CHAPTER II

DEVELOPMENTS IN COMMERCIAL BANKING

Overview

During 1997-98 deposits as well as credit of Scheduled Commercial Banks (SCBs) recorded substantial increases as against the deceleration in credit flow in the preceding few years. In general, banks had sufficient liquidity throughout the year. However, in response to the effects engendered by the South-East Asian crisis and in order to curb speculative tendencies in the foreign exchange market, a number of monetary and credit policy measures were taken in January 1998. These measures were rolled back as orderly conditions resumed. Overall the operations of banks were relatively unaffected by these measures and these were reflected in their better financial performance during 1997-98. The South-East Asian crisis has been a major ‘wake up' call especially to supervisors in all countries in the region.

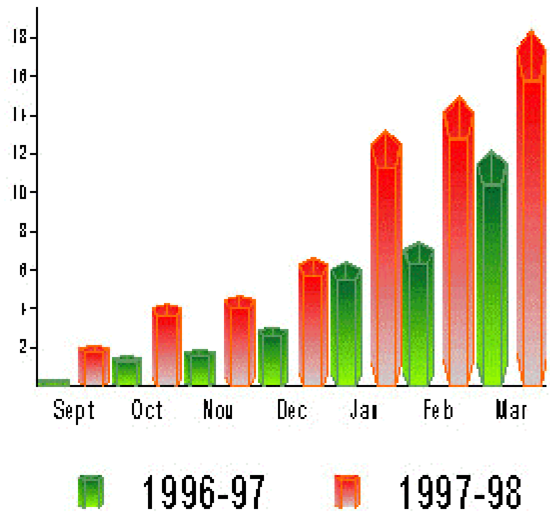
2.2 The performance of SCBs has shown a distinct improvement in terms of their operating and net profits in 1997-98. Besides, banks were able to reduce their level of NPAs and enhance their capital adequacy ratios. With interest rate deregulation and consequent collapsing of rates on term deposits of shorter term maturities as also the lower credit-deposit ratios, the spread of banks declined during 1997-98. However, as a result of lower provisions on account of mark to market of investment portfolios and relatively lower intermediation cost, banks were in general able to obtain relatively higher profits - gross and net during 1997-98. Excluding interest income from recapitalisation bonds, the net profit ratios of nationalised banks would be only one-half of their present net profit ratios and the number of nationalised banks that would be in red would increase from two to four. Fourteen public sector banks (PSBs) out of 27 qualified for the autonomy package announced by the Union Government.

2. Liability and Asset Structure of Banks

Deposits

2.3 Aggregate deposits of SCBs showed a sustained rise during 1997-98. The aggregate deposits of SCBs increased by Rs.99,811 crore (19.7 per cent) during the financial year as compared with the rise Rs.71,780 crore (16.5 per cent) in the preceding year (Table II.1). Among the components of aggregate deposits, there has been a significant growth in time deposits component during the year.

Chart II.1
Flow of bank funds to Commercial Sector-1996-97 and 1997-98 (Sept. -March)



Bank Credit

2.4 During 1997-98, bank credit recorded an increase of Rs.45,677 crore (16.4 per cent) as compared with the rise of Rs.24,387 crore (9.6 per cent) in 1996-97 (Table II.1). Food credit also recorded a rise of Rs.4,888 crore (64.3 per cent) during 1997-98 as against the decline of Rs.2,194 crore (-22.4 per cent) in the previous year. The increase in non-food credit at Rs.40,789 crore (15.1 per cent) in 1997-98 was far higher than the increase of Rs.26,581 crore (10.9 per cent) in the previous year. Non-food credit growth which was relatively subdued in the first half of 1997-98 started picking up in the second half. Since conventional non-food credit alone does not give a full picture of the support of the banking system to the commercial sector, it is necessary to take into account SCBs' 'other investments' i.e., investments in bonds/debentures/shares issued by Public Sector Undertakings (PSUs)/private corporate sector and Commercial Paper. Together, the increase in flow of funds by SCBs to commercial sector aggregated to Rs.53,662 crore (18.4 per cent) during 1997-98 as compared with Rs.31,606 crore (12.2 per cent) in 1996-971 (Chart II.1). SCB's incremental 'other investments' increased from Rs. 4,370 crore in 1996-97 to Rs. 13,673 crore in 1997-98 (Chart II.2).

2.5 During the first six months of the current financial year i.e. April-September, 1998 aggregate deposit growth [Rs.58,595 crore (9.7 per cent)] was higher than the corresponding growth of Rs.40,949 crore (8.1 per cent) in similar period last year (Table II.1). Within the aggregate deposits, demand deposits declined during this period, while time deposits growth contributed entirely to the total growth of aggregate deposits, reflecting the contribution of Resurgent India Bonds, increasing interest sensitivity of time deposits and the liquidity preference of depositors. During the first 6 months of the current financial year, i.e., April-September, 1998, non-food credit increased by Rs.459 crore (0.1 per cent) as compared with a meagre increase of Rs.26 crore in similar period last year. Together with ‘other investments' and bills rediscounted with Financial Institutions, the flow of funds by SCBs to commercial sector increased by Rs.8,386 crore up to the end of September 1998 as compared with an increase of Rs.6,929 crore during the same period last year.

Chart II.2
Scheduled Commercial Banks Investments in CPs, Bond, Share, and Debentures : Sept. 1996 - Sept. 1998

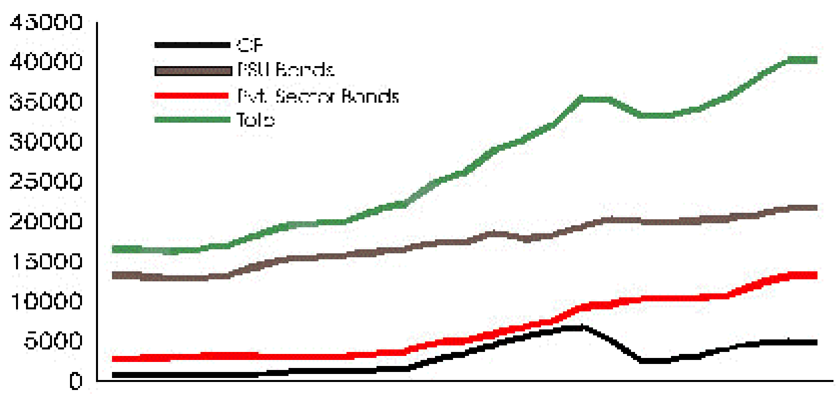


Table II.1: Important Banking Indicators - Scheduled Commercial Banks - 1996-97 and 1997-98

(Amount in Rs. crore)

	Items	Outstanding as on					Variations during the financial year		Variations during the period (April- September)	
		March 29,1996	March 28,1997	March 27,1998	Sept 26,1997	Sept 25,1998*	1996-97 over March 29	1997-98 over March 28	1997-98 over March 28	1998-99* over March 27
1		2	3	4	5	6	7 (3 - 2)	8 (4 - 3)	9 (5 - 3)	10 (6 - 4)
1.	**Total Demand and Time Liabilities @**	**4,80,613**	**5,61,982**	**6,78,731**	**6,09,324**	**7,45,258**	**81,369**	**1,16,749**	**47,342**	**66,527**
2.	**Aggregate Deposits (a+b)**	**4,33,819**	**5,05,599**	**6,05,410**	**5,46,548**	**6,64,005**	**71,780**	**99,811**	**40,949**	**58,595**
							(16.5)	**(19.7)**	**(8.1)**	**(9.7)**
	(a) Demand Deposits	80,614	90,610	1,02,513	90,267	99,513	9,996	11,903	-343	-3,000
							(12.4)	(13.1)	(-0.4)	(-2.9)
	(b) Time Deposits	3,53,205	4,14,989	5,02,897	4,56,281	5,64,492	61,784	87,908	41,292	61,595
							(17.5)	(21.2)	(10.0)	(12.2)
2.1	Certificate of Deposits	16,316	12,134	14,296	7,795	7,886	-4,182	2,162	-4,339	-6,410
							(-25.6)	(17.8)	(-35.8)	(-44.8)
2.2	Aggregate Deposits (Excluding Certificate of Deposits)	4,17,503	4,93,465	5,91,114	5,38,753	6,56,119	75,962	97,649	45,288	65,005
							(18.2)	(19.8)	(9.2)	(11.0)
3.	**Borrowings from RBI**	**4,847**	**560**	**395**	**306**	**3,306**	**-4,287**	**-165**	**-254**	**2,911**
							(-88.4)	**(-29.5)**	**(-45.4)**	**(737.0)**
4.	**Liability to Banks**	**17,648**	**21,193**	**32,287**	**27,699**	**36,776**	**3,545**	**11,094**	**6,506**	**4,489**
							(20.1)	**(52.3)**	**(30.7)**	**(13.9)**
5.	**Bank Credit (a+b)**	**2,54,015**	**2,78,402**	**3,24,079**	**2,79,734**	**3,28,132**	**24,387**	**45,677**	**1,332**	**4,053**
							(9.6)	**(16.4)**	**(0.5)**	**(1.3)**
	(a) Food Credit	9,791	7,597	12,485	8,903	16,079	-2.194	4,888	1,306	3,594
							(-22.4)	(64.3)	(17.2)	(28.8)
	(b) Non-food Credit	2,44,224	2,70,805	3,11,594	2,70,831	3,12,053	26,581	40,789	26	459
							(10.9)	(15.1)	(0.0)	(0.1)
	(c) Non-food credit excluding petroleum credit	2,42,714	2,68,551	3,08,902	2,69,908	3,09,878	25,837	40,351	1,357	976
							(10.6)	(15.0)	(0.5)	(0.3)
6.	**Investments (a+b)**	**1,64,782**	**1,90,514**	**2,18,705**	**2,11,892**	**2,51,559**	**25,732**	**28,191**	**21,378**	**32,854**
							(15.6)	**(14.8)**	**(11.2)**	**(15.0)**
	(a) Government Securities	1,32,227	1,58,890	1,86,957	1,81,506	2,19,901	26,663	28,067	22,616	32,944
							(20.2)	(17.7)	(14.2)	(17.6)
	(b) Other Approved Securities	32,555	31,624	31,748	30,386	31,658	-931	124	-1,238	-90
							(-2.9)	(0.4)	(-3.9)	(-0.3)
7.	**Cash Balances (a+b)**	**53,780**	**53,195**	**61,306**	**60,188**	**66,600**	**-585**	**8,111**	**6,993**	**5,294**
							(-1.1)	**(15.2)**	**(13.1)**	**(8.6)**
	(a) Cash in hand	3,113	3,347	3,608	3,417	3,805	234	261	70	197
							(7.5)	(7.8)	(2.1)	(5.5)
	(b) Balances with RBI	50,667	49,848	57,698	56,771	62,795	-819	7,850	6,923	5,097
							(-1.6)	(15.7)	(13.9)	(8.8)
	Memorandum Items :									
A.	Other Investments	15,041	19,411	33,084	26,022	40,095	4,370	13,673	6,611	7,011
B.	Credit-Deposit Ratio	58.6	55.1	53.5	51.2	49.4				
C.	Non-food credit (excluding petroleum credit)/ Deposit ratio	55.9	53.1	51.0	49.4	46.7				
D.	Incremental Credit-Deposit Ratio	90.4	34.0	45.8	3.3	6.9				
E.	Cash Balances-Deposit Ratio	12.4	10.5	10.1	11.0	10.0				
F.	Investment/Deposit Ratio	38.0	37.7	36.1	38.8	37.9				
G.	Investment + Credit/									

