02 as compared to 8.9 per cent in 2000-01. The increased asset growth of SCBs due to the impact of merger during the year outweighed this rise in interest income. Such ratios for PSBs and foreign banks decreased from 8.9 per cent and 9.3 per cent, respectively in 2000-01 to 8.7 per cent for both groups in 2001-02.

Other Income

2.45 Other income of SCBs witnessed a rise of nearly 41.6 per cent in 2001-02 to Rs.24,056 crore. Among bank groups, the increase was 33.6 per cent for PSBs, with a significant increase being recorded by nationalised banks (47.0 per cent) reflecting the increased diversification undertaken by them for fee-based activities. Old private sector banks recorded a massive increase in other income of 114.0 per cent to Rs.2,221 crore. Likewise new private sector banks also witnessed a substantial increase of 93.1 per cent. Commission, exchange and brokerage, which comprise a major share of 'other income' witnessed only a marginal rise of 3.7 per cent for SCBs over the previous year. With the result, its share in other income, declined to 38.3 per cent in 2001-02 from 52.3 per cent in the previous year.

2.46 The ratio of other income to total assets for SCBs stood at 1.6 per cent in 2001-02 as compared with 1.3 per cent in 2000-01. Most of the bank groups recorded increases in this ratio and the increase was more in respect of nationalised banks (1.5 per cent as compared with 1.1 per cent in 2000-01) and foreign banks (2.9 per cent as compared with 2.5 per cent in 2000-01).

Box II.2: Securities Trading and Profitability of Commercial Banks

Investments, especially in government securities, constitute a considerable portion of assets of the SCBs in India. As on March 31, 2002, investments accounted for nearly two-fifths of the total assets of SCBs. Since yield-to-maturity (YTM) and security price are inversely related, a fall in YTM would, therefore, engender an increase in security price and *vice versa*. In line with general softening in interest rates since the late 1990s, YTM on government and other approved securities has declined substantially. On a point-to-point basis, the fall in YTM during 2001-02 of more than 300 basis points has been particularly remarkable and this has substantially boosted the profits of SCBs. The net profits of SCBs during 2001-02 at Rs. 11,572 crore increased by 81 per cent over the previous year, of which the gains on account of securities trading have been significant.

Bank-wise data on securities trading during 2001-02 indicate that gains on such account emanated from sale of existing securities as well as increased turnover of trading in such securities. Gains from securities transactions, however, were not uniform across bank groups. In terms of absolute amounts, nationalised banks profited the most from such transactions, while in percentage terms, the gains were the highest for Indian private sector banks. The gains on securities trading during 2001-02 have also been supplemented by large reduction in staff expenses of PSBs.

Expenditure

2.47 Total expenditure of SCBs witnessed a rise of 11.0 per cent in 2001-02 to Rs.1,39,454 crore. This growth rate, however, was lower than the average growth rate of 11.9 per cent recorded over the period 1997-2001. Among bank groups, the increase in expenditure growth was the lowest for foreign banks (3.9 per cent) and the highest (32.6 per cent) for new private sector banks. In the PSBs category, the growth rate was higher for State Bank group at 11.2 per cent, whereas for nationalised banks, it was 9.0 per cent.

2.48 As a result of the containment in expenses, the ratio of expenditure to total assets for SCBs stood lower at 9.1 per cent in 2001-02 as compared with 9.7 per cent in 2000-01. While most bank groups recorded a decline in this ratio, old private sector banks registered an increase from 10.2 per cent in 2000-01 to 10.7 per cent in 2001-02.

Interest Expended

2.49 The major component of total expenditure was interest expenses, comprising nearly 63.0 per cent of the total expenses of SCBs. For SCBs as a whole, the rise in interest expenses was of the order of 12.0 per cent to Rs.87,516 crore. This was primarily due to an increase in the interest paid on deposits, which witnessed a rise of 12.3 per cent to Rs.80,570 crore. Foreign banks recorded the lowest growth in interest expenses (5.1 per cent) due to very low rise in interest paid on deposits (2.9 per cent). Among other bank groups, the interest paid on deposits increased by 16.6 per cent for State Bank group resulting in 16.0 per cent rise in interest expenditure.

2.50 The ratio of interest expended to total assets for SCBs declined to 5.7 per cent in 2001-02 from 6.0 per cent in 2000-01. The decline was also observed in the case of foreign banks .

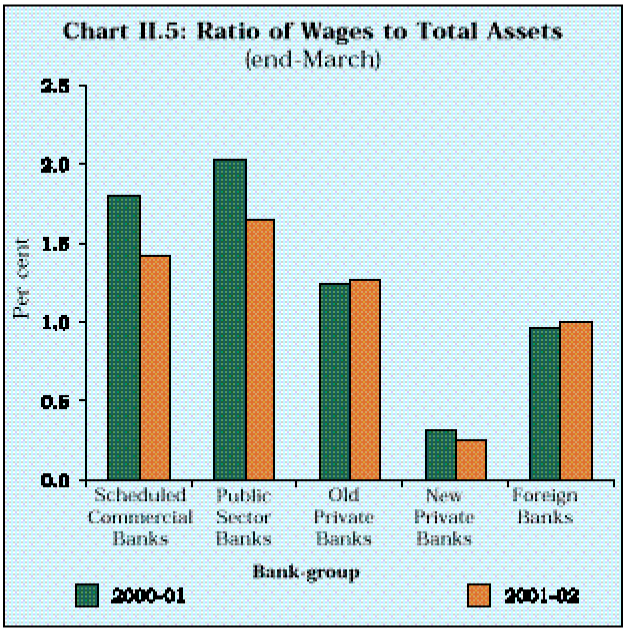
Operating Expenses

2.51 The operating expenditure of SCBs witnessed a decline of 1.4 per cent in 2001-02, driven, to a large extent, by the decline in wage costs. It is significant that except the PSBs group, all other bank groups recorded a rise in operating expenses. In the case of PSBs, operating expenses declined by 5.7 per cent to Rs.26,422 crore, with a more pronounced reduction in the case of the State Bank group (11.6 per cent) *vis-à-vis* the nationalised banks (2.0 per cent). In contrast, other bank groups witnessed an upturn in this component of expenditure, with a noticeable increase in case of old private sector banks (14.9 per cent) and new private sector banks (41.4 per cent). In view of the overwhelming share of PSBs in the operating expenses of SCBs (about 78.0 per cent in 2001-02), this had the effect of exerting a downward pressure on operating expenses of SCBs as a whole.

2.52 During the period, the ratio of operating expenses to total assets for SCBs declined to 2.2 per cent in 2001-02 from 2.6 per cent in 2000-01. Concomitantly, such ratios for various categories of banks (except old private sector banks) also recorded declines.

Wage Bill

2.53 The major component of operating expenditure for SCBs, *viz.*, wage bill witnessed a decline of 6.2 per cent in 2001-02. The decline was observed among the nationalised banks as well as the State Bank group (Chart II.5). For PSBs, the reduction in wage costs was of the order of Rs.1,884 crore on account of the VRS scheme introduced in the previous year (Box II.3). This has had a salutary effect on improving the profit parameters of PSBs.



Box II.3: Impact of Voluntary Retirement Scheme for PSBs

With a view to optimise utilisation of human resources, 26 out of the 27 PSBs introduced voluntary retirement schemes (VRS) in 2000-01. As on March 31, 2002 implementation of the scheme involved a total cost of Rs. 12,300 crore for PSBs and resulted in nearly 12 per cent reduction in staff strength. The RBI permitted PSBs to amortise VRS related expenditure over a period of five years. The guidelines for such amortisation were set out in consultation with competent professional bodies. During 2000-01 and 2001-02, PSBs charged Rs. 3,007 crore and Rs. 2,346 crore, respectively, on their profit and loss account on account of VRS and as on March 31, 2002 the balance of deferred revenue expenditure related to VRS was Rs. 6,947 crore.

The staff costs, as proportion of total costs declined during 2001-02, inspite of the apportionment for VRS. The business per employee and profitability (as measured by return on assets) for PSBs has increased during 2001-02.

2.54 With the lowering of wage costs, the ratio of wage bill to total assets of SCBs declined from 1.8 per cent in 2000-01 to 1.4 per cent in 2001-02. The decline was visible within both the subcategories of PSBs. The ratio for old private sector banks and foreign banks, however, witnessed marginal upward movements in tandem with the increase in their wage expenses.

Provisions and Contingencies

2.55 Provisions and contingencies (P & C) of SCBs witnessed a rise of 36.6 per cent in 2001-02. The sharp increase in P & C, especially provisioning for NPAs, in the light of the gradual tightening of prudential norms, reflects the growing awareness on the part of banks to set aside larger quantum against impaired assets. Among bank groups, such expenditure for PSBs increased by nearly 41.0 per cent, while that for new private sector banks witnessed the maximum rise of 83.3 per cent. Foreign banks, however, registered a decline in such expenditure owing to lowering of provisions for taxation.

2.56 A major component of P & C was the provisions for non-performing assets (NPAs), which for SCBs, increased by 40.5 per cent over the previous year. Even though there was increase in such provisions for all categories of banks, foreign banks registered the lowest increase.

2.57 During the review period, the ratio of provisions and contingencies to total assets of SCBs increased from 1.0 per cent in 2000-01 to 1.2 per cent in 2001-02. The trend was the same for all bank groups, except new private sector and foreign banks.

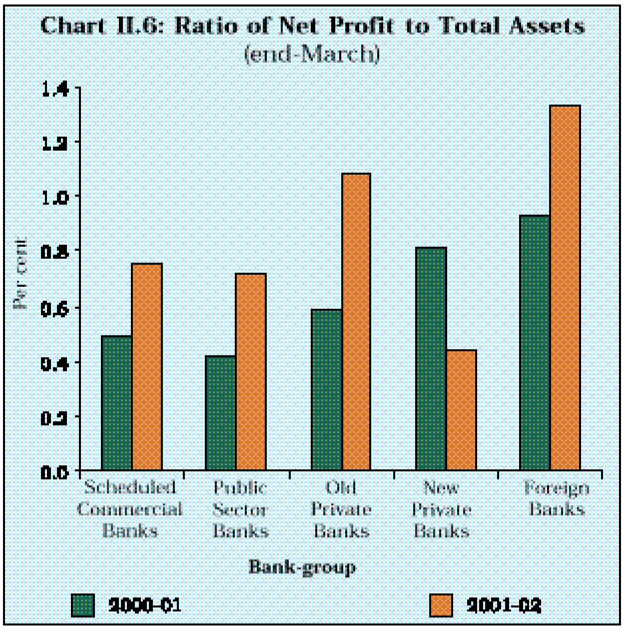
Operating Profit

2.58 As on March 31, 2002, the operating profits of SCBs increased by 51.0 per cent to Rs.29,814 crore over the previous year. Out of this, the operating profits of PSBs increased by 57.0 per cent, with an observed increase of 52.0 per cent and 61.0 per cent for the State Bank group and nationalised banks, respectively. Old private sector banks and foreign banks also registered notable increases in their operating profits. The increase for new private banks stood at 54.0 per cent [(Appendix Tables II.5 (A) to (G)].

Net Profit

2.59 Notwithstanding the increased provisions and contingencies by almost all bank groups (foreign banks were an exception), there was a marked increase in net profit by 80.7 per cent for SCBs during the year (excluding the impact of the merger, the increase in net profit was 80.6 per cent). The increase was significant in respect of most bank groups. The increase for PSBs was of the order of 92.3 per cent. Excluding the impact of the merger, the increase in net profit for new private banks was 19.9 per cent.

2.60 Driven by the improved profitability, the ratio of net profits to total assets for SCBs increased from 0.5 per cent in 2000-01 to 0.8 per cent in 2001-02. In case of PSBs, the ratio increased from 0.4 per cent to 0.7 per cent and was more than double for nationalised banks from 0.3 per cent to 0.7 per cent. Other bank groups also witnessed appreciable increases in the ratio; although an exception was the new private sector bank group for which the ratio declined from 0.8 per cent to 0.4 per cent (Chart II.6).



2.61 The increase in profits of PSBs was observed in the case of both the State Bank group and the nationalised banks. The breakup of profits of PSBs revealed that trading profits increased more than two-fold from Rs.2,250 crore in 2000-01 to Rs.5,999 crore in 2001-02, with several banks witnessing three to four-fold increase in such profits. Forex profits also registered an increase of 13.3 per cent to Rs.1,547 crore in 2001-02 (Table II.14).

Table II.14: Break-up of Profit of Public Sector Banks

Rs. crore

Sr. No.	Name of the Bank	Trading Profit		Forex Profit		Net Profit	
		2000-01	2001-02	2000-01	2001-02	2000-01	2001-02
1	2	3	4	5	6	7	8
I.	**Nationalised Banks**	**1,690**	**4,965**	**926**	**998**	**2,095**	**4,852**
1	Allahabad Bank	48	193	29	29	40	80
2	Andhra Bank	65	136	13	16	121	202
3	Bank of Baroda	102	415	134	117	275	546
4	Bank of India	196	427	105	124	252	505
5	Bank of Maharashtra	81	167	23	12	45	145
6	Canara Bank	201	663	124	129	285	741
7	Central Bank of India	144	318	31	29	46	163
8	Corporation Bank	67	135	37	53	262	308

9	Dena Bank	37	201	16	16	-266	11
10	Indian Bank	60	226	48	55	-274	33
11	Indian Overseas Bank	53	257	42	52	116	230
12	Oriental Bank of Commerce	95	311	38	39	203	321
13	Punjab & Sind Bank	69	126	24	25	13	23
14	Punjab National Bank	242	438	94	92	464	562
15	Syndicate Bank	67	74	36	29	235	251
16	UCO Bank	73	346	18	25	33	165
17	Union Bank of India	34	160	90	114	155	314
18	United Bank of India	51	281	2	3	19	119
19	Vijaya Bank	3	90	24	37	71	131
II.	**State Bank Group**	**560**	**1,034**	**439**	**549**	**2,222**	**3,449**
20	State Bank of India	342	352	304	408	1,604	2,432
21	State Bank of Bikaner & Jaipur	18	77	23	21	105	165
22	State Bank of Hyderabad	40	105	35	35	150	226
23	State Bank of Indore	63	174	8	9	64	125
24	State Bank of Mysore	28	76	13	21	26	66
25	State Bank of Patiala	22	95	21	20	161	233
26	State Bank of Saurashtra	16	80	10	10	14	82
27	State Bank of Travancore	30	75	26	25	97	121
III.	**Public Sector Banks (I+II)**	**2,250**	**5,999**	**1,365**	**1,547**	**4,317**	**8,301**

Notes: 1. Trading Profit - Net Profit on Sale of Investment.
2. Forex Profit - Net Profit on Exchange Transaction.

Source : Balance Sheet of respective banks.

Off-Balance Sheet Activities

2.62 Off-balance sheet activities of SCBs, comprising forward exchange contract, guarantees, acceptances and endorsements, etc., registered a rise of 17.7 per cent in 2001-02 (Table II.15). The ratio of contingent liabilities to total liabilities of SCBs witnessed a marginal decline from 58.1 per cent in 2000-01 to 57.7 per cent in 2001-02. Forward exchange contracts, which account for the highest share of contingent liabilities, increased by 10.4 per cent to Rs.6,35,095 crore. The highest growth, however, was recorded by acceptances, endorsements, etc., which increased by over 56.9 per cent during the year.

Table II.15: Off-Balance Sheet exposure of Scheduled Commercial Banks in India

Item	State Bank Group 2000-01	State Bank Group 2001-02	Variations	Nationalised Banks 2000-01	Nationalised Banks 2001-02	Vadiations	Public Sector Banks 2000-01	Public Sector Banks 2001-02	Variations
1	2	3	4	5	6	7	8	9	10
1. Forward exchange Contract	61,945.87 (15.37)	70,280.40 (15.63)	13.45	1,37,619.48 (21.95)	1,38,960.22 (19.68)	0.97	1,99,565.35 (19.38)	2,09,240.62 (18.0)	4.85
2. Guarantees given	17,336.27 (4.30)	17,727.41 (3.94)	2.26	26,656.95 (4.25)	30,423.26 (4.31)	14.13	43,993.22 (4.27)	48,150.67 (4.17)	9.45
3. Acceptances, Endorsements, etc.	25,122.48 (6.23)	38,575.42 (8.58)	53.55	30,054.08 (4.79)	33,311.44 (4.72)	10.84	55,176.56 (5.36)	71,886.86 (6.22)	30.29
Total Contingent Liabilities	**1,04,404.62 (25.91)**	**1,26,583.23 (28.16)**	**21.24**	**1,94,330.51 (30.99)**	**2,02,694.92 (28.7)**	**4.30**	**2,98,735.13 (29.00)**	**3,29,278.15 (28.49)**	**10.22**

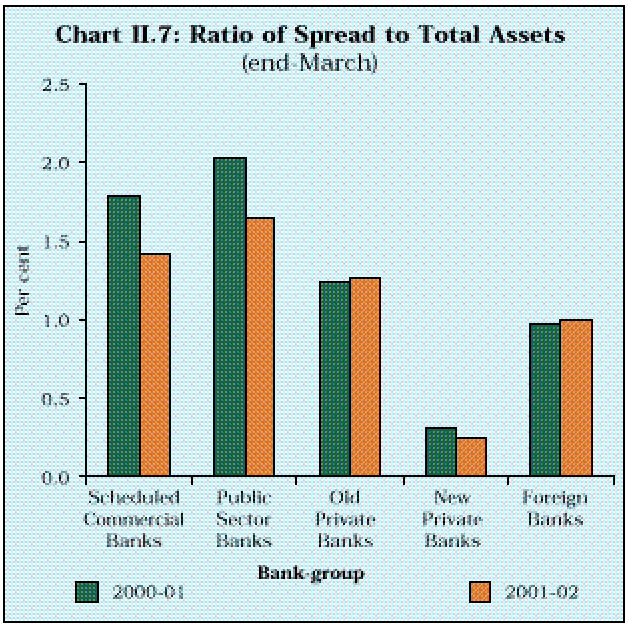
Item	New Private Sector Banks 2000-01	New Private Sector Banks 2001-02	Variations	Old Private Sector Banks 2000-01	Old Private Sector Banks 2001-02	Variations	Foreign Banks 2000-01	Foreign Banks 2001-02	Variations	All SCBs 2000-01	All SCBs 2001-02	Variations
1	11	12	13	14	15	16	17	18	19	20	21	22
1. Forward exchange contract	41,243.39 (52.34)	47,697.38 (27.34)	15.65	18,451.56 (21.83)	17,390.79 (18.65)	-5.75	3,15,988.13 (309.47)	3,60,766.65 (321.84)	14.17	5,75,248.43 (44.41)	6,35,095.44 (41.36)	10.40
2. Guarantees given	7,087.08 (8.99)	14,503.54 (8.31)	104.65	2,958.29 (3.50)	3,302.63 (3.54)	11.64	17,296.43 (16.94)	18,298.13 (16.32)	5.79	71,335.02 (5.51)	84,254.97 (5.49)	18.11
3. Acceptances, endorsements, etc.	10,954.72 (13.90)	23,979.72 (13.75)	118.90	3,242.50 (3.84)	3,295.87 (3.54)	1.65	36,398.39 (35.65)	66,837.80 (59.63)	83.63	1,05,772.17 (8.17)	1,66,000.25 (10.81)	56.94
Total Contingent Liabilities	**59,285.19 (75.24)**	**86,180.64 (49.40)**	**45.37**	**24,652.35 (29.16)**	**23,989.29 (25.73)**	**-2.69**	**3,69,682.95 (362.05)**	**4,45,902.58 (397.78)**	**20.62**	**7,52,355.62 (58.08)**	**8,85,350.66 (57.66)**	**17.68**

Notes : 1. Figures in brackets are percentages to Total Liabilities of the concerned bank group.
2. Variation indicates the percentage variation in 2001 02 over 2000 01 of the concerned item.

2.63 Foreign banks were particularly active in off-balance sheet activities. With the result, the ratio of off-balance sheet activity to total liabilities of foreign banks rose to 397.8 per cent in 2001-02 as compared with 362.1 per cent in 2000-01. Among PSBs, such ratio for the State Bank group was 28.2 per cent in 2001-02.

Spread

2.64 With the increase in interest income outpacing interest expense, the interest spread of SCBs increased by 6.8 per cent to Rs.39,454 crore in 2001-02. While most of the bank groups registered a rise in spreads, there was a decline of 1.6 per cent in the interest spread of foreign banks. New private sector banks, recorded a 19.3 per cent increase in spreads in 2001-02 (Chart II.7). Bank-wise details of select parameters of PSBs, private sector banks and foreign banks are furnished in Appendix Tables II.6 (A) to 6 (I), II.7(A) to 7(H) and II.8(A) to 8 (H), respectively.



2.65 During the review period, there was a decline in the ratio of spread to total assets for SCBs from 2.9 per cent in 2000-01 to 2.6 per cent in 2001-02. The decline was reflected across all bank groups. For instance, for PSBs, the ratio declined from 2.9 per cent in 2000-01 to 2.7 per cent in 2001-02. Some of the factors impacting on spreads are given in Box II.4.

Box II.4: Spreads in the Banking Sector

A central objective of financial deregulation is to encourage competition among financial institutions in order to improve the efficiency and the stability of the financial system. In this context, the difference between the interest rate charged to borrower and the interest rate paid to depositors, which reflects the cost of intermediation, is an important indicator of efficiency. A high differential may adversely affect domestic savings and jeopardize economic growth. Financial deregulation, by enhancing competition, is expected to narrow this gap.

Financial systems in developing countries typically exhibit significantly high and persistent spreads (Barajas *et al.*, 2000). These high margins have persisted even though most countries have undertaken financial liberalisation. It has been observed that in many sub-Saharan African countries, the range of financial products remain extremely limited, interest rate spreads are wide, capital adequacy ratios insufficient, and the share of non-performing loans quite high. Similarly, Brock and Rojas-Suarez (2000) remark that most policymakers in Latin America have been disappointed by the fact that spreads have failed to converge to international levels.

Several arguments have been advanced for the same. First, high interest rates may persist if financial sector reforms do not significantly alter the structure within which banks operate. Several studies have noted that competitive pressures that arise from conditions of free entry and competitive pricing will tend to raise the functional efficiency of intermediation by decreasing the spread. More recent studies on bank spreads also tend to support the hypothesis that intermediation margins are positively related to market power (Barajas *et al.*, 1999).

Second, in many developing countries without an explicit deposit insurance mechanism, banks are subject to high reserve requirements, even post liberalisation. While such requirements might be dictated by the need for protection of depositors' interests, the availability of a pool of resources allows for financing high fiscal deficits through an implicit financial tax, thereby creating an environment that can promote rising inflation and persistent high intermediation margins. Barajas *et al*. (2000) for instance, find evidence of a positive and significant relationship between spreads and liquidity reserves in the Columbian banking system.

Third, the removal of credit controls during financial liberalisation may worsen the quality of loans that may, in turn, lead to increased risks of systemic crisis. Testimony for the same is empirically evidenced in the work of Brock and Rojas-Suarez (2000) and Barajas *et al.* (2000) who note that the cost of poor quality loans is shifted to bank customers through higher spreads.

Fourth, there is overwhelming evidence that high non-financial costs also act as a source of persistent and wide intermediation spreads in developing countries. Non-financial costs reflect variations in physical capital costs, employment and wage levels. Demirgic-Kunt and Huizinga (1999) find evidence of a positive relation between net interest margin and overhead costs. Similarly, Brock and Rojas-Suarez (2000) also find significant evidence of a positive relation between spreads and wages or non-financial costs.

Fifth, Saunders and Schumacher (2000) note that the capital which banks hold to cushion themselves against expected and unexpected risks may lead to higher spreads. The cost of high regulatory and/or endogenously determined capital ratios may be covered through widening the spread between lending and deposit rates.

Sixth, macroeconomic instability and the policy environment may also affect the pricing behaviour of commercial banks. In order to capture the effects of the macroeconomic and policy environment, spread equations include, among others, inflation and growth of industrial output as control variables. For instance, there is evidence to suggest that inflation is positively associated with intermediation spreads, particularly in developing countries with high and variable inflation rates (Demirgic-Kunt and Huizinga, 1999; Mlachila and Chirwa, 2002).

In summary, while financial liberalisation should generally lead to a lowering of spreads, whether they actually decline or not ultimately depend upon a number of factors. Generally, lending rates relative to deposit rates can increase or remain high, depending on the level of reserve requirements, the competitiveness of the banking system, the cost structure of the market, and the macroeconomic environment. On the other hand, if the banking system is characterised by excess liquidity, deposit rates are unlikely to increase much following financial liberalisation because the marginal cost of mobilising resources is high, while the marginal profit is negligible. Thus, the spread may actually rise, rather than fall, after financial liberalisation.