Deposit Ratio	96.5	92.7	89.7	90.0	87.3

@ Excluding borrowings from RBI/IDBI/NABARD. * Provisional.

Notes: 1. Figures in brackets are percentage variations.

2. Constituent items may not add up to the totals due to rounding off.

3. No sign is indicated for positive variations.

2.6 During 1997-98, 41 per cent (32.6 per cent last year) of the incremental non-food gross bank credit went to medium and large industry, 40.2 per cent (39.4 per cent last year) to priority sector, 2.4 per cent (1.2 per cent last year) to wholesale trade and the remaining 16.4 per cent (26.8 per cent last year) to other sectors (Table II.2). Real estate loans which is a component of other sectors received only a negligible proportion (1 per cent) of incremental non-food credit in 1997-98. Within the industrial sector substantial increase in bank credit was evidenced in respect of Iron and Steel (Rs.4,099 crore as compared with Rs.3,186 crore in 1996-97), Electricity (Rs.1,146 crore as compared to Rs.803 crore in 1996-97), Cotton Textiles (Rs.1,278 crore as compared with Rs.461 crore in 1996-97), Chemicals (Rs.2,727 crore as against a decline of Rs.1,057 crore in 1996-97) and Petroleum (Rs. 2,781 crore as compared with Rs.1,864 crore in 1996-97) (Table II.3). The industries which witnessed substantial decline/deceleration in bank credit included Electronics (a decline of Rs.227 crore over and above the decline of Rs.577 crore in 1996-97), other Metal and Metal products (a decline of Rs.83 crore as against the rise of Rs.1,299 crore in 1996-97).During the first quarter of 1998-99 (April - June 1998), credit to industrial sector declined by Rs.6,492 crore as compared with a decline of Rs.3,767 crore in similar period last year with significant decline in the case of Engineering , Petroleum and Iron and Steel industries.

Export Credit

2.7 The total export credit outstanding of scheduled commercial banks as on the last reporting Friday of March 1998 stood at Rs.34,430 crore forming 10.6 per cent of total outstanding net bank credit (NBC) as against the outstanding export credit of Rs.30,112 crore or 10.8 per cent of NBC as on March 28, 1997.

2.8 During 1997-98 (April-March), export credit refinance limits of SCBs declined significantly from Rs.6,654 crore for the fortnight ended March 28, 1997 to Rs.2,403 crore for the fortnight ended March 27, 1998, before increasing to Rs.4,925 crore for the fortnight ended September 25, 1998 (Appendix Table II.1). Utilisation of export credit refinance was generally low during 1997-98. The average utilisation attained a peak of 86.2 per cent for the fortnight ended January 30, 1998 and declined thereafter to 2.2 per cent for the fortnight ended March 27, 1998. The low level of utilisation of export credit refinance may be attributed to the easy conditions in the call money market reflecting the comfortable overall liquidity situation. The average utilisation for the fortnight ended September 25, 1998 rose to 93.9 per cent. This increase was mainly an account of reduction in interest rate an export credit refinance from 9.0 per cent to 7.0 per cent per annum effective August 6, 1998.

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

(Amount in Rs.crore)

Sectors			Outstanding as on					Variations during			
								Financial year		April - June	
			March 29, 1996	March 28, 1997	March 27, 1998	June 20, 1997	June 19, 1998*	1996-97	1997-98	1997-98	1998-99*
1			2	3	4	5	6	7 (3 - 2)	8 (4 - 3)	9 (5 - 3)	10 (6 - 4)
I.	**Gross Bank Credit (1+2)**		**2,31,860**	**2,58,991**	**3,00,283**	**2,53,245**	**2,95,373**	**27,131**	**41,292**	**-5,746**	**-4,910**
	1.	Public Food Procurement Credit	9,791	7,597	12,485	10,075	16,828	-2,194	4,888	2,478	4,343
	2.	Non-Food Gross Bank Credit (A+B+C+D))	222,069	251,394	287,798	243,170	278,545	29,325 (100.0)	36,404 (100.0)	-8,224 (100.0)	-9,253 (100.0)
	A.	**Priority Sectors**	**73,329**	**84,880**	**99,507**	**84,070**	**98,064**	**11,551 (39.4)**	**14,627 (40.2)**	**-810 (9.8)**	**-1,443 (15.6)**
	(i)	Agriculture	27,044	31,442	34,869	31,169	34,448	4,398 (15.0)	3,427 (9.4)	-273 (3.3)	-421 (4.5)
	(ii)	Small Scale Industries	31,884	35,944	43,508	35,289	42,374	4,060 (13.8)	7,564 (20.8)	-655 (8.0)	-1,134 (12.3)
	(iii)	Other Priority Sectors	14,401	17,494	21,130	17,612	21,242	3,093 (10.5)	3,636 (10.0)	118 (-1.4)	112 (-1.2)
	B.	**Industry (Medium & Large)**	**93,053**	**1,02,604**	**1,17,530**	**99,492**	**1,12,172**	**9,551 (32.6)**	**14,926 (41.0)**	**-3,112 (37.8)**	**-5,358 (57.9)**
	C.	**Wholesale Trade (Other than food procurement)**	**11,980**	**12,340**	**13,217**	**11,806**	**12,937 (1.2)**	**360 (2.4)**	**877 (6.5)**	**-534 (3.0)**	**-280**
		of which:									
	(i)	Cotton Corporation of India	381	294	305	32	83	-87 (-0.3)	11 (0.0)	-262 (3.2)	-222 (2.4)
	(ii)	Jute Corporation of India	0	0	33	0	16	0 (0.0)	33 (0.1)	0 (0.0)	-17 (0.2)
	(iii)	Other Trade	11,599	12,046	12,879	11,774	12,838	447 (1.5)	833 (2.3)	-272 (3.3)	-41 (0.4)
	D.	**Other Sectors** *of which :*	**43,707**	**51,570**	**57,544**	**47,802**	**55,372**	**7,863 (26.8)**	**5,974 (16.4)**	**-3,768 (45.8)**	**-2,172 (23.5)**
	(i)	Housing	6,303	7,773	9,057	7,384	9,020	1,470 (5.0)	1,284 (3.5)	-389 (4.7)	-37 (0.4)
	(ii)	Consumer durables	1,476	2,297	2,527	1,940	2,679	821 (2.8)	230 (0.6)	-357 (4.3)	152 (-1.6)
	(iii)	Non-banking financial companies	3,386	5,154	6,227	5,600	5,375	1,768 (6.0)	1,073 (2.9)	446 (-5.4)	-852 (9.2)
	(iv)	Loans to individuals	1,933	2,066	1,904	1,662	2,603	133 (0.5)	-162 (-0.4)	-404 (4.9)	699 (-7.6)
	(v)	Real Estate Loans	1,173	1,546	1,899	1,838	2,104	373 (1.3)	353 (1.0)	292 (-3.6)	205 (-2.2)
	(vi)	Other non-priority sector personal loans	12,569	12,392	10,133	9,739	9,240	-177 (-0.6)	-2,259 (-6.2)	-2,653 (32.3)	-893 (9.7)
	(vii)	Advances against Fixed Deposits	N.A.	1,505	11,815	10,328	12,139	-	10,310	8,823	324
	(viii)	Tourism and tourism related hotels	N.A.	N.A.	822	0	423	-	-	-	-399
II.	**Export Credit (included under item I.2)**		**29,590**	**30,008**	**33,947**	**28,307**	**31,671**	**418**	**3,939**	**-1,701**	**-2,276**
III	**Net Bank Credit (including inter-bank participation)**		**2,28,198**	**2,45,999**	**2,97,265**	**2,50,401**	**2,92,782**	**17,801**	**51,266**	**4,402**	**-4,483**
	Memorandum Items:										
	A.	Priority Sector Credit as % to NBC	32.1	34.5	33.5	33.6	33.5				
	B.	Agricultural Sector Credit as % to NBC	11.9	12.8	11.7	12.4	11.8				
	C.	Export Sector Credit as % to NBC	13.0	12.2	11.4	11.3	10.8				

* Data are Provisional.