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4. Non-performing Assets

2.66 The gross non-performing assets (NPAs)[4] of SCBs stood at Rs.70,904 crore as on March 31, 2002 as compared with Rs.63,741 crore at the end of the previous year. The gross NPAs for end-March 2002 includes an amount of Rs. 4,512 crore on account of merger. During the same period, net NPAs increased by 9.5 per cent to Rs.35,546 crore from Rs.32,461 crore at end-March 2001. For PSBs, gross NPAs stood at Rs.56,507 crore as at end of March 2002, comprising 79.7 per cent of the sticky loans of SCBs (Table II.16).

Table II.16: Gross and Net NPAs of Scheduled Commercial Banks - Bank Group-wise

(As at end-March)

(Amount in Rs. crore)

Bank Group/Year	Gross NPAs				Net NPAs			
	Gross Advances	Amount	Per cent to Gross Advances	Per cent to total Assets	Net Advances	Amount	Per cent to Net Advances	Per cent to total Assets
1	2	3	4	5	6	7	8	9
Scheduled Commercial Banks								
1999	3,99,436	58,722	14.7	6.2	3,67,012	28,020	7.6	2.9
2000	4,75,113	60,408	12.7	5.5	4,44,292	30,073	6.8	2.7
2001	5,58,766	63,741	11.4	4.9	5,26,329	32,461	6.2	2.5
2002	6,80,958	70,904#	10.4	4.6	6,45,859	35,546	5.5	2.3
Public Sector Banks								
1999	3,25,328	51,710	15.9	6.7	2,97,789	24,211	8.1	3.1
2000	3,79,461	53,033	14.0	6.0	3,52,714	26,187	7.4	2.9
2001	4,42,134	54,672	12.4	5.3	4,15,207	27,977	6.7	2.7
2002	5,09,368	56,507	11.1	4.9	4,80,681	27,958	5.8	2.4
Old Private Sector Banks								
1999	28,979	3,784	13.1	5.8	26,017	2,332	9.0	3.6
2000	35,404	3,815	10.8	5.2	33,879	2,393	7.1	3.3
2001	39,738	4,346	10.9	5.1	37,973	2,771	7.3	3.3
2002	44,057	4,850	11.0	5.2	42,286	3,005	7.1	3.2
New Private Sector Banks								
1999	14,070	871	6.2	2.3	13,714	611	4.5	1.6
2000	22,816	946	4.1	1.6	22,156	638	2.9	1.1
2001	31,499	1,617	5.1	2.1	30,086	929	3.1	1.2
2002	76,901	6,822#	8.9	3.9	74,187	3,663	4.9	2.1
Foreign Banks in India								
1999	31,059	2,357	7.6	3.1	29,492	866	2.9	1.1
2000	37,432	2,614	7.0	3.2	35,543	855	2.4	1.0
2001	45,395	3,106	6.8	3.0	43,063	785	1.8	0.8
2002	50,631	2,726	5.4	2.4	48,705	920	1.9	0.8

The gross NPAs for end-March 2002 include an amount of Rs. 4,512 crore on account of merger.

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

2. The figures furnished in the table may not tally with the data in table II.18 due to different sources of data collection.

Source: Balance sheets of respective banks.

Returns submitted by respective banks.

2.67 There was a perceptible decline in the ratio of gross NPAs and net NPAs, measured as percentage to advances as well as assets. For example, the ratio of gross NPAs to gross advances for SCBs declined from 11.4 per cent as at end of March 2001 to 10.4 per cent as at end of March 2002; net NPA to net advances, over the same period, declined from 6.2 per cent to 5.5 per cent. As percentage to total assets, gross NPAs declined from 4.9 per cent at end-March 2001 to 4.6 per cent at end-March 2002. Bank-wise details of NPA ratios for PSBs and private sector banks are given in Appendix Table II.9 (A) to (D). Sector-wise NPAs of individual public and private sector banks are presented in Appendix Tables II.10 (A) and (B) and Chart II.8. The movement in NPAs across bank groups is provided in Table II.17. The NPAs of PSBs increased marginally during the year inspite of the substantial recoveries, whereas for foreign banks, recoveries exceeded accretions to NPAs. New private banks, however, had substantial addition to their NPAs, reflecting the impact of merger during the year (Chart II.9).

Chart II.8: Sector-wise NPAs as percentage to non-performing Assets
(end-March 2002)

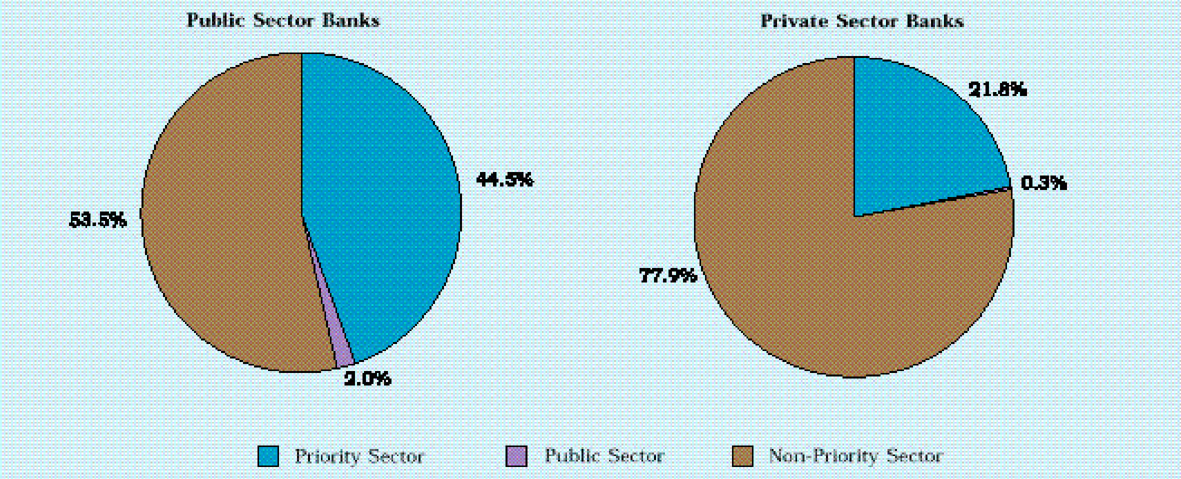


Chart II.9: Ratio of Net NPAs to Net Advances
(end-March)

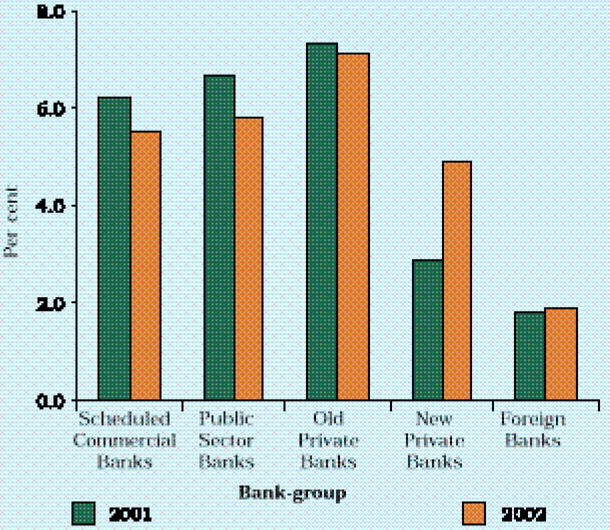


Table II.17: Bank Group-wise Movements in Non-performing Assets - 2001-02

(Rs. crore)

Item	Scheduled Commercial Banks	Public Sector Banks (27)	Old Private Banks (22)	New Private Banks (8)	Foreign Banks (40)
1	2	3	4	5	6
Gross NPAs					
As on 31st March 2001	63,581.41	54,671.58	4,262.42	1,616.51	3,030.90
Addition during the year	24,824.32	15,668.25	1,718.72	6,312.52	1,124.83
Reduction during the year	17,502.10	13,833.24	1,131.43	1,107.47	1,429.96
As on 31st March 2002	70,903.63 #	56,506.59	4,849.71	6,821.56 #	2,725.77
Net NPAs					
As on 31st March 2001	32,402.68	27,976.55	2,716.30	929.08	780.75
As on 31st March 2002	35,545.71	27,957.64	3,005.00	3,663.03	920.04
Memo:					
Gross Advances	6,80,958.41	5,09,368.39	44,057.25	76,901.44	50,631.33
Net Advances	6,45,858.78	4,80,680.56	42,285.70	74,187.10	48,705.42
Ratio:					
Gross NPAs/Gross Advances	10.41	11.09	11.01	8.87	5.38
Net NPAs/Net Advances	5.50	5.82	7.11	4.94	1.89

The gross NPAs for end-March 2002 include an amount of Rs. 4,512 crore on account of merger.

Notes: 1. Data is based on audited balance sheet figures of 97 scheduled commercial banks.

2. Figures in brackets indicates the number of banks in each group.

Source: Respective bank balance sheet.

Public Sector Banks

2.68 The gross NPAs of PSBs as at end-March 2002 at Rs.56,507 crore witnessed an increase of 3.4 per cent over the year. The share of PSBs in total NPAs of SCBs declined from 85.8 per cent as at end-March 2001 to 79.7 per cent as at end-March 2002. The ratio of gross NPAs to gross advances of PSBs witnessed a sharp decline from 12.4 per cent as at end-March 2001 to 11.1 per cent as at end-March 2002. In line with the improvement in assets in the 'standard' category from 87.6 per cent at end-March 2001 to 88.9 per cent at end-March 2002, there has been a decline in the gross NPAs to gross advances ratio (Table II.18). As at end-March 2002, 24 out of 27 PSBs had net NPA to net advances ratio upto 10 per cent, whereas 3 banks had the ratio in excess of 10 per cent (Table II.19).

Table II.19: Distribution of Scheduled Commercial Banks by Ratio of Net NPAs to Net Advances

(No. of banks)

Net NPAs/Net Advances	End-March				
	1998	1999	2000	2001	2002
1	2	3	4	5	6
Public Sector Banks	**27**	**27**	**27**	**27**	**27**
1. Upto 10 per cent	17	18	22	22	24
2. Above 10 and up to 20 per cent	9	8	5	5	3
3. Above 20 per cent	1	1	—	—	—
Old Private Sector Banks	**25**	**25**	**24**	**23**	**22**
1. Upto 10 per cent	21	17	18	16	17
2. Above 10 and upto 20 per cent	4	5	5	4	3
3. Above 20 per cent	—	3	1	3	2
New Private Sector Banks	**9**	**9**	**8**	**8**	**8**
1. Upto 10 per cent	9	9	8	8	8
2. Above 10 and upto 20 per cent	—	—	—	—	—
3. Above 20 per cent	—	—	—	—	—

Foreign Banks in India @	42	41	42	42	40
1. Upto 10 per cent	34	27	31	31	26
2. Above 10 and upto 20 per cent	6	11	7	6	5
3. Above 20 per cent	2	3	4	5	9

Note: @ No. of banks having nil NPAs for 1998, 1999, 2000, 2001 and 2002 were 14, 9, 8, 6 and 8 respectively.

New Private Sector Banks

2.69 The gross NPAs of new private banks witnessed a substantial increase from Rs.1,617 crore at end-March 2001 to Rs.6,822 crore at end-March 2002. Accordingly, the ratio of gross NPA to gross advances increased from 5.1 percent at end-March 2001 to 8.9 per cent at end-March 2002. The proportion of assets in the 'standard' category declined from 94.9 per cent at end-March 2001 to 91.1 per cent as at end-March 2002 (Table II.18).

Table II.18: Classification of Loan Assets of Scheduled Commercial Banks – Bank Group-Wise (As at end-March)

(Amount in Rs.crore)

Bank Group/Year	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											
1999	3,40,714	85.3	19,928	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	60,840	12.8	4,75,757
2001	4,94,716	88.6	18,206	3.3	37,756	6.8	8,001	1.4	63,963	11.4	5,58,679
2002	6,09,916	89.6	21,382	3.1	41,207	6.1	8,378	1.2	70,967#	10.4	6,80,883
Public Sector Banks											
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
2001	3,87,360	87.6	14,745	3.3	33,485	7.6	6,544	1.5	54,774	12.4	4,42,134
2002	4,52,862	88.9	15,788	3.1	33,658	6.6	7,061	1.4	56,507	11.1	5,09,369
Old Private Sector Banks											
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	3,985	11.2	35,432
2001	35,166	88.7	1,622	4.1	2,449	6.2	413	1.0	4,484	11.3	39,650
2002	39,206	89.0	1,834	4.2	2,668	6.1	349	0.8	4,851	11.0	44,057
New Private Sector Banks											
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	4.1	22,816
2001	29,905	94.9	963	3.1	620	2.0	11	0.0	1,594	5.1	31,499
2002	70,010	91.1	2,904	3.8	3,871	5.0	41	0.1	6,816#	8.9	76,826
Foreign Banks in India											
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
2001	42,285	93.1	876	1.9	1,202	2.6	1,033	2.3	3,111	6.9	45,396
2002	47,838	94.5	856	1.7	1,010	2.0	927	1.8	2,793	5.5	50,631

The gross NPAs for end-March 2002 include an amount of Rs. 4,512 crore on account of merger.

Notes: 1. The figures furnished in this table may not tally with the data given in Table II.16 due to different sources of data collection.
2. Figures are provisional.
3. Constituent items may not add up to the totals due to rounding off.

Source: Returns submitted by respective banks.

Old Private Sector Banks

2.70 The gross NPAs of old private sector banks increased from Rs.4,346 crore as at end-March 2001 to Rs.4,850 crore as at end-March 2002. As percentage to gross advances, over this period, gross NPAs rose from 10.9 per cent to 11.0 per cent. Net NPAs, on the other hand, increased to Rs.3,005 crore, with net NPA to net advances ratio at end-March 2002 being 7.1 per cent. As at end-March 2002, out of 22 old private sector banks, 17 banks had net NPA to net advances ratio upto 10 per cent, whereas five banks had this ratio in excess of 10 per cent.

Foreign Banks

2.71 The gross NPAs of foreign banks declined by 12.0 per cent from Rs.3,106 crore at end-March 2001 to Rs.2,726 crore at end-March 2002. This had the effect of reducing the gross NPA to gross advances ratio over the same period from 6.8 per cent to 5.4 per cent. In terms of ratio to total assets, gross NPA decreased from 3.0 per cent to 2.4 per cent. Net NPAs, on the other hand, increased to Rs.920 crore. As per cent to net advances, net NPAs increased marginally from 1.8 per cent to 1.9 per cent, whereas as ratio to total assets, net NPA has remained at 0.8 per cent during the last two years. There has been a marked improvement in the asset profile of foreign banks, with the category of 'standard' asset registering an increase from 93.1 per cent as at end-March 2001 to 94.5 per cent as at end-March 2002. Out of 40 foreign banks operating in India, 26 banks had net NPAs to net advances ratio within 10 per cent and for as many as 9 banks, this ratio was in excess of 20 per cent. The bank-wise NPAs as percentage to advances/assets are provided in Appendix Tables II.9 (E) and (F).

Incremental Non-performing Assets

2.72 The incremental gross NPAs, as percentage of incremental gross advances for SCBs increased from 4.0 per cent in 2000-01 to 5.9 per cent in 2001-02. In absolute terms, the quantum of incremental gross NPAs was Rs.7,164 crore in 2001-02 as compared with Rs.3,332 crore in 2000-01. Among bank groups, there was a decline in incremental gross NPAs for the State Bank group and foreign banks. New private sector banks, incremental gross NPAs recorded a large increase from Rs.671 crore in 2000-01 to Rs.5,205 crore in 2001-02 reflecting the addition on account of the merger. Incremental net NPAs of SCBs, over the same period, increased from Rs.2,389 crore to Rs.3,084 crore which was also largely due to substantial increase in incremental net NPAs of new private banks (Table II.20). As per cent of incremental net advances, incremental net NPAs of SCBs declined from 2.9 per cent in 2000-01 to 2.6 per cent in 2001-02. As per cent to incremental assets, while the incremental gross NPAs of SCBs increased from 1.8 per cent to 3.0 per cent in 2001-02, the incremental net NPA to total assets remained constant at 1.3 per cent in both the years (Table II.21).

Table II.20: Bank Group-wise Incremental Gross and Net NPAs

(Rs. crore)

Bank Group	**Incremental Gross NPAs**		**Incremental Net NPAs**	
	2000-01	**2001-02**	**2000-01**	**2001-02**
1	2	3	4	5
Scheduled Commercial Banks	**3,333**	**7,164**	**2,389**	**3,084**
Public Sector Banks	1,639	1,835	1,790	-19
Nationalised Banks	819	2,684	1,087	468
State Bank Group	820	-849	702	-487
Old Private Sector Banks	531	504	378	234
New Private Sector Banks	671	5,205	291	2,734
Foreign Banks	492	-380	-70	135

Note: This Table is derived from Table II.16

Source: Balance sheets of respective banks.

Table II.21: Bank Group-wise Incremental Ratio of Gross and Net NPAs

(Per cent)

Bank Group	Incremental Ratio of Gross NPAs to				Incremental Ratio of Net NPAs to			
	Gross Advances		Total Assets		Net Advances		Total Assets	
	2000-01	2001-02	2000-01	2001-02	2000-01	2001-02	2000-01	2001-02
1	2	3	4	5	6	7	8	9
Scheduled Commercial Banks	4.0	5.9	1.8	3.0	2.9	2.6	1.3	1.3
Public Sector Banks	2.6	2.7	1.2	1.5	2.9	0.0	1.3	0.0
Nationalised Banks	2.0	5.0	1.1	3.4	2.7	0.9	1.5	0.6
State Bank Group	3.8	-6.2	1.2	-1.8	3.2	-3.5	1.1	-1.0
Old Private Sector Banks	12.3	11.7	4.7	5.8	9.2	5.4	3.3	2.7
New Private Sector Banks	7.7	11.5	3.4	5.4	3.7	6.2	1.5	2.9
Foreign Banks in India	6.2	-7.3	2.5	-3.8	-0.9	2.4	-0.4	1.4

Note: This table is derived from Table II.16

Source: 1. Balance sheets of respective banks.
2. Returns received from respective banks.

5. Capital Adequacy

2.73 As at end-March 2002, 25 out of the 27 PSBs had capital to risk-weighted assets ratio (CRAR) above the prescribed minimum levels. Out of this, as many as 23 banks had capital adequacy levels in excess of 10 per cent. Only two nationalised banks could not satisfy the capital adequacy standard (Table II.22). For PSBs as a whole, the CRAR at end-March 2002 stood at 11.8 per cent, which was substantially higher than 11.2 per cent as at end-March 2001. Bank-wise details of CRAR of various bank groups are given in Appendix Table II.11(A) to (C).

Table II.22: Distribution of Scheduled Commercial Banks by CRAR

(No. of banks)

Bank Group	Capital to Risk-weighted Assets Ratio (CRAR)							
	2000-01				2001-02			
	Below 4 per cent	Between 4-9 per cent	Between 9-10 per cent	Above 10 per cent	Below 4 per cent	Between 4-9 per cent	Between 9-10 per cent	Above 10 per cent
1	2	3	4	5	6	7	8	9
State Bank Group	—	—	—	8	—	—	—	8
Nationalised Banks	1*	1	2	15	1	1	2	15
Old Private Sector Banks	2*	1	4	16	1*	—	2	19
New Private Sector Banks	—	—	1	7	—	1	1	6
Foreign Banks	—	—	4	38	1*	—	2	37
Total	**3**	**2**	**11**	**84**	**3**	**2**	**7**	**85**

* Negative

2.74 During 2000-01, of the 23 old private banks, two banks had negative CRAR, while one could not achieve the stipulated CRAR. As compared to that position, during 2001-02, out of the 22 old private banks, only one bank had a negative CRAR, while all others satisfied the prescribed CRAR. Among 8 new private sector banks, 7 banks had achieved the stipulated CRAR during 2001-02.

2.75 Out of the 40 foreign banks operating in India at end-March 2002, only one bank had negative CRAR, while the CRAR of the remaining banks were in excess of the stipulated minimum level.

Equity Capital and Sub-ordinated Debt

2.76 During the year ended March 2002, Punjab National Bank (PNB) made an initial public offering (IPO) and raised the full amount of Rs.390 crore. Consequent upon this IPO issue, the shareholding of the Central Government in PNB stands reduced to 80.0 per cent. Over the period 1993-2002, 12 PSBs have raised capital through public issues to the tune of Rs.6,501 crore (Table II.23). During 2002-03, Union Bank of India made an IPO in August 2002 aggregating Rs.288 crore. Consequent upon this IPO issue, the shareholding of the Central Government in Union Bank of India stands reduced to 60.9 per cent. Another nationalised bank, viz., Allahabad Bank made an IPO in October 2002 aggregating Rs.100 crore. After the issue, the shareholding of the Central Government would come down to 71.2 per cent.

Table II.23: Details of Public Equities by Public Sector Banks:1993-2002 (end-March)

(Amount in Rs.crore)

Name of the bank/ Date of Issue	Equity Capital Before public Issue	Size of the Public Issue			Equity after public issue	Post-Issue Shareholding	
		Equity	Premium	Total		GoI/RBI	Others
1	2	3	4	5	6	7	8
State Bank of India December, 1993	200.00	274.00	1,938.17 (Rs.90 per share)	2,212.17	474.00	314.34 (66.3)	159.67 (43.7)
State Bank of India (GDR) October, 1996	474.00	52.28	1,218.12 (Rs.233 per share)	1,270.40	526.28	314.34 (59.7)	211.94 (40.3)
State Bank of Bikaner & Jaipur – November, 1997	36.40	13.60	59.84 (Rs.440 per share)	73.44	50.00	37.50 (75.0)	12.50 (25.0)
Oriental Bank of Commerce October, 1994	128.00	60.00	300.00 (Rs.50 per share)	360.00	192.54	128.00 (66.5)	64.54 (33.5)
Dena Bank December, 1996	146.82	60.00	120.01 (Rs.20 per share)	180.01	206.82	146.82 (71.0)	60.00 (29.0)
Bank of Baroda December, 1996	196.00	100.00	750.00 (Rs.75 per share)	850.00	296.00	196.00 (66.2)	100.00 (33.8)
Bank of India February, 1997	489.00	150.00	525.00 (Rs.35 per share)	675.00	639.00	489.00 (77.0) (69.3)*	150.00 (23.0) (30.7)*
Corporation Bank October, 1997	82.00	38.00	266.00 (Rs.70 per share)	304.00	120.00	82.00 (68.3) (57.2)**	38.00 (31.7) (42.8)**
State Bank of Travancore January, 1998	35.00	15.00	75.00 (Rs.500 per share)	90.00	50.00	37.50 (75.0)	12.50 (25.0)
Syndicate Bank October, 1999	346.97	125.00	At par (Rs. 10 per share)	125.00	471.97	346.97 (73.5)	125.00 (26.5)
Vijaya Bank December, 2000	259.24	100.00	At par (Rs. 10 per share)	100.00	359.24	259.24 (72.2) (70.0)*	100.00 (27.8) (30.0)*
Andhra Bank February, 2001	347.95	150.00	At par (Rs. 10 per share)	150.00	450.00	299.98 (66.6)	150.03 (33.4)
Indian Overseas Bank February, 2001	333.60	111.20	At par (Rs.10 per share)	111.20	444.80	333.60 (75.0)	111.20 (25.0)

* indicates shareholding post return of capital to Government. GoI - Government of India

** Subsequent upon allotment of equity shares on preferential basis to 'Others'.

Note : Figures in brackets in Columns 7 and 8 indicate percentage shareholding.

2.77 During the year 2001-02, eleven PSBs raised subordinated debts to augment their capital. They are: Punjab National Bank (Rs.480 crore), Union Bank of India (Rs.270 crore), Canara Bank (Rs.450 crore), Oriental Bank of Commerce (Rs.200 crore), Andhra Bank (Rs.75 crore), Central Bank of India (Rs.240 crore), Allahabad Bank (Rs.95 crore), Indian Overseas Bank (Rs.150 crore), UCO Bank (Rs.150 crore), Punjab & Sind Bank (Rs.45 crore) and State Bank of Travancore (Rs.120 crore). Subsequently, PNB raised Rs.390 crore in July 2002, while Andhra Bank and Central Bank of India raised Rs.140 crore and Rs.200 crore, respectively in September 2002.

2.78 During the year 2001-02, six private sector banks raised equity capital to the tune of Rs.849 crore, while five banks raised subordinated debt to the extent of Rs.225 crore.

Return of Capital

2.79 During the financial year 2001-02, two PSBs viz., Bank of India (Rs.150.4 crore) and Vijaya Bank (Rs.25.7 crore) returned capital to the Government of India. With this, the total amount of capital returned to the Government by the PSBs aggregated Rs.867 crore.

Writing off losses against paid-up capital

2.80 With the approval of the Central Government, Central Bank of India wrote off losses from its paid-up capital amounting to Rs.681 crore as on March 31, 2002.