Notes : 1. Data relate to selected scheduled commercial banks which account for about 90-95 per cent of bank credit for 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 incremental non-food gross bank credit.

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

(Amount in Rs. crore)

Industry	Outstanding as on					Variations during			
	Mar.29, 1996	Mar.28, 1997	March 27, 1998	June 20, 1997	June 19, 1998*	Financial year 1996-97	Financial year 1997-98	April - June 1997-98	April - June 1998-99*
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)	**1,24,937**	**1,38,548**	**1,61,038**	**1,34,781**	**1,54,546**	**13,611**	**22,490**	**-3,767**	**-6,492**
1.Coal	488	570	801	672	729	82	231	102	-72
2.Mining	N.A.	65	975	733	937	-	910	668	-38
3.Iron and Steel	8,482	11,668	15,767	12,148	15,405	3,186	4,099	480	-362
4.Other Metal and Metal Products	3,977	5,276	5,193	4,778	5,302	1,299	-83	-498	109
5.All Engineering	25,621	22,684	22,833	21,452	20,832	-2,937	149	-1,232	-2,001
of which : Electronics	(5,276)	(4,699)	(4,472)	(3,933)	(4,511)	(-577)	(-227)	(-766)	(39)
6.Electricity	2,703	3,506	4,652	3,468	5,129	803	1,146	-38	477
7.Cotton Textiles	7,592	8,053	9,331	7,914	9,363	461	1,278	-139	32
8.Jute Textiles	605	543	1,089	534	1,105	-62	546	-9	16
9.Other Textiles	7,802	9,685	10,651	9,492	9,927	1,883	966	-193	-724
10.Sugar	3,299	2,547	2,959	2,596	2,824	-752	412	49	-135
11. Tea	1,313	814	1,028	839	1,035	-499	214	25	7
12. Food Processing	3,103	3,655	4,134	3,698	4,326	552	479	43	192
13. Vegetable Oils (including Vanaspati)	1,565	1,955	2,296	1,978	2,365	390	341	23	69
14. Tobacco and Tobacco Products	1,009	934	1,076	934	1,007	-75	142	0	-69
15. Paper and Paper Products	2,366	2,580	2,742	2,527	2,905	214	162	-53	163
16. Rubber and Rubber Products	1,748	1,817	2,534	1,792	2,277	69	717	-25	-257
17. Chemicals, Dyes, Paints, etc.	16,450	15,393	18,120	14,742	17,610	-1,057	2,727	-651	-510
of which :									
i) Fertilisers	(2,108)	(2,358)	(2,910)	(2,224)	(2,994)	(250)	(552)	(-134)	(84)
ii) Petrochemicals	(1,633)	(1,923)	(2,956)	(1,715)	(3,029)	(290)	(1,033)	(-208)	(73)
iii) Drugs and Pharmaceuticals	(2,367)	(3,672)	(5,219)	(3,703)	(5,142)	(1,305)	(1,547)	(31)	(-77)
18. Cement	1,744	1,918	2,502	1,945	2,655	174	584	27	153
19. Leather and Leather Products	2,279	2,225	2,478	2,166	2,547	-54	253	-59	69
20. Gems and Jewellery	2,785	3,096	3,530	3,068	3,422	311	434	-28	-108
21. Construction	1,854	2,494	2,646	2,659	2,326	640	152	165	-320
22. Petroleum	1,510	3,374	6,155	3,154	4,318	1,864	2,781	-220	-1,837
23. SAFAUNS $	2	0	0	0	0	-2	0	0	0
24. Automobiles including trucks	N.A.	N.A.	2,870	N.A.	2,827	-	-	-	-43
25. Computer software	N.A.	N.A.	616	N.A.	673	-	-	-	57
26. Infrastructure	N.A.	N.A.	3,163	N.A.	3,998	-	-	-	835
of which :									
(i) Power	N.A.	N.A.	(697)	N.A.	(982)	-	-	-	(285)
(ii) Telecommunications	N.A.	N.A.	(2,045)	N.A.	(2,442)	-	-	-	(397)
(iii) Roads and Ports	N.A.	N.A.	(421)	N.A.	(574)	-	-	-	(153)
27. Other Industries	26,640	33,696	30,897	31,492	28,702	7,056	-2,799	-2,204	-2,195
Memorandum Item :									
Industrial Credit as proportion to Net Bank Credit	54.7	56.3	54.2	53.8	52.8				

* Data are provisional.

$ Ships aquired from abroad under new scheme.

Notes :1. Data relate to selected scheduled commercial banks which account for about 90-95 per cent of bank credit of all scheduled conmercial banks. Gross bank credit data include bills rediscounted with RBI, IDBI, EXIM Bank and other approved financial institutions.

2. No sign is indicated for positive variations.

Bank Credit to Sick/Weak Industries

2.9 There has been a perceptible fall in the number of sick/weak units financed by banks (from 2,64,750 at end-March 1996 to 2,37,400 at end-March 1997) (Appendix Table II.2). As a proportion of industrial credit, bank credit locked up in sick/weak units declined from 11.0 per cent at end-March 1996 to 10.2 per cent at end-March 1997. The bank credit locked up in Small-Scale sick industries and Non-SSI sick units also showed a perceptible decline during 1996-97.

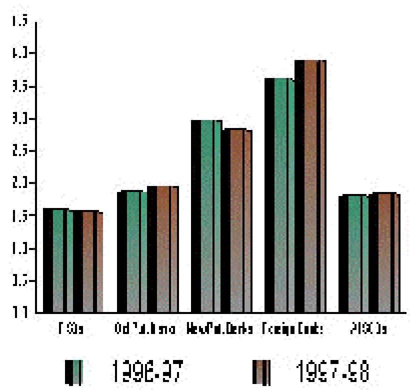
Flow of Credit to the Small Scale Industries Sector

2.10 The flow of credit to small-scale industries has been a major area of interest. The one-man committee set up by the Reserve Bank in December 1997 under Shri S.L. Kapur (Chairman) to review the working of the credit delivery system for small-scale industries (SSIs) with a view to making the system more effective, simple and efficient to administer, submitted its report on June 30, 1998. The main recommendations have been discussed in Chapter I.

3. Working Results of Scheduled Commercial Banks

2.11 The benefits of financial sector reforms were reflected in the improved working results of SCBs in 1997-98. The profits - both operating and net - recorded substantial improvements in all the banking groups and gross Non-Performing Assets (NPAs) relative to gross advances have come down by 180 basis points. Banks had benefited by the relative decline in the yields on government paper and consequently the required provisioning on account of 'mark-to-market' proportion on their investment portfolios has come down. Spreads of most of the banking groups have come down reflecting their lower credit-deposit ratios and increasing diversification to non-traditional sources of income.

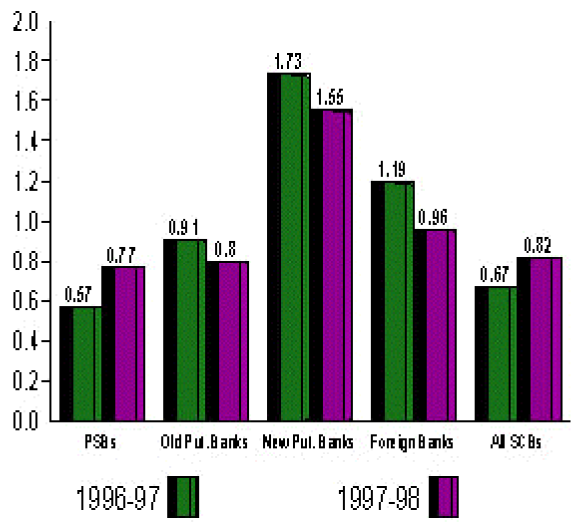
Chart II.3 : Operating Profit to Total Assets of Scheduled Commercial Banks -Bank Group-wise: 1996-97 and 1997-98



Scheduled Commercial Banks

2.12 During 1997-98, operating profits of all SCBs increased by Rs.2,384 crore (19.5 per cent) i.e. from Rs.12,239 crore in 1996-97 to Rs.14,624 crore in 1997-98 (Table II.4 and Chart II.3). Due to lower provisioning requirements, net profits recorded a higher increase of Rs.1,995 crore (44.3 per cent) in 1997-98. As a proportion to total assets, net profits increased from 0.67 per cent in 1996-97 to 0.82 per cent in 1997-98 (Chart II.4). During 1997-98 out of the 103 SCBs, 65 banks accounting for 70 per cent of the total assets recorded profit rates above the average net profit ratio (of 0.82 per cent). In 1996-97, only 56 banks accounting for 63 per cent of total assets of SCBs had net profit ratio above the average net profit ratio of 0.66 per cent.

Chart II.4 : Net Profit to Total Assets of Scheduled Commercial Banks - Bank Group-wise: 1996-97 and 1997-98



2.13 The spread (net interest income) of all SCBs declined from 3.22 per cent in 1996-97 to 2.95 per cent in 1997-98. This was mainly due to the increase in interest income of SCBs (10.9 per cent) being surpassed by the increase in interest expenditure (by 12.2 per cent) mainly due to higher interest paid on bank term deposits and collapsing of term deposits to shorter maturities. Besides, the non-interest income of SCBs had also increased substantially (by 24 per cent) in 1997-98. Among the components of expenditure, besides interest expenditure, intermediation cost (other operating expenses) as a proportion of total expenditure and total assets have come down during 1997-98. The wage bill, which is a major component of intermediation cost, as a proportion of total expenditure and total assets has also come down during 1997-98.