6. Indian Banks' Branches Abroad

2.81 At present, 9 Indian banks (8 in public sector and 1 in private sector) are operating branches abroad. As at the end of September 2002, the number of Indian banks' branches operating abroad stood at 93, while the number of representative offices of Indian banks abroad were 17. The number of wholly-owned subsidiaries of Indian banks abroad and joint ventures abroad were 15 and 5, respectively.

7. Foreign Banks in India

2.82 The requests of new foreign banks for conducting business in India are considered keeping in view the financial soundness of the bank, international and home country ranking, rating, international presence, and economic and political relations between the two countries. In particular, the home country of the bank should not discriminate against Indian banks. The bank should be under consolidated supervision of the home country regulator.

2.83 It has been stipulated that the minimum capital requirement for foreign bank should be US$ 25 million, spread over 3 branches i.e. US$ 10 million for the first branch, additional US$ 10 million for the second branch and further US$ 5 million for the third branch. Additional branches are permitted after monitoring performance of existing branches of the banks, their financial results, inspection findings, etc. The number of licences is fixed in conformity with India's commitment made to World Trade Organisation, which is presently 12 licences (both for new and expansion by existing banks) per year, excluding off-site ATMs, which also require licences.

2.84 As on September 30, 2002, there are 40 foreign banks operating in India with 203 branches. While 4 banks have 10 or more branches, 18 banks were operating with only one branch each. The branches of foreign banks are spread over 25 centres in 15 States/Union territories. Foreign banks have also set up representative offices in India. As on June 30, 2002, 23 banks from 12 countries have representative offices in India, of which 19 are in Mumbai, three in New Delhi and one in Chennai. Thus, 63 banks have presence in India either through branches or representative offices.

2.85 Four banks viz., Dresdner Bank, Commerzbank, KBC Bank and Siam Commercial Bank have decided to wind up their operations in India. The winding up process is in progress.

8. Regional Rural Banks

Mobilisation and Deployment of Funds

2.86 The outstanding deposits mobilised by Regional Rural Banks (RRBs) registered an increase of 16.7 per cent to Rs.43,220 crore in 2001-02 as compared with a rise of 23.2 per cent registered in the previous year. Both demand and time deposits registered growth rates of over 16.0 per cent, which were lower than those registered in the previous year (Table II.24). Similarly, the credit extended by RRBs increased at a lower rate of 17.9 per cent during 2001-02 as compared with 23.0 per cent in 2000-01. During the period, the credit-deposit ratio of RRBs rose to 42.5 per cent as compared with 42.1 per cent in the previous year. Owing to the decline in investments, especially those in approved securities, the investment-deposit ratio, however, witnessed a decline to 15.7 per cent in 2001-02.

Table II.24: Important Banking Indicators of RRBs

(Amount in Rs.crore)

Item	March 24, 2000	March, 30 2001	March 29, 2002	Variations 2000-01	2001-02
1	2	3	4	5 (3-2)	6 (4-3)
1. Liabilities to the Banking System	**183**	**177**	**188**	**-6 (-3.3)**	**11 (6.2)**
2. Liabilities to Others	**31,306**	**38,696**	**44,873**	**7,390 (23.6)**	**6,177 (16.0)**
2.1 Aggregate Deposits (a+b)	30,051	37,027	43,220	6,976 (23.2)	6,193 (16.7)
(a) Demand Deposits	5,105	6,499	7,716	1,394 (27.3)	1,217 (18.7)
(b) Time Deposits	24,946	30,528	35,504	5,582 (22.4)	4,976 (16.3)
2.2 Borrowings	52	24	12	-28 (-53.8)	-12 (-50.0)
2.3 Other Demand & Time Liabilities*	1,203	1,645	1,641	442 (36.7)	-4 (-0.2)
3. Assets with the Banking System	**13,454**	**16,973**	**18,509**	**3,519 (26.2)**	**1,536 (9.0)**
4. Bank Credit	**12,663**	**15,579**	**18,373**	**2,916 (23.0)**	**2,794 (17.9)**
5. Investments (a+b)	**6,009**	**7,546**	**6,772**	**1,537 (25.6)**	**-774 (-10.3)**
(a) Government Securities	1,223	1,588	1,915	365 (29.8)	327 (20.6)
(b) Other Approved Securities	4,786	5,958	4,857	1,172 (24.5)	-1,101 (-18.5)
6. Cash Balances	**343**	**441**	**472**	**98 (28.6)**	**31 (7.0)**
Memorandum Items :					
A) Cash Balance-Deposit Ratio	1.14	1.19	1.09		
B) Credit-Deposit Ratio	42.14	42.07	42.51		
C) Investment/Deposit Ratio	20.00	20.38	15.67		
D) Investment+Credit/Deposit Ratio	62.13	62.45	58.18		

* includes Participation Certificates issued to others.

Note: Figures in brackets are percentage variations.

Purpose-wise outstanding Loans and Advances

2.87 The loans and advances outstanding in respect of RRBs for agriculture accounted for 45.7 per cent of total advances as on March 31, 2001. The term loans for agriculture and allied activities at Rs.3,547 crore formed 49.0 per cent of agricultural advances, while crop loans constituted the remaining amount. Non-agricultural advances, accounted for 54.3 per cent of total loans and advances as on March 31, 2001 (Table II.25).

Table II.25: Purpose-wise Outstanding Loans and Advances of RRBs

(Rs.crore)

Purpose	As at end-March	
	2000	**2001***
1	2	3
1. Short term (crop loans)	2,865	3,670
2. Term loan for agriculture and allied activities	3,339	3,547
3. Indirect Advances	23	N.A.
I Total Agriculture (1 to 3)	**6,227 (47.5)**	**7,217 (45.7)**
4. Rural artisans, village and cottage industries	773	561
5. Other Industries	664	246
6. Retail trade and Self-employed, etc.	2,073	1,951
7. Other purposes	3,372	5,819
II Total Non-Agriculture (4 to 7)	**6,882 (52.5)**	**8,577 (54.3)**
Total (I+II)	**13,109 (100.0)**	**15,794 (100.0)**

* Purpose-wise break-up in respect of 195 RRBs.
N.A. Not available.
Note : Figures in brackets are percentages to the total.
Source : NABARD

Financial Performance of RRBs

2.88 The data in respect of 196 RRBs for 2000-01 and 2001-02 indicate that there was a significant improvement in their performance, although the number of profit-making RRBs declined over the year. The policy measures undertaken in respect of RRBs, viz., the permission to relocate loss-making branches to better business location/centres, conversion of loss-making RRBs into satellite/mobile offices without impairing the performance of service area had salutary effect on the financial performance of RRBs. As against 170 RRBs making operating profits of Rs.790 crore in 2000-01, 167 RRBs earned operating profits of Rs.838 crore in 2001-02. Notwithstanding the higher provisions and contingencies made during the year, the net profit of the 196 profit-making RRBs stood at Rs.608 crore in 2001-02. Given the significant asset growth, the ratio of net profit to total assets declined from 1.2 per cent in 2000-01 to 1.1 per cent in 2001-02. Although modest in absolute terms, 'other income' of RRBs witnessed a significant rise of 59.4 per cent during the year (Table II.26) (Chart II.10).

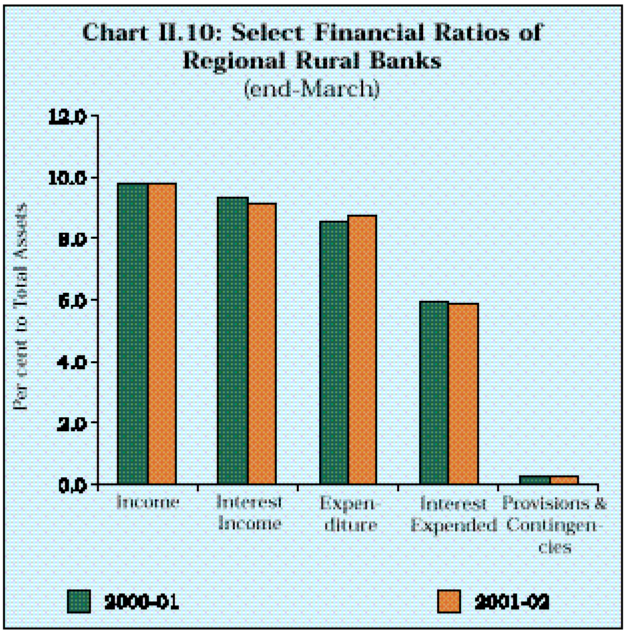


Table II.26: Financial Performance of Regional Rural Banks

(Amount in Rs. crore)

Item	2000-01			2001-02			Variation
	Loss Making [26]	Profit Making [170]	RRBs [196]	Loss Making [29]	Profit Making [167]	RRBs [196]	Col. (7) over Col. (4)
1	2	3	4	5	6	7	8
A. Income (i+ii)	**390.39**	**4,469.44**	**4,859.83**	**484.40**	**5,079.79**	**5,564.19**	**704.36** (14.49)
i) Interest income	367.38	4,258.56	4,625.94	448.63	4,742.83	5,191.46	565.52 (12.22)
ii) Other income	23.01	210.88	233.89	35.77	336.96	372.73	138.84 (59.36)
B. Expenditure (i+ii+iii)	**466.23**	**3,792.96**	**4,259.19**	**576.45**	**4,379.86**	**4,956.31**	**697.12** (16.37)
i) Interest expended	307.67	2,657.86	2,965.53	361.44	2,967.71	3,329.15	363.62 (12.26)
ii) Provisions and contingencies	15.94	113.62	129.56	28.46	137.74	166.20	36.64 (28.28)
iii) Operating expenses	142.62	1,021.48	1,164.10	186.55	1,274.41	1,460.96	296.86 (25.5)
of which : Wage Bill	127.68	876.82	1,004.50	157.63	1,106.61	1,264.24	259.74 (25.86)
C. Profit							
i) Operating Profit/Loss	**-59.90**	**790.10**	**730.20**	**-63.59**	**837.67**	**774.08**	**43.88** (6.01)
ii) Net Profit/Loss	**-75.84**	**676.48**	**600.64**	**-92.05**	**699.93**	**607.88**	**7.24** (1.21)
D. Total Assets	**5,235.70**	**44,405.69**	**49,641.39**	**6,169.30**	**50,634.54**	**56,803.84**	**7,162.45** (14.43)
E. Financial Ratios @							
i) Operating Profit	-1.14	1.78	1.47	-1.03	1.65	1.36	
ii) Net Profit	-1.45	1.52	1.21	-1.49	1.38	1.07	
iii) Income	7.46	10.07	9.79	7.85	10.03	9.80	
iv) Interest income	7.02	9.59	9.32	7.27	9.37	9.14	
v) Other Income	0.44	0.47	0.47	0.58	0.67	0.66	
vi) Expenditure	8.90	8.54	8.58	9.34	8.65	8.73	
vii) Interest expended	5.88	5.99	5.97	5.86	5.86	5.86	

viii) Operating expenses	2.72	2.30	2.35	3.02	2.52	2.57
ix) Wage Bill	2.44	1.97	2.02	2.56	2.19	2.23
x) Provisions and Contingencies	0.30	0.26	0.26	0.46	0.27	0.29
xi) Spread (Net Interest Income)	1.14	3.60	3.34	1.41	3.51	3.28

@ Ratios to Total Assets.
Source : NABARD.

Non-performing Assets

2.89 The asset quality of RRBs has been witnessing a significant improvement over the past few years. This has been possible due to their improved recovery performance. In order to reduce the level of NPAs as also to improve recovery of sick advances, one-time settlement scheme for recovery of NPAs was introduced in RRBs, effective upto March 31, 2002. The concomitant improvement in asset quality is evident from the fact that, the per cent of 'standard' assets have increased to 83.9 per cent in 2001-02 from 81.2 per cent in 2000-01 (Table II.27).

Table II.27: Classification of Loan Assets of all RRBs
(As Percentage to Total Loan Assets)

(Per cent)

Category	As at end-March					
	1997	**1998**	**1999**	**2000**	**2001**	**2002**
1	2	3	4	5	6	7
1. Standard Assets	**63.2**	**67.2**	**72.2**	**76.9**	**81.2**	**83.9**
2. Non-Performing Assets	**36.8**	**32.8**	**27.8**	**23.1**	**18.8**	**16.1**
Sub-standard Assets	8.2	8.5	8.1	7.0	5.3	N.A.
Doubtful Assets	24.0	20.4	17.0	14.0	12.0	N.A.
Loss Assets	4.6	3.9	2.7	2.1	1.5	N.A.

N.A. Not available.
Source: NABARD

9. Local Area Banks

2.90 With a view to providing an institutional mechanism for promoting rural and semi-urban savings as well as provision of credit for viable economic activities at the local level, Local Area Banks (LABs) were established in the private sector. The related guidelines were announced by RBI in 1996. Five LABs have since been established of which licence in respect of one LAB viz., Vinayak Local Area Bank, Sikar has been cancelled in January 2002. The four banks which are functional are: (1) Coastal Local Area Bank Ltd., Vijayawada in the districts of Krishna, Guntur and West Godavari in Andhra Pradesh; (2) Capital Local Area Bank Ltd. Phagwara in the districts of Hoshiarpur, Jalandhar and Kapurthala in Punjab; (3) South Gujarat Local Area Bank Ltd., Navsari in the districts of Navsari, Surat and Bharuch in Gujarat; (4) Krishna Bhima Samruddhi Local Area Bank Ltd., Mehboobnagar in the districts of Raichur and Gulbarga in Karnataka and Mehboobnagar district in Andhra Pradesh. The performance of LABs during the period ended March 2002 is provided in Table II.28.

Table II.28: Performance of Local Area Banks

(Amount in Rs. crore)

Name of the LAB	Deposits	Advances	CD ratio (per cent)
Coastal Local Area Bank Ltd.	21.90	17.80	81.29

Capital Local Area Bank Ltd.	47.29	30.00	63.46
South Gujarat Local Area Bank Ltd.	19.10	13.90	72.77
Krishna Bhima Samruddhi Local Area Bank Ltd.	0.40	2.55	637.5

10. Regional Spread of Banking

2.91 The total number of branches of commercial banks increased from 65,933 at end-June 2001 to 66,186 at end-June 2002. Rural branches accounted for the highest share (49.1 per cent), although marginally lower than that recorded in the previous year (49.4 per cent). The shares of semi-urban, urban and metropolitan branches remained at almost the same levels as in the earlier year (Appendix Table II.12). State-wise distribution of branches reveals that the number of branches in the central and eastern regions witnessed an increase owing to the opening of new branches in several new states. The maximum number of bank branches were opened in the state of Andhra Pradesh (47), followed by Kerala (43) and Maharashtra (40) (Appendix Table II.13). The southern region accounted for the highest share of bank branches at end-June 2002 (27.4 per cent), followed by central region (20.3 per cent) and eastern region (17.7 per cent), respectively.

11. Interest Rates of Scheduled Commercial Banks

Domestic Deposit Rates

2.92 The deposit rate across all maturities came down significantly during 2001-02 with the degree of moderation being higher for longer-term deposits. Reflecting the comfortable liquidity condition, deposit rates of PSBs, which were ranging from 4.00 to 10.50 per cent in March 2001, softened to 4.25 to 8.25 per cent by October 2002 in all maturities except for a marginal increase of 25 basis points at the short end of 15-day deposits. Deposit rates of private sector as well as foreign banks also declined during 2002-03 (Table II.29).

Table II.29: Movement in Deposit and Lending Interest Rates

Interest Rates	March 2001	October 2001	March 2002	October 2002
1	2	3	4	5
Domestic Deposit Rates				
Public Sector Banks				
a) **Up to 1 year**	4.00 – 8.00	4.25 – 7.50	4.25 – 7.50	4.25 – 6.75
b) 1 year up to 3 years	8.00 – 9.50	7.75 – 9.00	7.25 – 8.50	6.50 – 7.75
c) Over 3 years	9.50 – 10.50	8.50 – 9.25	8.00 – 8.75	7.00 – 8.25
Private Sector Banks				
a) Up to 1 year	5.00 – 10.25	5.00 – 9.50	5.00 – 9.00	4.00 – 8.75
b) 1 year up to 3 years	9.00 – 11.00	8.00 – 10.50	8.00 – 9.50	7.25 – 9.50
c) Over 3 years	9.25 – 11.50	8.25 – 10.50	8.25 – 10.0	7.50 – 9.50
Foreign Banks				
a) Up to 1 year	4.25 – 10.00	4.25 – 10.00	4.25 – 9.75	4.00 – 9.75
b) 1 year up to 3 years	7.25 – 10.75	5.75 – 10.50	6.25 – 10.0	5.50 – 10.0

c) Over 3 years	7.25 – 10.50	7.25 – 10.50	6.25 – 10.0	5.50 – 10.0
Prime Lending Rates				
Public Sector Banks	10.00 – 13.00	10.00 – 12.50	10.00 – 12.50	10.00 – 12.50
Private Sector Banks	10.25 – 15.50	10.50 – 15.50	10.00 – 15.50	9.50 – 15.50
Foreign Banks	9.00 – 17.50	8.80 – 17.50	9.00 – 17.50	7.40 – 17.50

2.93 Long-term domestic deposit rates (over 3 year) of PSBs declined to 8.0 to 8.75 per cent by March 2002 from 9.50 to 10.50 per cent in March 2001. Reductions of the order of 125 and 25 basis points, respectively, in the maximum deposit rates for shorter maturities (less than one year) were observed in respect of private sector banks and foreign banks.

2.94 During the current financial year so far (upto October 2002), deposit rates of PSBs for maturity periods up to one year have remained in the range of 4.25 to 6.75 per cent. For longer maturities, as compared to March 2002, the rates for deposits of maturity over 1 year to 3 years declined by 75 basis points, while those for over 3 year maturity period declined by 50 to 100 basis points. There has also been a reduction in deposit rates of foreign banks. Private sector banks, however, reduced the deposit rates by 25 to 100 basis points for maturity upto one year, 75 basis points for over one year to 3 years, and 50 to 75 basis points for over 3 years.

Lending Rates (non-export credit)

2.95 During 2001-02, the range of prime lending rates (PLRs) of PSBs declined marginally by 50 basis points, as compared to the decline in long-term deposit rate by 150 to 175 basis points. At end of March 2002, the PLRs of PSBs ranged between 10.0 and 12.5 per cent as against 10.0 and 13.0 per cent at end-March 2001. While sub-PLR lending forms a part of pricing strategy of commercial banks, rigidities in lending rates still persist. At the end of October 2002, PLRs of PSBs remained at the March 2002 level of 10.0 to 12.5 per cent, although a number of PSBs reduced their PLRs by 25 to 100 basis points within the range. The foreign and private sector banks, on the other hand, reduced the PLRs at the lower end of the range (Table II.30). Moreover, after the announcement of April 2002 policy, a number of banks have reduced their spreads by 50 to 100 basis points. As a result, effective interest rate on lending has come down during the first half of 2002-03.

Table II.30: Bank Rate, Export Credit Rate and PLR
(Public Sector Banks)

(Per cent)

Effective From	Bank Rate	Export Credit: Pre-shipment: Upto 180 days	Export Credit: Pre-shipment: Beyond 180 days and Upto 270 days*	Export Credit: Post-shipment: Upto 90 days (Not exceeding)	Export Credit: Post-shipment: Beyond 90 days upto 180 days*	PLR (Public Sector Banks)
1	2	3	4	5	6	7
March 2, 1999	8.0	10.0	13.0	10.0	12.0	12.0 – 14.0
April 2, 2000	7.0	—	—	—	—	11.25 – 12.5
July 22, 2000	8.0	—	—	—	—	—
February 17, 2001	7.5	—	—	—	—	11.5 – 13.0
March 2, 2001	7.0	—	—	—	—	10.0 – 13.0
May 5, 2001	—	PLR *minus* 1.5	PLR *plus* 1.5	PLR *minus* 1.5	PLR *plus* 1.5	—
September 26, 2001	—	PLR *minus* 2.5	PLR *plus* 0.5	PLR *minus* 2.5	PLR *plus* 0.5	10.0 – 12.5
October 23, 2001	6.5	—	—	—	—	—

— indicates no change.
* Will be deregulated with effect from May 1, 2003.
Notes : 1. The validity of the reduction in the interest rates on rupee export credit effective from September 26, 2001 would remain in force upto April 30, 2003.
2. The Bank Rate was reduced by 0.25 percentage point from 6.50 per cent with effect from the close of business on October 29, 2002.

12. Diversification in Banking Activities

Debit Card Business of Banks

2.96 The minimum net worth criterion of Rs.100 crore for banks issuing on-line debit cards was dispensed with, while retaining the same for offline cards. Some banks were also allowed to issue pre-paid smart cards (both on-line and off-line) to select customers who maintain accounts with banks for less than six months subject to their ensuring the implementation of 'Know Your Customer' (KYC) concept. Banks introducing off-line mode of operation of debit cards are required to adhere to the minimum period of satisfactory maintenance of accounts for six months.

Portfolio Investment

2.97 Seven banks in the public sector and one foreign bank were granted permission to contribute to the equity participation in Clearing Corporation of India Ltd. and one public sector bank was permitted to participate in the equity of PNB Gilts Ltd.

Insurance Business

2.98 One private sector bank was given approval for participating in insurance joint venture on risk participation basis. Thirteen private sector banks including foreign banks and one financial services company were given 'in principle' approval for acting as 'corporate agents' to undertake distribution of insurance products on agency basis without any risk participation. A few banks have been permitted to enter into referral arrangements with insurance companies subject to certain conditions to protect the interests of their customers.

Customer Service Measures

2.99 With a view to further improving the customer service in the banks, following major measures were taken:

(a) Release of Assets of Deceased Customers to Legal Survivors/Claimants

As against the earlier instructions that banks should not insist upon succession certificate from legal heirs where the amount to the credit of the deceased depositor does not exceed Rs.25,000, RBI has withdrawn the requirement of obtaining succession certificate from legal heirs, irrespective of the amount involved in the account of deceased customer. Banks were, however, advised to adopt such safeguards in settling claims as they consider appropriate including taking of an indemnity bond or even call for succession certificates from legal heirs of deceased depositors in cases where there are disputes and all legal heirs do not join in indemnifying the bank. Similar guidelines were issued to banks for release of other assets also, e.g. safe custody articles, mortgaged security, etc.

(b) Introduction of Accounts and Documents for Identification

Banks have been advised that it is not essential to open an account only through an introducer; it may be done on the basis of certain official documents such as passport, ration card, election card, Voter's identity card, driving licence, sales tax number, PAN card, etc. Identification of documents that are easily obtainable in any name should, however, not be accepted as the sole means of identification. Invariably the information made available by customers should be corroborated from other sources, in case of doubt. Banks can thus, follow a flexible approach by adopting alternate methods to establish identity of the person while opening an account. Moreover, at Government instance, banks have been advised not to insist on production of ration cards for purpose of verifying identity of an individual or proof of residence.

(c) *Delay in Collection of Outstation Cheques*

RBI, in consultation with the Indian Banks' Association, examined the question of reducing further the outer limit for collection of outstation cheques. It was felt that there was scope for commercial banks to further reduce the period of outer limit by introducing 'quick collection service' or by ascertaining the fate of collection by fax, etc. Banks may, therefore, review their existing arrangements and capabilities and work out a scheme for reduction in collection period.

(d) *Stapling of Note Packets*

To put an end to an undesirable practice and to prolong the life span of notes, banks have to do away with stapling of any note packets and instead secure them with paper bands. They should also sort notes into reissuables and non-issuables and issue only clean notes to public, and should stop writing on watermark window of bank notes.

(e) *Updating of Savings/Current Accounts Passbooks*

As part of better customer service, while updating passbooks of customers maintaining Savings/Current accounts, banks have been advised to provide complete information regarding every transaction by remodelling the packages, if necessary.

(f) *Reversal of Erroneous Debits in Deposit Accounts*

Banks have to remain vigilant about fraudulent encashment by unscrupulous persons opening deposit accounts in the name/s similar to already established concern/s resulting in erroneous and unwanted debit of drawer's accounts. Once the irregularity/fraud has been committed by its staff towards any constituent, banks should acknowledge its liability and pay the just claim: (i) in cases where bank is at fault, banks should compensate customer without demur; (ii) in cases where neither bank is at fault nor the customer is at fault, but the fault lies elsewhere in the system, then also bank should compensate customer (upto a limit).