Public Sector Banks

2.14 The financial results of Public Sector Banks (PSBs) are presented in Table II.5 (A). The operating profit of PSBs increased from Rs.8,887 crore in 1996-97 to Rs.10,264 crore (15.5 per cent), though, as a ratio of total assets, it moved down marginally from 1.60 per cent in 1996-97 to 1.58 per cent in 1997-98. Due to lower provisions (to total assets) in 1997-98, the net profit as ratio to total assets increased to 0.77 per cent in 1997-98 (0.57 per cent last year). Among the 27 PSBs, 14 PSBs (11 last year) had recorded net profit ratio well above the average net profit ratio of SCBs. The spread has also come down from 3.16 per cent in 1996-97 to 2.91 per cent in 1997-98 mainly due to increase in interest expenditure (by 10.5 per cent). The intermediation cost (i.e., other operating expenses) as a ratio of total assets came down by 22 basis points, from 2.88 per cent in 1996-97 to 2.66 per cent in 1997-98.14 out of 27 PSBs qualifies for the autonomy package3 announced by Union Government as at the end of March 1998 [Table - II.5 (B)]. The areas in which PSBs have been given autonomy are :

1. Delegation of powers to Boards for personnel placement in overseas branches of PSBs.
2. Promotion to Senior and Top Executives Grades
3. Deputation of Officers/lateral induction of Officers on contract basis/lateral mobility of Officers within the banks.
4. Requirements of Rural/Semi-urban posting for bank Officers.

Appendix Tables II.3(A) to (I) present bank-wise data in respect of some of the crucial financial indicators for public sector banks.

[3] Government of India have granted greater autonomy to PSBs in the matter of recruitment, promotion, creation of posts, etc. which fulfill the following conditions :

i) Positive net profits for the last three years
ii) Capital adequacy ratio of more than 8 per cent
iii) Net NPA level below 9 per cent of the net advances and
iv) Minimum owned funds of Rs.100 crore.

Table II.4: Working Results of All Scheduled Commercial Banks 2 for the years 1996-97 and 1997-98

(Rs.crore)

Particulars		1996-97	1997-98	Variation of Column (3) over (2)	
				Absolute	Percentage
1		2	3	4	5
A.	**Income**	**76,225.15**	**85,848.39**	**9,623.24**	**12.62**
	(i+ii)	**(100.00)**	**(100.00)**		
	i) Interest Income	66,483.93	73,732.04	7,248.11	10.90
			(87.22)	(85.89)	
	ii) Other Income	9,741.22	12,116.35	2,375.13	24.38
			(12.78)	(14.11)	
B.	**Expenditure**	**71,720.91**	**79,349.49**	**7,628.58**	**10.64**
	(i+ii+iii)	**(100.00)**	**(100.00)**		
	i) Interest Expended	44,838.51	50,291.68	5,453.17	12.16
		(62.52)	(63.38)		
	ii) Provisions and Contingencies	7,735.25	8,125.01	389.76	5.04
		(10.79)	(10.24)		
	iii) Other Operating Expenses	19,147.15	20,932.80	1,785.65	9.33
		(26.70)	(26.38)		
	of which : Wage Bill	12,952.88	14,096.07	1,143.19	8.83
		(18.06)	(17.76)		
C.	*Profit*				
	i) Operating Profit	12,239.49	14,623.91	2,384.42	19.48
	ii) Net Profit	4,504.24	6,498.90	1,994.66	44.28
D.	*Total Assets*	**6,72,975.13**	**7,95,535.30**	**1,22,560.17**	**18.21**
E.	*Financial Ratios (per cent) $*				

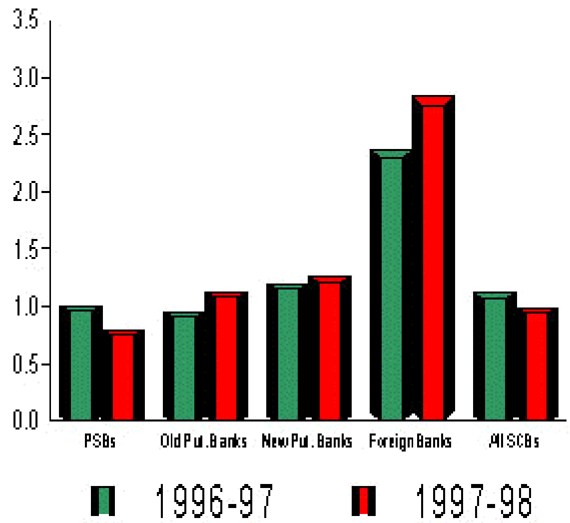
i)	Operating Profit	1.82	1.84	0.02	-
ii)	Net Profit	0.67	0.82	0.15	-
iii)	Income	11.33	10.79	-0.54	-
iv)	Interest Income	9.88	9.27	-0.61	-
v)	Other Income	1.45	1.52	0.08	-
vi)	Expenditure	10.66	9.97	-0.68	-
vii)	Interest Expended	6.66	6.32	-0.34	-
viii)	Other Operating Expenses	2.85	2.63	-0.21	-
ix)	Wage Bill	1.92	1.77	-0.15	-
x)	Provisions and Contingencies	1.15	1.02	-0.13	-
xi)	Spread (Net Interest Income)	3.22	2.95	-0.27	-

$ Ratios to Total Assets

Note : Figures in brackets are percentage shares to the respective total.

[2] As at end of March 1998, there were 103 SCBs comprising 27 PSBs, 34 Private Sector Banks (old and new) and 42 Foreign Banks.

Chart II.5 : Provisions & Contingencies to Total Assets of Scheduled Commercial Banks - Bank Group-wise : 1996-97 & 1997-98



2.15 The State Bank Group constitutes 29 per cent of total assets of PSBs. Its net profit increased from Rs.1,707 crore in 1996-97 to Rs.2,460 crore in 1997-98; a rise of 44 per cent (Table II.6). Its spread has came down from 3.48 per cent in 1996-97 to 3.14 per cent in 1997-98. Among the PSBs, SBI group has a higher ratio of net profit and spread. Nationalised banks which constituted 52.3 per cent of total assets of SCBs, showed a substantial improvement in profitability; both operating and net profit as a ratio of total assets increased to 1.33 per cent in 1997-98 (1.26 per cent last year), and 0.62 per cent (0.41 per cent last year), respectively. If, however, one estimates net profitability of nationalised banks net of interest income from recapitalisation bonds, the net profit ratio comes down from 0.62 per cent to 0.38 per cent in 1997-98. During 1997-98, the number of Nationalised banks with negative net profit would increased from two to four, if one makes allowance for interest income on account of recapitalisation bonds4 (Appendix Table II.3D). The spread has also shown a decline from 2.97 per cent in 1996-97 to 2.78 per cent in 1997-98 (Table II.7). The spread of nationalised banks sans interest income from recapitalisation bonds during 1997-98 comes to 2.55 per cent.

Chart II.6 : Spread to Total Assets of Scheduled Commercial Banks - Bank Group-wise : 1996-97 and 1997-98

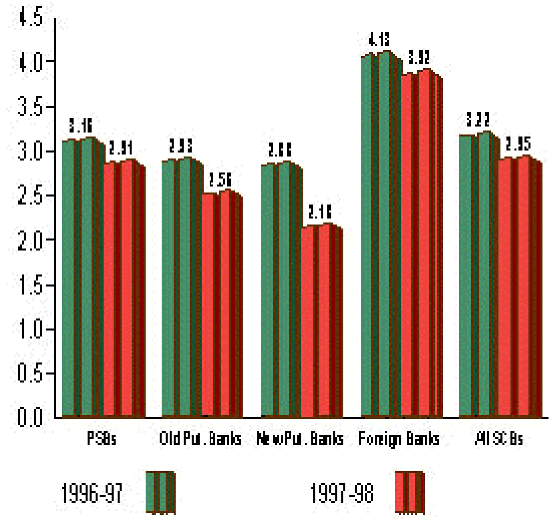


Table II.5 (A) : Working Results of 27 Public Sector Banks for the years 1996-97 and 1997-98

(Rs. crore)

	Particulars	1996-97	1997-98	Variation of Column (3) over (2)	
				Absolute	Percentage
1		2	3	4	5
A.	**Income (i+ii)**	**61,260.52 (100.00)**	**67,702.05 (100.00)**	**6,441.53**	**10.51**
	i) Interest Income	53,900.34 (87.99)	59,066.83 (87.25)	5,166.49	9.59
	ii) Other Income	7,360.18 (12.01)	8,635.22 (12.75)	1,275.04	17.32
B.	**Expenditure (i+ii+iii)**	**58,108.35 (100.00)**	**62,674.99 (100.00)**	**4,566.64**	**7.86**
	i) Interest Expended	36,338.62 (62.54)	40,164.62 (64.08)	3,826.00	10.53
	ii) Provisions and Contingencies	5,735.01 (9.87)	5,236.49 (8.35)	-498.52	-8.69
	iii) Other Operating Expenses	16,034.72 (27.59)	17,273.88 (27.56)	1,239.16	7.73
	of which : Wage Bill	11,631.48 (20.02)	12,628.28 (20.15)	996.80	8.57
C.	*Profit*				
	i) Operating Profit	8,887.18	10,263.55	1,376.37	15.49
	ii) Net Profit	3,152.17	5,027.06	1,874.89	59.48
D.	**Total Assets**	**5,56,296.03**	**6,49,186.39**	**92,890.36**	**16.70**

E. Financial Ratios (per cent) $

i)	Operating Profit	1.60	1.58	-0.02	-
ii)	Net Profit	0.57	0.77	0.21	-
iii)	Income	11.01	10.43	-0.58	-
iv)	Interest Income	9.69	9.10	-0.59	-
v)	Other Income	1.32	1.33	0.01	-
vi)	Expenditure	10.45	9.65	-0.79	-
vii)	Interest Expended	6.53	6.19	-0.35	-
viii)	Other Operating Expenses	2.88	2.66	-0.22	-
ix)	Wage Bill	2.09	1.95	-0.15	-
x)	Provisions and Contingencies	1.03	0.81	-0.22	-
xi)	Spread (Net Interest Income)	3.16	2.91	-0.25	-

$ Ratios to Total Assets.

Note : Figures in brackets are percentage shares to the respective total.

Table II.5(B) : Public Sector Banks - List of banks eligible for Autonomy as at the end of march 1998

Name of the Bank	Net Profit (Rs. crore) As on 31.3.96	As on 31.3.97	As on 31.3.98	CRAR as on 31.3.98	% of net NPAs to net adv as on 31.3.98	Net owned funds as on 31.3.98 (Rs. crore)	Banks Eligible for Autonomy
1	2	3	4	5	6	7	8
State Bank of India	831.60	1,349.25	1,861.20	14.58	6.07	9,608.18	xxx
State Bank of Bikaner & Jaipur	25.79	40.48	90.48	10.65	7.13	344.12	xxx
State Bank of Hyderabad	50.00	52.45	97.12	10.83	10.88	389.30	
State Bank of Indore	12.08	17.06	27.71	9.83	10.96	167.74	
State Bank of Mysore	25.63	40.24	50.54	11.61	10.75	217.70	
State Bank of Patiala	52.14	59.03	143.01	13.24	7.04	566.67	xxx
State Bank of Saurashtra	-230.31	108.29	126.41	18.14	6.98	390.17	
State Bank of Travancore	26.20	40.25	63.30	11.48	12.21	351.56	
Total Profit For SB Group	**1,023.44**	**1,707.05**	**2,459.77**				
Total Loss For SB Group	**-230.31**	**0.00**	**0.00**				
Allahabad Bank	5.62	64.30	129.21	11.64	15.09	751.22	
Andhra Bank	11.07	35.70	75.25	12.37	2.92	421.62	xxx
Bank of Baroda	208.27	276.53	458.73	12.05	6.60	2,663.37	xxx
Bank of India	276.48	360.02	364.51	9.11	7.13	2,315.00	xxx
Bank of Maharashtra	12.59	47.19	56.29	10.90	8.59	439.76	xxx
Canara Bank	252.52	147.40	203.02	9.54	7.52	2,302.90	xxx
Central Bank of India	-73.53	150.83	174.90	10.40	12.21	1,622.28	
Corporation Bank	104.75	125.13	166.87	16.90	2.93	848.26	xxx
Dena Bank	51.69	72.91	105.04	11.88	8.28	545.83	xxx
Indian Bank	-1,336.40	-389.09	-301.50	1.41	26.01	399.66	
Indian Overseas Bank	3.20	104.51	113.06	9.34	6.26	670.60	xxx
Oriental Bank of Commerce	172.75	180.25	210.00	15.28	4.84	1,082.46	xxx

Punjab & Sind Bank	-132.18	20.00	65.09	11.39	10.84	326.34	
Punjab National Bank	-95.92	237.71	477.35	8.81	9.60	1,654.10	
Syndicate Bank	20.17	66.96	82.66	10.50	5.78	568.72	xxx
UCO Bank	-236.66	-176.23	-96.22	9.07	11.14	723.00	
Union Bank of India	80.49	215.68	250.10	10.86	7.66	1,577.16	xxx
United Bank of India	-234.46	-113.64	9.62	8.41	14.10	451.52	
Vijaya Bank	-250.95	18.96	23.31	10.30	7.50	396.96	

Table II.6: Working Results of State Bank of India and 7 Associates for the years 1996-97 and 1997-98

(Rs. crore)

Particulars		1996-97	1997-98	Variation of Column(3) over (2) Absolute	Percentage
1		2	3	4	5
A.	*Income* **(i+ii)**	**23,276.85** **(100.00)**	**24,871.11** **(100.00)**	**1,594.26**	**6.85**
	i) Interest Income	19,923.05 (85.59)	21,208.84 (85.28)	1,285.79	6.45
	ii) Other Income	3,353.80 (14.41)	3,662.27 (14.72)	308.47	9.20
B.	**Expenditure (i+ii+iii)**	**21,569.80** **(100.00)**	**22,411.34** **(100.00)**	**841.54**	**3.90**
	i) Interest Expended	12,819.44 (59.43)	13,904.15 (62.04)	1,084.71	8.46
	ii) Provisions and Contingencies	2,750.76 (12.75)	2,272.57 (10.14)	-478.19	-17.38
	iii) Other Operating Expenses	5,999.60 (27.81)	6,234.62 (27.82)	235.02	3.92
	of which : Wage Bill	4,353.08 (20.18)	4,675.33 (20.86)	322.25	7.40
C.	**Profit**				
	i) Operating Profit	4,457.81	4,732.34	274.53	6.16
	ii) Net Profit	1,707.05	2,459.77	752.72	44.09
D.	**Total Assets**	**2,04,355.84**	**2,32,747.15**	**28,391.31**	**13.89**
E.	**Financial Ratios (per cent)¾$**				
	i) Operating Profit	2.18	2.03	-0.15	-
	ii) Net Profit	0.84	1.06	0.22	-
	iii) Income	11.39	10.69	-0.70	-
	iv) Interest Income	9.75	9.11	-0.64	-
	v) Other Income	1.64	1.57	-0.07	-
	vi) Expenditure	10.56	9.63	-0.93	-
	vii) Interest Expended	6.27	5.97	-0.30	-
	viii) Other Operating Expenses	2.94	2.68	-0.26	-
	ix) Wage Bill	2.13	2.01	-0.12	-
	x) Provisions and Contingencies	1.35	0.98	-0.37	-
	xi) Spread (Net Interest Income)	3.48	3.14	-0.34	-

$ Ratios to Total Assets.

Note : Figures in brackets are percentage shares to the respective total.

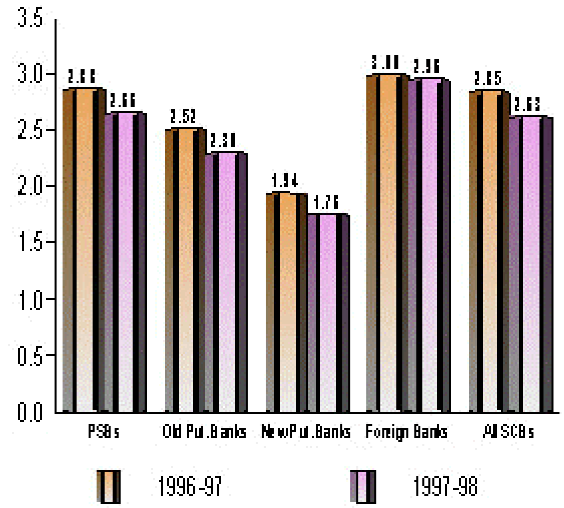
Indian Private Sector Banks

2.16 During 1997-98, the old Indian private sector banks, which constitute 7 per cent of total assets of SCBs, recorded increases of 29 per cent in operating profits and 9 per cent in net profits. As a per cent of total assets, net profits came down from 0.91 per cent in 1996-97 to 0.80 per cent 1997-98 (Table II.8). Among the 25 old Indian private sector banks, 13 banks had net profit ratio well above the overall net profit ratio. The spread has shown a deceleration of 37 basis points, from 2.93 per cent in 1996-97 to 2.56 per cent in 1997-98.

New Private Sector Banks

2.17 New private sector banks constitute 3.3 per cent of the total assets of all SCBs in 1997-98 (2.4 per cent last year). The new private sector banks recorded increases in both operating and net profits at 53 per cent and 43 per cent, respectively, during 1997-98; as a proportion of total assets, however, both operating and net profits were lower in 1997-98 than in 1996-97, mainly due to higher provisions on account of 100 per cent ‘mark to market' of their investments. In fact, new private sector banks has one of the highest provisions to total asset ratio (next to foreign banks) in India (Table II.9). The operating profit ratio came down from 2.98 per cent in 1996-97 to 2.84 per cent in 1997-98, while the net profit ratio moved down from 1.73 per cent in 1996-97 to 1.55 per cent in 1997-98. But the level of net profit ratio at 1.55 per cent of 1997-98 was far higher than the industry average of 0.82 per cent. Out of 9 new private sector banks, 8 had net profit well above the overall net profit ratio of SCBs. Also, a notable feature of the cost structure of new Indian private sector banks is the low intermediation cost of 1.76 per cent in 1997-98. New private sector banks exhibited one of the lowest intermediation cost ratios viz., operating expenditure to total assets (1.76 per cent in 1997-98) as compared with those of the public sector banks (2.66 per cent), old private sector banks (2.30 per cent) and foreign banks (2.96 per cent). The share of the wage bill in intermediation cost at 17.5 per cent in 1997-98 (15.3 per cent last year) is the lowest among all banking groups. Consequently the share of non-wage bill expenditure to intermediation cost which consists mainly of information technology related expenditure is as high as four-fifth of intermediation cost. Like other banking groups, their spread (net interest income) too showed a decline from 2.88 per cent in 1996-97 to 2.18 per cent in 1997-98.

Chart II.7 : Intermediation Cost to Total Assets of Scheduled Commercial Banks - Bank Group-wise : 1996-97 and 1997-98



[4] The recapitalisation exercise was confined to nationalised banks.