13. Developments in Payment and Settlement Systems

Reports of Committees

Working Group on Systemically Important Payment Systems

2.100 Recognising the greater impetus ascribed towards payment and settlement systems, it was decided to assess the essential requirements for such systems which impact the economy as a whole. These 'systemically important payment systems' are those which have definitive impact on not only the entire payment system scenario, but also the economy, in general. To assess the various issues arising out of such systems, an internal Working Group on Systemically Important Payment Systems was constituted to examine the various payment systems in vogue. The systemically important systems identified by the Group include the Inter-Bank Clearing System, the High Value Cheque Clearing System, the MICR/Main Cheque Clearing, the Electronic Clearing System, the Electronic Fund Transfer System, and the Securities Clearing and Settlement Systems at Stock Exchanges. The RTGS system being implemented and the proposed Government Securities and Foreign Exchange Clearing and Settlement system were also identified as systemically important payment systems. The Group recommended that general guidelines should be formulated by the RBI in respect of such systemically important payment systems. Further, direct access to the RBI operated payment systems should be restricted only to banking entities, barring exceptions like Clearing Corporation of India Ltd., which have significant role in the payment and settlement systems. Moreover, all systemically important payment systems operated by other than the RBI should get their funds leg settled through any sponsor bank including the RBI.

Working Group on Amendments to the Negotiable Instruments (NI) Act

2.101 With proliferation in usage of electronic communication between banks and constituents, and the emergence of funds transfers based on modes other than paper based instruments, the need for a legal base to take care of such transactions, such as electronic based transactions has been engaging the attention of the RBI for some time. The Information Technology Act, 2000, which gives the legal backing to electronic records and digital signatures, however, does not apply to Negotiable Instruments as defined under the Negotiable Instruments (NI) Act, 1881, which is the base for banking transactions, especially those relating to effecting debits. To provide for these, a Working Group was set up (Chairman: Shri N.V. Deshpande) to suggest amendments to the NI Act. The Group's recommendations have been forwarded to the Government for further action in getting it notified. The recommendations provide for cheque truncation (which relates to the non-movement of physical paper based cheques for collection) and e-cheques, which would meet the requirements of the banking sector consequent to technological developments in this area of operations.

Working Group on E-Money

2.102 With technology having a substantial impact on payment systems, especially with regard to non-paper based systems, the switch over to electronic money may take place. In order to analyse the impact of e-money a Working Group on Electronic Money (Chairman: Shri. Zarir J Cama) was constituted. The major recommendations of the Working Group relate to the issuance of e-money only against central bank money, only banks to issue multi-purpose e-money, the need for the central bank to monitor issue of e-money on credit, and the need to review issues relating to legal framework, technical security and settlement arrangements of e-money to preserve the integrity of the financial market.

Vision Document for Payment and Settlement Systems

2.103 In order to facilitate banks to formulate their plans for implementing effective payment systems within their own area of activities, a Vision Document was published in December, 2001. The document outlines the vision of the RBI in respect of payment and settlement systems for the immediate future and the medium term. The document indicates the broad framework of the initiatives being taken by the RBI and the approach adopted for time bound implementation of the various projects.

Electronic Funds Transfer (EFT) Systems

2.104 The electronic funds transfer was extended during the year to cover all the centres where RBI manages the clearing activities. EFT is now available at 15 centres of the country –Ahmedabad, Bangalore, Bhopal, Bhubaneshwar, Chandigarh, Chennai, Guwahati, Hyderabad, Jaipur, Kanpur, Kolkata, Mumbai, Nagpur, New Delhi and Thiruvananthapuram. The maximum limit for any single transaction under the EFT which was Rs. 5.00 lakh was enhanced during the year to Rs. 2.00 crore. This is expected to give a fillip to the scheme, apart from making it an ideal means of funds settlement for the securities market which has migrated to the rolling settlement. The credit which was being afforded to the beneficiary's account on the second working day – using the T+1 process cycle, has since been made to be completed on the same day and multiple settlements– at 12:00 noon, 2:00 p.m., and 4:00 p.m, have been introduced from January 2, 2002. Substantial efforts are being made through the National Clearing Cells of the RBI to increase the scope, coverage and usage of both the Electronic Clearing Service (ECS) and EFT facilities; a few banks have integrated their funds transfer schemes with that of the RBI-EFT Scheme. In addition to the above, the EFT software has been integrated with Public Key Infrastructure (PKI) so as to provide for increased levels of security. Banks are encouraged to use the PKI by creating the required registration authority.

2.105 In order to ensure that the benefits of electronic modes of funds transfer are available across almost all the locations of the country and to provide for transfer of messages relating to EFT in a safe and secure manner, it is proposed to commence a National EFT using the facilities available under the SFMS over the INFINET. This would result in EFT being available from any branch of a bank which has connectivity to INFINET with the settlement taking place in the books of account of the RBI at a single location.

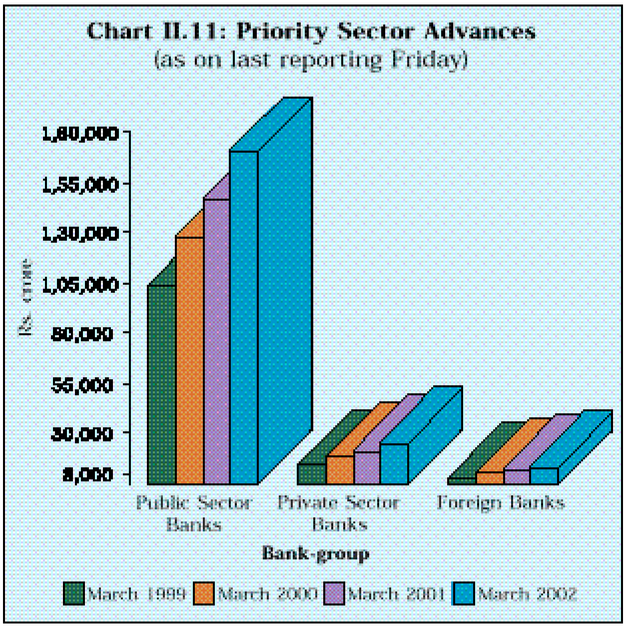
14. Developments in Technology for Banking

Working Group on Information Systems Security

2.106 The recommendations of the Working Group on Information Systems Security (Chairman:Dr. R. B. Barman) for the Banking and Financial Sector were circulated to banks/ FIs, requested to set up appropriate audit and security systems. One major recommendation is that each banking and financial sector organisation should conduct Information Systems Audit conforming to the 'Information Systems Audit Policy'.

15. Priority Sector Lending

2.107 Lending to priority sector continued to be an important aspect of agricultural lending (Chart II.11). Sector-wise break-up of priority sector advances of PSBs are detailed in Appendix Table II.14. Bank-wise details of advances to agriculture and weaker sections as well as NPAs arising out of advances to weaker sections are furnished in Appendix Tables II.15 (A) and (B).



Public Sector Banks

2.108 The outstanding priority sector advances of PSBs increased by 16.8 per cent to Rs.1,71,185 crore as on the last reporting Friday of March 2002. At this level, priority sector advances formed 43.1 per cent of net bank credit (NBC). While 'other priority sector advances' registered the maximum rise (33 per cent), direct and indirect advances to agriculture, taken together, registered an increase of Rs.9,398 crore (17.5 per cent). Advances to agriculture constituted 15.7 per cent of NBC as on the last reporting Friday of March 2002.

Private Sector Banks

2.109 Total priority sector advances extended by private sector banks as on the last reporting Friday of March 2002 amounted to Rs.25,709 crore and constituted 40.9 per cent of the NBC as compared with Rs.21,550 crore (38.2 per cent of NBC) a year ago. The share of other priority sector category was the highest at 14.4 per cent of NBC, followed by advances to small-scale industries (13.7 per cent of NBC) and agriculture (8.5 per cent) (Appendix Table II.16). Bank-wise details of advances to priority sector, agriculture and weaker sections as well as NPAs arising out of advances to weaker sections are furnished in Appendix Table II.17 (A) and (B).

Foreign Banks

2.110 Foreign banks operating in India have to achieve the target of 32.0 per cent of NBC for priority sector with sub-targets of 10.0 per cent of NBC for SSI and 12.0 per cent of NBC for exports. Lending to priority sector by foreign banks at Rs.13,414 crore constituted 34.2 per cent of NBC as on last reporting Friday of March 2002, of which the share of export credit, as percentage to NBC was 17.7 per cent (Appendix Table II.18).

Differential Rate of Interest (DRI) Scheme

2.111 The differential rate of interest (DRI) scheme, introduced in 1972, is being implemented by all SCBs throughout the country. Under the scheme, bank finance is provided at a concessional rate of interest of 4.0 per cent per annum to the weaker sections for engaging in productive and gainful activities, enabling thereby an improvement in their economic conditions. As per the scheme, banks are required to lend at least 1 per cent of their aggregate advances as at the end of the previous year. Moreover, two-thirds of the total DRI advances must be routed through the bank's rural and semi-urban branches. The annual income ceiling for eligibility is Rs.7,200 per family in urban or semi-urban areas and Rs.6,400 per family in rural areas. The size of land holding must not exceed one acre of irrigated land and 2.5 acres of unirrigated land, with exemptions for SCs/STs. The maximum assistance per beneficiary has been fixed at Rs.6,500 for productive purposes. In addition to this, physically handicapped persons can avail of assistance to the extent of Rs.5,000 (maximum) per beneficiary for acquiring aids, appliances, equipment, provided they are eligible for assistance under the scheme. Similarly, members of SCs/STs fulfilling the income criteria under the scheme can avail of housing loan upto Rs.5,000 per beneficiary over and above the loan amount available under the scheme.

Special Agricultural Credit Plans (SACP)

2.112 In order to enable the achievement of the targeted agricultural lending, PSBs were advised to formulate Special Agricultural Credit Plans (SACP) since 1994-95, and fix self-set targets for achievement during the year (April-March). Since the introduction of the SACP, there has been substantial increase in the flow of credit to agriculture from Rs. 8,255 crore in 1994-95 to Rs.29,332 crore in 2001-02. During the year 2001-02, PSBs had disbursed Rs. 29,332 crore upto March 31, 2002, as against the target of Rs. 30,883 crore set for the year. The PSBs have set the target of Rs. 36,779 crore for the year 2002-03.

Swarnjayanti Gram Swarozgar Yojana (SGSY)

2.113 The Government had launched a restructured poverty alleviation programme, the Swarnjayanti Gram Swarozgar Yojana (SGSY) in April 1999, which subsumed the erstwhile Integrated Rural Development Programme (IRDP) and its allied programmes viz., Training of Rural Youth for Self Employment (TRYSEM), Development of Women and Children in Rural Areas (DWCRA), Supply of Improved Toolkits to Rural Artisans (SITRA), Ganga Kalyan Yojana (GKY) and Million Wells Scheme (MWS).

2.114 SGSY is a holistic programme covering all aspects of self-employment such as organization of the poor into self help groups, training, credit, technology, infrastructure and marketing. Subsidy will be uniform at 30.0 per cent of the project cost subject to a maximum of Rs.7,500. In respect of SCs/STs, it will be 50.0 per cent with a maximum of Rs.10,000. The subsidy for group loans will be 50.0 per cent of the project cost subject to a maximum ceiling of Rs.1.25 lakh. There will be no monetary limit on subsidy for irrigation projects. The sub-targets have been stipulated for borrowers under various categories viz., SCs/STs (at least 50.0 per cent), women (40.0 per cent) and physically handicapped (3.0 per cent). During the year 2001-02, the total number of Swarozgaris assisted were 8,00,593. Bank credit of Rs. 1,10,928 lakh and goverment subsidy amounting to Rs. 55,493 lakh were disbursed. Out of the total Swarozgaris assisted, 2,48,021 (30.9 per cent) were SC, 1,00,138 (12.6 per cent) were ST, 3,28,660 (41.0 per cent) were women and 5,106 (0.6 per cent) were physically handicapped.

Lead Bank Scheme (LBS)

2.115 The main focus of Lead Bank Scheme (LBS) is to enhance the proportion of bank finance to priority sector. As at end-March 2002, the LBS covered 580 districts, including the five new districts formed due to re-organisation/bifurcation of the existing districts. The assignment of the new districts to PSBs is detailed in Table II.31.

Table II.31: Lead Bank Responsibility in respect of New Districts

Name of the District	Name of the State	Date of Allocation	Name of the Lead Bank
Ariyalur	Tamil Nadu	June 26, 2001	State Bank of India
Latehar	Jharkhand	September 25, 2001	State Bank of India
Jamtara	Jharkhand	September 25, 2001	State Bank of India
Saraikella-Kharsawan	Jharkhand	September 25, 2001	Bank of India
Simdega	Jharkhand	September 25, 2001	Bank of India

16. Banks' Liquidations and Amalgamations/Mergers

Liquidation of Banks

2.116 There were 78 banks under liquidation as on June 30, 2002. The matter regarding early completion of liquidation proceedings is being pursued with Official/Court Liquidators.