Table II.7 : Working Results of 19 Nationalised Banks for the years 1996-97 and 1997-98

(Rs. crore)

	Particulars	1996-97	1997-98	Variation of Column (3) over (2) Absolute	Percentage
1		2	3	4	5
A.	*Income* **(i+ii)**	**37,983.67 (100.00)**	**42,830.94 (100.00)**	**4,847.27**	**12.76**
	i) Interest Income	33,977.29 (89.45)	37,857.99 (88.39)	3,880.70	11.42
	ii) Other Income	4,006.38 (10.55)	4,972.95 (11.61)	966.57	24.13
B.	**Expenditure (i+ii+iii)**	**36,538.55 (100.00)**	**40,263.65 (100.00)**	**3,725.10**	**10.19**
	i) Interest Expended	23,519.18 (64.37)	26,260.47 (65.22)	2,741.29	11.66
	ii) Provisions and Contingencies	2,984.25 (8.17)	2,963.92 (7.36)	-20.33	-0.68
	iii) Other Operating Expenses	10,035.12 (27.46)	11,039.26 (27.42)	1,004.14	10.01
	of which : Wage Bill	7,278.40 (19.92)	7,952.95 (19.75)	674.55	9.27
C.	**Profit**				
	i) Operating Profit	4,429.37	5,531.21	1,101.84	24.88
	i.a) Operating Profit exclusive of income from recapitalisation bonds	3,593.62	4,544.58	950.96	26.46
	ii) Net Profit	1,445.12	2,567.29	1,122.17	77.65
	ii.a) Net Profit exclusive of income from recapitalisation bonds	609.37	1,580.66	971.29	159.39
D.	**Total Assets**	**3,51,940.19**	**4,16,439.24**	**64,499.05**	**18.33**
E.	**Financial Ratios (per cent) $**				
	i) Operating Profit	1.26	1.33	0.07	-
	i.a) Operating Profit exclusive of income from recapitalisation bonds	1.02	1.09	0.07	-
	ii) Net Profit	0.41	0.62	0.21	-
	ii.a) Net Profit exclusive of income from recapitalisation bonds	0.17	0.38	0.21	
	iii) Income	10.79	10.29	-0.51	-
	iv) Interest Income	9.65	9.09	-0.56	-
	v) Other Income	1.14	1.19	0.06	-
	vi) Expenditure	10.38	9.67	-0.71	-
	vii) Interest Expended	6.68	6.31	-0.38	-
	viii) Other Operating Expenses	2.85	2.65	-0.20	-
	ix) Wage Bill	2.07	1.91	-0.16	-
	x) Provisions and Contingencies	0.85	0.71	-0.14	-
	xi) Spread (Net Interest Income)	2.97	2.78	-0.19	-
	xi.a) Spread exclusive of recapitalisation bonds	2.73	2.55	-0.19	-

$ Ratios to Total Assets.

Note: Figures in brackets are percentage shares to the respective total.

Table II.8: Working Results of 25 Old Indian Private Sector Banks for the years 1996-97 and 1997-98

(Rs crore)

Particulars		1996-97	1997-98	Variation of Column (3) over (2) Absolute	Variation of Column (3) over (2) Percentage
1		2	3	4	5
A.	**Income (i+ii)**	**5,388.93 (100.00)**	**6,437.80 (100.00)**	**1,048.87**	**19.46**
	i) Interest Income	4,732.56 (87.82)	5,496.52 (85.38)	763.96	16.14
	ii) Other Income	656.37 (12.18)	941.28 (14.62)	284.91	43.41
B.	**Expenditure (i+ii+iii)**	**4,983.24 (100.00)**	**5,995.44 (100.00)**	**1,012.20**	**20.31**
	i) Interest Expended	3,431.20 (68.85)	4,083.77 (68.11)	652.57	19.02
	ii) Provisions and Contingencies	433.82 (8.71)	639.65 (10.67)	205.83	47.45
	iii) Other Operating Expenses	1,118.22 (22.44)	1,272.02 (21.22)	153.80	13.75
	of which : Wage Bill	681.37 (13.67)	769.92 (12.84)	88.55	13.00
C.	**Profit**				
	i) Operating Profit	839.51	1,082.01	242.50	28.89
	ii) Net Profit	405.69	442.36	36.67	9.04
D.	**Total Assets**	**44,456.62**	**55,205.37**	**10,748.75**	**24.18**
E.	**Financial Ratios (per cent) $**				
	i) Operating Profit	1.89	1.96	0.07	-
	ii) Net Profit	0.91	0.80	-0.11	-
	iii) Income	12.12	11.66	-0.46	-
	iv) Interest Income	10.65	9.96	-0.69	-
	v) Other Income	1.48	1.71	0.23	-
	vi) Expenditure	11.21	10.86	-0.35	-
	vii) Interest Expended	7.72	7.40	-0.32	-
	viii) Other operating Expenses	2.52	2.30	-0.21	-
	ix) Wage Bill	1.53	1.39	-0.14	-
	x) Provisions and Contingencies	0.98	1.16	0.18	-
	xi) Spread (Net Interest Income)	2.93	2.56	-0.37	-

$ Ratios to Total Assets.

Note : Figures in brackets are percentage shares to the respective total.

Foreign Banks

2.18 Foreign banks constituted 8.2 per cent of total assets in the banking sector in India in 1997-98 (8.3 per cent in the preceding year). Their operating profits increased from Rs.2,032 crore in 1996-97 to Rs.2,544 crore in 1997-98 recording an increase of 25 per cent (Table II.10). Due to heavy loss suffered by the Bank of Tokyo-Mitsubishi Ltd. in 1997-98, the foreign banks' net profit ratio declined from 1.19 per cent in 1996-97 to 0.96 percent in 1997-98. Among the bank groups, foreign banks generally have a higher spread. The spread of foreign banks also recorded a decrease from 4.13 per cent in 1996-97 to 3.92 per cent in 1997-98. Their intermediation costs ratios were high at 2.96 per cent in 1997-98, marginally lower than 3.00 per cent incurred in 1996-97. But share of the wage bill in intermediation cost was 32 per cent in 1997-98 as against 35.2 per cent in the previous year. Foreign Banks generally incurred higher expenditure on information technology.

Table II.9: Working Results of 9 New Private Sector Banks for the years 1996-97 and 1997-98

(Rs crore)

Particulars		1996-97	1997-98	Variation of Column (3) over (2)	
				Absolute	Percentage
1		2	3	4	5
A.	**Income (i+ii)**	**1,967.20 (100.00)**	**3,011.18 (100.00)**	**1,043.98**	**53.07**
	i) Interest Income	1,638.55 (83.29)	2,385.60 (79.22)	747.05	45.59
	ii) Other Income	328.65 (16.71)	625.58 (20.78)	296.93	90.35
B.	**Expenditure (i+ii+iii)**	**1,687.12 (100.00)**	**2,611.66 (100.00)**	**924.54**	**54.80**
	i) Interest Expended	1,172.64 (69.51)	1,821.00 (69.73)	648.36	55.29
	ii) Provisions and Contingencies	200.94 (11.91)	334.94 (12.82)	134.00	66.69
	iii) Other Operating Expenses	313.54 (18.58)	455.72 (17.45)	142.18	45.35
	of which : Wage Bill	48.02 (2.85)	79.57 (3.05)	31.55	65.70
C.	**Profit**				
	i) Operating Profit	481.02	734.46	253.44	52.69
	ii) Net Profit	280.08	399.52	119.44	42.64
D.	**Total Assets**	**16,159.69**	**25,855.85**	**9,696.16**	**60.00**
E.	**Financial Ratios (per cent) $**				
	i) Operating Profit	2.98	2.84	-0.14	-
	ii) Net Profit	1.73	1.55	-0.19	-
	iii) Income	12.17	11.65	-0.53	-
	iv) Interest Income	10.14	9.23	-0.91	-
	v) Other Income	2.03	2.42	0.39	-

vi)	Expenditure	10.44	10.10	-0.34	-
vii)	Interest Expended	7.26	7.04	-0.21	-
viii)	Other Operating Expenses	1.94	1.76	-0.18	-
ix)	Wage Bill	0.30	0.31	0.01	-
x)	Provisions and Contingencies	1.24	1.30	0.05	-
xi)	Spread (Net Interest Income)	2.88	2.18	-0.70	-

$ Ratios to Total Assets.

Note : Figures in brackets are percentage shares to the respective total.

Table II.10: Working Results of 42 Foreign Banks in India for the years 1996-97 and 1997-98

(Rs crore)

Particulars	1996-97	1997-98	Variation of Column (3) over (2) Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**7,608.50 (100.00)**	**8,697.36 (100.00)**	**1,088.86**	**14.31**
i) Interest Income	6,212.48 (81.65)	6,783.09 (77.99)	570.61	9.18
ii) Other Income	1,396.02 (18.35)	1,914.27 (22.01)	518.25	37.12
B. Expenditure (i+ii+iii)	**6,942.20 (100.00)**	**8,067.40 (100.00)**	**1,125.20**	**16.21**
i) Interest Expended	3,896.05 (56.12)	4,222.29 (52.34)	326.24	8.37
ii) Provisions and Contingencies	1,365.48 (19.67)	1,913.93 (23.72)	548.45	40.17
iii) Other Operating Expenses	1,680.67 (24.21)	1,931.18 (23.94)	250.51	14.91
of which : Wage Bill	592.01 (8.53)	618.30 (7.66)	26.29	4.44
C. Profit				
i) Operating Profit	2,031.78	2,543.89	512.11	25.20
ii) Net Profit	666.30	629.96	-36.34	-5.45
D. Total Assets	**56,062.79**	**65,287.69**	**9,224.90**	**16.45**
E. Financial Ratios (per cent) $				
i) Operating Profit	3.62	3.90	0.27	-
ii) Net Profit	1.19	0.96	-0.22	-
iii) Income	13.57	13.32	-0.25	-
iv) Interest Income	11.08	10.39	-0.69	-
v) Other Income	2.49	2.93	0.44	-
vi) Expenditure	12.38	12.36	-0.03	-
vii) Interest Expended	6.95	6.47	-0.48	-
viii) Other Operating Expenses	3.00	2.96	-0.04	-
ix) Wage Bill	1.06	0.95	-0.11	-
x) Provisions and Contingencies	2.44	2.93	0.50	-
xi) Spread (Net Interest Income)	4.13	3.92	-0.21	-

$ Ratios to Total Assets.

Note : Figures in brackets are percentage shares to the respective total.

Off-Balance Sheet Activities of Scheduled Commercial Banks

2.19 An interesting feature of the performance of SCBs is the growing exposure to off-balance sheet activities (Table II.11). Off-balance sheet exposure to total assets of foreign banks amounted to 365 per cent in 1997-98 (266 per cent in 1996-97). In the case of new private sector banks, this ratio was 87 per cent in 1997-98 (85 per cent in 1996-97) (Chart II.8). In all other bank groups, the corresponding ratio was below 35 per cent. The increase was mainly on account of ‘forward exchange contract' and ‘contingent liabilities' in all the bank groups with the exception of new private sector banks' group in respect of contingent liabilities.

Chart II.8 : Off -Balance Sheet Items to Total Assets of Scheduled Commercial Banks - Bank Group-wise : 1996-97 and 1997-98

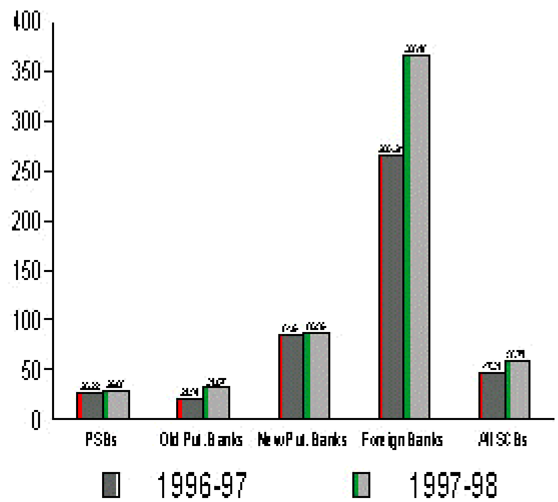


Table II.11: Off -Balance Sheet exposure of Scheduled Commercial Banks in India for the years 1996-97 and 1997-98

(Rs.crore)

Bank Group	Forward exchange contract		Guarantees given		Acceptance, endorsements, etc.		Total Contingent Liabilities	
	1996-97	1997-98	1996-97	1997-98	1996-97	1997-98	1996-97	1997-98
1	2	3	4	5	6	7	8	9
State Bank Group	17,696.17	37,614.53	15,734.88	16,757.13	18,544.91	16,848.35	51,975.96	71,220.01
	(8.66)	(16.16)	(7.70)	(7.20)	(9.07)	(7.24)	(25.43)	(30.60)
Nationalised Banks	50,935.85	71,455.44	21,304.76	23,783.57	21,639.65	22,297.40	93,880.26	1,17,536.41
	(14.47)	(17.16)	(6.05)	(5.71)	(6.15)	(5.35)	(26.68)	(28.22)
Public Sector Banks	68,632.02	1,09,069.97	37,039.64	40,540.70	40,184.56	39,145.75	1,45,856.22	1,88,756.42
	(12.34)	(16.80)	(6.66)	(6.24)	(7.22)	(6.03)	(26.22)	(29.08)
New Private Sector Banks	8,409.24	15,594.36	1,906.87	3,148.91	3,404.09	3,644.08	13,720.20	22,387.35
	(52.04)	(60.31)	(11.80)	(12.18)	(21.07)	(14.09)	(84.90)	(86.59)
Old Private Sector Banks	6,271.24	13,890.46	1,864.78	2,035.27	1,426.94	1,555.77	9,562.96	17,481.50
	(14.11)	(25.16)	(4.19)	(3.69)	(3.21)	(2.82)	(21.51)	(31.67)

Foreign Banks	1,25,968.05	2,12,597.10	11,541.60	13,049.13	11,749.56	12,773.56	1,49,259.21	2,38,419.79
	(224.69)	(325.63)	(20.59)	(19.99)	(20.96)	(19.57)	(266.24)	(365.18)
All SCBs	2,09,280.55	3,51,151.89	52,352.89	58,774.01	56,765.15	57,119.16	3,18,398.59	4,67,045.06
	(31.10)	(44.14)	(7.78)	(7.39)	(8.43)	(7.18)	(47.31)	(58.71)

Note : Figures in brackets are percentages to Total Assets.

4. Regional Rural Banks (RRBs)

2.20 Regional Rural Banks (RRBs) form an integral part of the rural financial architecture in India. During 1997-98 further reforms were introduced to improve their viability, competitiveness, profitability and efficiency besides recapitalisation of weak RRBs. During 1997-98, the growth in aggregate deposits and credit of RRBs decelerated.

Deposit and Credit Growth

2.21 During the financial year 1997-98, the aggregate deposits of RRBs registered a lower growth of 23.6 per cent, as compared with a rise of 26.9 per cent in 1996-97. While demand deposit growth was robust, growth in time deposits with RRBs decelerated. Credit expansion of RRBs during 1997-98 at Rs.1,143 crore (13.4 per cent) was also lower than the credit growth during 1996-97 of Rs.1,255 crore (17.2 per cent) (Table II.12). Consequently, the credit deposit ratio of RRBs declined from 50.3 per cent in 1996-97 to 46.2 per cent in 1997-98.

Table II.12 : Selected Indicators of Regional Rural Banks -1996-98

(Rs. crore)

Items	March 29 1996	March 28 1997	March 27 1998	Variations	
				1996-97	1997-98
1	2	3	4	5 (3-2)	6 (4-3)
1. Liability to others					
(i) Aggregate Deposits	13,369.61	16,971.34	20,977.76	3,601.73	4,006.42
				(26.94)	(23.61)
(a) Demand Deposits	2,474.93	2,946.53	3,804.79	471.60	858.26
				(19.06)	(29.13)
(b) Time Deposits	10,894.68	14,024.81	17,172.58	3,130.13	3,147.77
				(28.73)	(22.4)
(ii) Borrowings	2.11	0.59	3.71	-1.52	3.12
				(-72.04)	(528.81)
(iii) Other Demand and Time Liabilities *	435.13	570.31	678.67	135.18	108.36
				(31.07)	(19.00)
2. Inter-bank Liabilities	86.26	125.31	136.70	39.05	11.39
				(45.27)	(9.1)
3. Bank Credit	7,289.32	8,544.02	9,686.69	1,254.70	1,142.67
				(17.21)	(13.37)
4. Investments	1,825.65	2,487.66	3,527.61	662.01	1,039.95
				(36.26)	(41.80)
(i) Government Securities	842.17	722.91	1,011.09	-119.26	288.18
				(-14.16)	(39.86)
(ii) Other Approved Securities	983.48	1,764.75	2,516.52	781.27	751.77
				(79.44)	(42.60)
5. Inter-bank Assets	5,641.09	7,593.85	9,414.68	1,952.76	1,820.83

				(34.62)	(19.34)
6. Reserves (including balance with RBI)	177.49	225.99	253.22	48.50	27.23
				(27.33)	(12.05)
Memorandum Items :					
(a) Reserves/Deposit Ratio (%)	1.33	1.33	1.21		
(b) Investment/Deposit Ratio (%)	13.66	14.66	16.82		
(c) Credit -Deposit Ratio (%)	54.52	50.34	46.18		

* Includes Participation Certificates issued to others.

Note : Figures in brackets are percentage variations.

2.22 The purpose-wise distribution of credit of RRBs as on March 31, 1997 indicated that a major portion of their credit was directed towards agriculture and allied activities (46.3 per cent) (Table II.13).

Working Results

2.23 The available financial results of 151 RRBs during 1997-98 indicate considerable improvement in number of RRBs recording profits and overall profit ratios. As against 34 profit-making RRBs (out of 151) in 1996-97, 96 RRBs made profits during 1997-98. The amount of net profit earned stood at Rs.239crore (Rs.43.4 crore last year) [Table II.14]. The large profits - gross and net -during 1997-98 was facilitated by lower provisions. The net profit ratio of profit - making RRBs at 1.51 per cent in 1997-98 was far higher than the corresponding figure of 0.94 in 1996-97. Overall (including loss-making RRBs), net profit ratio stood at 0.33 per cent in 1997-98 as compared with a negative figure of -3.10 per cent in 1996-97. Further, the working results showed an improvement in the spread from 2.49 per cent in 1996-97 to 2.93 per cent in 1997-98.[5]

Table II.13: Purpose-wise Disbursements of Regional Rural Banks - 1996 and 1997

Purpose	Amount (Rs.crore)			
	As at the end of March 1996	per cent to Total	As at the end of March 1997	per cent to Total
1	2	3	4	5
1. Short term (crop loan)	1,308	17.4	1,632	18.7
2. Term loan for agriculture	1,235	16.5	1,414	16.2
3. Allied activities	924	12.3	998	11.4
4. Rural artisans, village and Cottage industries	586	7.8	672	7.7
5. Retail trade and Self-employed etc.	1,836	24.5	1,972	22.7
6. Consumption loans	258	3.4	381	4.4
7. Other purposes	1,323	17.6	1,599	18.3
8. Indirect advances	35	0.5	50	0.6
Total	7,505	100.0	8,718	100.0

Note: Data may not tally with Table II.12 due to differences in date of reporting.