Merger/Amalgamation of Banks

2.117 The RBI accorded approval for merger of ICICI Ltd. with ICICI Bank Ltd. on April 26, 2002 subject to inter alia the following conditions: (a) ICICI Bank Ltd. would have to maintain SLR/CRR as prescribed on the net demand and time liabilities of the bank on the post merger liabilities even though the liabilities of ICICI Ltd. as existing prior to merger did not attract the reserve requirements; (b) since the assets and liabilities of ICICI Ltd. would be taken over by ICICI Bank Ltd. after the merger, the bank would have to comply with all prudential requirements, guidelines and other instructions concerning capital adequacy, asset classification, income recognition and provisioning requirements as applicable to banks after the merger. RBI had, however, given a transition period for compliance with certain prudential norms to avoid any hardship in the interim; (c) ICICI Bank Ltd. would have to deploy an additional 10.0 per cent, over and above the requirement of 40.0 per cent, on the residual portion of its advances after the merger till such time as the aggregate priority sector advances reach a level of 40.0 per cent of the total net bank credit of the bank.

2.118 The Central Government had sanctioned the scheme of amalgamation of the Benares State Bank Ltd. (BSBL) with Bank of Baroda (BoB) vide Notification dated June 19, 2002. Accordingly, the BSBL has been merged with BoB with effect from June 20, 2002 and all the branches of the erstwhile bank have started functioning as branches of BoB from July 19, 2002.

2.119 During the year, there have been several cases of mergers/acquisitions of banks abroad, which resulted in reorganization of foreign banks operating in India:

(a) Morgan Guaranty Trust Company of New York merged with Chase Manhattan Bank and the new entity viz., JPMorgan Chase Bank came into existence on November 11, 2001. It has one branch in Mumbai.
(b) Sanwa Bank Ltd. and Tokai Bank Ltd. merged globally and the Indian operations of both the banks (Sanwa Bank with one branch and Tokai Bank with a representative

office) stood merged with effect from January 15, 2002. The new entity viz., UFJ Bank Ltd. is operating with one branch in New Delhi.

(c) Fuji Bank Ltd., which has a branch in Mumbai, has been renamed as Mizuho Corporate Bank Ltd. consequent upon the merger of the bank with Dai-Ichi Kangyo Bank Ltd. and Industrial Bank of Japan on April 1, 2002.

Merger of Subsidiary/ies with Parent Bank

1. The Bank of Rajasthan Ltd. was given approval to merge with itself its wholly owned subsidiary viz., Rajasthan Bank Financial Services Ltd.
2. Andhra Bank was given 'in principle' approval to merge its housing finance subsidiary i.e. Andhra Bank Housing Finance Ltd. with itself.
3. Bank of India was given approval to merge its wholly owned subsidiary viz., BOI Finance Ltd. and BOI Asset Management Company Ltd. with itself.

17. Relaxations to Trade and Industry in Jammu & Kashmir

2.120 The concessions/credit relaxations to borrowers/customers in Jammu and Kashmir were extended for a further period of one year i.e upto March 31, 2003. The relaxations pertain to: (a) relaxation of inventory norms upto 50.0 per cent; (b) realistic appraisal of the change in the level of credit on purchases; (c) the incremental maximum permissible bank finance due to application of relaxed norms (limited to 50.0 per cent) (d) review of all borrowal accounts for speedy sanction of need-based working capital; (e) finance against accepted hundies (usance) bills to be encouraged; (f) 50.0 per cent reduction in service charges for remittances, collection of outstation cheques/ bills; (g) pragmatic approach towards debt-equity ratio, reschedulement of repayment programme in deserving cases; (h) extension of period of relaxation of bills purchased; (i) inland LC facilities with margin not exceeding 15.0 per cent; and (j) no delay in provision of banking services.

18. Miscellaneous Developments

Wilful Defaulters and Action Thereagainst

2.121 Considering the concerns expressed over the persistence of wilful default in the financial system in the Eighth Report of the Parliament's Standing Committee on Finance in May 2001, the RBI had, in consultation with the Central Government, constituted a Working Group on Wilful Defaulters (WGWD) (Chairman: Shri S.S. Kohli) for examining some of the recommendations of the Committee. The Group submitted its report in November 2001. The recommendations of the WGWD were examined by an in-house Working Group constituted by RBI and accordingly, revised definition of the term 'wilful default' was conveyed to all SCBs (excluding RRBs and LABs) and notified all-India FIs on May 30, 2002, in supersession of the earlier definition conveyed to them. They were advised to initiate penal measures, as mentioned therein, against the wilful defaulters so identified. In order to prevent the access to the capital markets by the wilful defaulters, a copy of the list of wilful defaulters would also be forwarded to SEBI.

Adoption of 90 days' norm for Recognition of Loan Impairment - Application of Interest at Monthly Rests

2.122 In May 2001, banks were, inter-alia, advised that with a view to moving towards international best practices and ensuring greater transparency in repayment of loans, they should adopt 90 days' norm for recognition of loan impairment from the year ending March 31, 2004. As a facilitating measure, banks were advised to move over to charging of interest on loans/ advances at monthly rests with effect from April 1, 2002. Banks have however, the option to compound interest at monthly rests effective either from April 1, 2002, or July 1, 2002 or April 1, 2003. Moreover, it should be ensured by the banks that effective rate does not increase merely due to the switchover of charging / compounding interest at monthly rests and increase burden on borrowers (effective quarter beginning July1, 2002). The charging of interest at monthly rests would not be applicable to agricultural advances; the existing practice of charging / compounding of interest on such advances linked to crop seasons would have to be followed. In respect of advances to short duration crops and allied agricultural activities, banks should take into consideration due dates fixed on the basis of fluidity with borrowers and harvesting/marketing season while charging interest and compounding the same if the loan/instalment becomes overdue.

Full Convertibility of NRI Deposit Schemes

2.123 To provide full convertibility of deposit schemes for non-resident Indians and rationalise the existing non-resident deposit schemes, banks were to discontinue Non-Resident (Non-Repatriable) Rupee Account Scheme (NRNR) and the Non-Resident (Special) Rupee Account Scheme (NRSR) effective April 1, 2002. The existing accounts under NRNR account scheme could be continued upto the date of maturity. Further, the maturity proceeds under NRNR Account Scheme would be credited to the account holder's NonResident (External) Rupee account (NRE account), after giving notice to the account holder. As regards NRSR accounts, the existing term deposits under the NRSR accounts scheme could be continued till maturity and proceeds credited to the Non-Resident (Ordinary) Rupee Account (NRO account) of the account holder. The existing NRSR accounts, other than term deposits, have been discontinued after September 30, 2002 and may at the option of the account holder be closed or balance credited to the account holder's NRO account on or prior to the date.

2.124 NRNR account holders have the option to directly credit maturity proceeds to NRE account but not to Foreign Currency (Non-Resident) Account (Banks) Scheme (FCNR(B) account). The proceeds of NRNR Deposits can be credited to NRE account only on maturity and in case of premature withdrawal, the proceeds are to be credited only to Non-Resident Ordinary Rupee (NRO) account.

Issue of Certificates of Deposit in Demat Form

2.125 Banks and FIs were advised to make investments and hold CPs only in the dematerialised form without prejudice to the Provisions of Depositories Act 1996. Existing outstandings had to be converted into demat form by October 31, 2001. Effective June 30, 2002, banks and FIs issue CDs only in the dematerialised form and existing outstandings of CDs were to be converted into the dematerialised form by October 31, 2002. In order to provide more flexibility for pricing of CDs and to give additional choice to both investors and issuers, banks and FIs may issue CDs on floating rate basis provided the methodology of computing the floating rate is objective, transparent and market-based.

Issue and Pricing of Shares of Private Sector Banks

2.126 According to the revised norms, all private sector banks, listed or unlisted, would be free to price and issue rights shares without prior approval of RBI. Bonus issue would be de-linked from the rights issue. However, for initial public offerings and preferential allotment of shares, RBI approval would be necessary. The banks are also free to price their subsequent issues once their shares are listed on the stock exchanges. Suitable advice has been given to the banks in this regard on March 20, 2002.

Indian Promoters' Holding in Private Banks

2.127 RBI, in consultation with the Central Government, has raised the maximum limit of shareholding of Indian promoters in private sector banks from 40.0 per cent to 49.0 per cent of their paid up capital vide notification dated June 7, 2002. Consequently, of the 4 banks, (IndusInd Bank Ltd, UTI Bank Ltd., ICICI Bank Ltd. and IDBI Bank Ltd.), the equity holding of promoters in UTI Bank Ltd. and IndusInd Bank Ltd. are presently within the permissible ceiling. Since RBI has approved the merger of ICICI Ltd. with ICICI Bank Ltd. effective March 30, 2002, the issue of dilution of promoters holding is no longer valid for ICICI Bank Ltd. The Central Government has granted time to IDBI Bank for reducing promoters' equity upto September 30, 2002.

Government Securities Transactions

2.128 In the light of recent fraudulent transactions in the guise of Government securities transactions in physical format by a few co-operative banks with the help of some broker entities, the measures for further reducing the scope for trading in physical forms were accelerated. Accordingly, (i) for banks which do not have SGL account with RBI, only one CSGL account can be opened; (ii) in case CSGL account is opened with a SCB, the account holder has to open a designated funds account for all CSGL-related transactions with the same bank; (iii) the entities maintaining the CSGL/ designated funds accounts are to ensure availability of clear funds in the designated funds accounts for purchases and of sufficient securities in the CSGL account for sales before putting through the transactions; (iv) no transactions are to be undertaken in physical form with brokers; (v) it should be ensured that brokers approved for transacting in Government securities are registered with the debt market segment of NSE/BSE/OTCEI.

Lok Adalats

2.129 Lok Adalats have proved an effective institution for settlement of dues in respect of smaller loans. Guidelines were issued to banks and FIs in 2001 indicating that: (i) ceiling of amount for coverage under Lok Adalats would be Rs.5 lakh; (ii) the scheme may include both suit-filed and non-suit filed accounts in the doubtful and loss category; and (iii) the settlement formula must be flexible. Further, DRTs have been empowered to organise Lok Adalats to decide cases of NPAs of Rs.10 lakh and above. The public and private sector banks had recovered Rs. 78 crore by March 31, 2002 through the forum of Lok Adalats.

Debt Recovery Tribunals

2.130 Debt Recovery Tribunals (DRTs) aid the recovery of NPAs. To enhance the effectiveness of DRTs, the Central Government amended the Recovery of Debts due to Banks and Financial Institutions Act in January 2000. As on March 31, 2002, there were 22 DRTs and 5 Debt Recovery Appellate Tribunals (DRATs). In respect of public and private sector banks, the number of cases disposed by the DRTs increased from 8,625 (involving recovery of Rs.1,657 crore) as on March 31, 2001 to 13,520 (involving recovery of Rs.2,864 crore) as on March 31, 2002. RBI has suggested certain major amendments in the said Act to the Central Government.

Securitisation / Enforcement of Securities

2.131 The Central Government has re-promulgated 'The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Ordinance, 2002' on August 22, 2002 for regulation of securitisation and reconstruction of financial assets and enforcement of security interest and allied matters thereto. The Ordinance provides certain benefits to the banks and FIs in the direction of realisation of their loans and advances. In order to ensure strict compliance of the provisions of the Ordinance or any directions order issued thereunder, penalties have been prescribed for violation thereof. The Rules have been notified by the Central Government to carry out the provisions relating to enforcement of securities by banks and FIs. In a writ petition filed against the Ordinance, the Supreme Court has stayed the operations of the Ordinance to a limited extent i.e., secured assets can be seized but cannot be sold or leased or assigned pending replacement of the Ordinance by the Bill. The RBI has constituted two Working Groups for stipulating suitable norms for registration, prescribing prudential norms, recommending proper and transparent accounting and disclosure standards and framing appropriate guidelines for the conduct of asset reconstruction/ securitisation.

Frauds in Banks

2.132 During the period January to December 2001, commercial banks (other than RRBs) reported 2,076 cases of fraud involving a sum of Rs. 562 crore. These cases were followed up with the banks for necessary remedial action including examination of accountability.

2.133 During the year, 115 cases of robberies/ dacoities involving Rs. 5.6 crore were reported by PSBs.

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1 BSR-Basic Statistical Returns

2 Data available only as per sanctions

3 Commodities include cash crops, edible oils, agricultural produce and other sensitive commodities

4 NPAs refer to non-performing loans and advances.