[5] For profit making RRBs spread has come down (from 4.18 per cent in 1996-97 to 3.86 per cent in 1997-98), which is similar to trends in SCBs (see Table II.4).

Table II.14: Working Results of Regional Rural Banks* for the years 1996-97 and 1997-98

(Rs. crore)

Particulars	1996-97			1997-98		
	Loss Making (117)	Profit Making (34)	151 RRBs	Loss Making (55)	Profit Making (96)	151 RRBs
1	2	3	4	5	6	7
A. Income	**1,190.34**	**503.80**	**1,694.14**	**488.79**	**1,632.85**	**2,121.64**
(i) Interest Income	1,130.50	475.94	1,606.44	461.06	1,553.47	2,014.53
(ii) Other Income	59.84	27.86	87.70	27.73	79.38	107.11
B. Expenditure	**1,822.93**	**460.40**	**2,283.33**	**651.93**	**1,393.41**	**2,045.34**
(i) Interest Expended	850.28	283.50	1,133.78	400.94	942.91	1,343.85
(ii) Provisions and Contingencies	487.48	48.63	536.11	22.87	33.94	56.81
(iii) Other operating expenses	485.17	128.27	613.44	228.12	416.56	644.68
of which: Wage Bill	419.63	107.34	526.97	203.59	358.14	561.73
C. Operating Profit/Loss	**-145.11**	**92.03**	**-53.08**	**-140.27**	**273.38**	**133.11**
D. Net Profit/Loss	**-632.59**	**43.40**	**-589.19**	**-163.14**	**239.44**	**76.30**
E. Total Assets	**14,411.51**	**4,603.33**	**19,014.84**	**7,080.07**	**15,826.88**	**22,906.95**
F. *Financial Ratios (per cent) $*						
(i) Operating Profit/Loss	-1.01	2.00	-0.28	-1.98	1.73	0.58
(ii) Net Profit/Loss	-4.39	0.94	-3.10	-2.30	1.51	0.33
(iii) Income	8.26	10.94	8.91	6.90	10.32	9.26
(iv) Interest income	7.84	10.34	8.45	6.51	9.82	8.79
(v) Other income	0.42	0.61	0.46	0.39	0.50	0.47
(vi) Expenditure	12.65	10.00	12.01	9.21	8.80	8.93
(vii Interest expended	5.90	6.16	5.96	5.66	5.96	5.87
(viii) Other operating expenses	3.37	2.79	3.23	3.22	2.63	2.81
(ix) Wage Bill	2.91	2.33	2.77	2.88	2.26	2.45
(x) Provisions and Contingencies	3.38	1.06	2.82	0.32	0.21	0.25
(xi) Spread (net interest income)	1.94	4.18	2.49	0.85	3.86	2.93

* Based on audited balance sheets of 151 RRBs.
$ Ratios to Total Assets.
Source : NABARD.

Non-performing Assets

2.24 The quality of assets of RRBs showed substantial improvements after the implementation of prudential norms as suggested by NABARD. The analysis of quality of assets indicated that as on March 31, 1997, the aggregate outstanding loans of RRBs consisted of: standard assets - 64 per cent; substandard assets - 8.2 per cent; doubtful assets - 23.0 per cent; and loss assets - 4.8 per cent(Table II.15). The NPA, as a percentage of outstanding loans at the end of March 1997 for 196 RRBs, was relatively lower at 36.0 per cent as compared with 42.5 per cent in the previous year.

Table II.15 : Classification of Loans (as percentage to Total) of all RRBs

S.No.	Category	End-March 1996	End-March 1997
1	2	3	4
1.	Standard	57.5	64.0
2.	Sub Standard	9.3	8.2
3.	Doubtful	28.3	23.0
4.	Loss	4.9	4.8
5.	% of NPA to outstanding Loans	42.5	36.0

Recovery of Loans

2.25 The status of recovery of loans in RRBs showed signs of improvement during 1996-97. The percentage of recovery to demand has increased from 40.9 per cent by June 1992 to 56.7 per cent by June 1997. State-wise, the recovery performance of RRBs showed that at the end of June 1997, Kerala ranked first (85.6 per cent), followed by Tamil Nadu (79.2 per cent) and Punjab (77.9 per cent). The least recovery performance was in the State of Tripura at 10.7 per cent.

Recapitalisation of RRBs

2.26 To strengthen the capital base of RRBs, the Government of India has been infusing capital through budgetary allocations. The process of recapitalisation initiated in 1994-95 continued during the year 1997-98. In the fourth Phase of 1997-98, 90 RRBs have been given capital support to the extent of Rs.400 crore. This consists of 15 RRBs getting capital support for the first time and the rest 75 RRBs which received assistance in the earlier phases, got further amount allotted to strengthen their capital. The yearly contributions for recapitalisation of RRBs are given in Table II.16. The Government of India has made a further budgetary provision of Rs.265 crore in the Union Budget for the year 1998-99.

Table II.16 : Recapitalisation of Regional Rural Banks- 1994-95 to 1997-98

Year	Amount (Rs.crore)
1	2
1994-95	300
1995-96	447
1996-97	400
1997-98	400

Restructuring Programme

2.27 As RRBs provide substantial finances for the development of rural areas, a number of policy measures were taken in the last two years not only to make RRBs viable but also to enable them to function effectively in a competitive banking environment. These measures include inter alia deregulation of interest rates on advances made by them, freeing of interest rates on deposits above one year maturity, rationalisation of branches including merging of loss making branches, revamping of RRBs with fresh capital infusion by the Government, and relaxation in norms relating to investments by RRBs.

Inspection of RRBs

2.28 NABARD being the Supervisory authority for RRBs, conducted inspection of 96 RRBs during 1996-97. The analysis of the inspection results indicated serious short-comings in the operations of some of the RRBs. Low level of loan recoveries, mounting overdues, high level of non-performing assets leading to erosion in RRBs' net worth, besides poor quality of loan appraisal, ineffective loan supervision, etc. are some of the short- comings observed. To monitor the operations of RRBs more frequently, NABARD introduced off-site surveillance system through which financial appraisal of RRBs could be conducted on the basis of data provided by RRBs on a half-yearly basis.

5. Regional Spread of Banking

2.29 The credit - deposit (CD) ratio of SCBs as on the last Friday of March 1998 (as per sanction) was marginally lower at 55.5 per cent as compared with 57.3 per cent in the corresponding period last year (Appendix Table II.7). Most of the regions except the Western region showed deceleration in credit-deposit ratio during the year. In the Western region, Maharashtra showed improvement in the credit-deposit ratio. In the Northern region, the states of Haryana and Rajasthan showed improvements in their credit-deposit ratios.

6. SCBs' Operations in Money Market Instruments

Call/Notice Money Market[6]

2.30 In the call/notice money market, which is the core segment of the short-term money market, and which ruled easy during most part of the year 1997-98, the lendings of PSBs came down from Rs.4,229 crore during the fortnight ended March 28, 1997 to Rs.2,938 crore during the fortnight ended March 27,1998 but subsequently increased to Rs.5,119 crore during the fortnight ended July 17, 1998. However, the borrowings of foreign banks increased from Rs.3,996 crore during the last fortnight of March 1997 to Rs.5,131 crore during the last fortnight March 1998 and further to Rs.6,035 crore during the fortnight ended July 17, 1998. The borrowings of Primary Dealers (PDs) increased from Rs.2,934 crore during the fortnight ended March 28, 1997 to Rs.4,398 crore during the fortnight ended March 27, 1998 and further to Rs.4,465 crore during the fortnight ended July 17, 1998. The lendings of financial institutions increased sharply from Rs.3,408 crore to Rs.5,786 crore between the last fortnight of March 1997 and March 1998 and subsequently declined to Rs.4,803 crore by July 17, 1998.

2.31 During the financial year 1997-98 and upto end-June 1998, there has been an increase in the number of participants in the call money market. Seventeen corporate entities have been permitted to operate as lenders in the market (through primary dealers). The total average daily turnover in the market increased from Rs.19,492 crore during the fortnight ended March 28, 1997 to Rs.23,613 crore during the fortnight ended March 28, 1998 and further to Rs.27,194 crore during the fortnight ended July 17, 1998. Participant-wise composition of call/notice money market has also witnessed a noticeable shift.

Certificates of Deposit (CDs)

2.32 Owing to the easy liquidity conditions during the first three quarters of 1997-98, there was a softening of interest rates and reduction in the outstanding amount of CDs. The outstanding amount of CDs issued by SCBs declined substantially from Rs.12,134 crore as on March 28, 1997 to Rs.6,607 crore by December 19, 1997 (Appendix Table II.9). Following the tight money market conditionsas a result of January 16, 1998 measures to which reference was made in Chapter I, there was heavy demand for funds by banks. Accordingly, the outstanding amount of CDs increased sharply to Rs.14,296 crore by the fortnight ended March 27, 1998 but subsequently declined to Rs.7,287 crore by July 17, 1998.

2.33 The discount rates on CDs came down from the range of 7.0 - 15.8 per cent in end March 1997 to 5.0 - 11.5 per cent in December 1997 but subsequently increased sharply to a higher range of 6.5 - 37.0 per cent in February 1998. However, the discount rates came down to a range of 8.0 - 12.5 per cent during the fortnight ended July 17, 1998.

2.34 During 1997-98, the minimum size of issue of CDs to a single investor was reduced from Rs.10 lakh to Rs.5 lakh in October 1997. CDs above Rs.5 lakh will be in multiples of Rs.1 lakh. Furthermore, in April 1998, the minimum lock in period for CDs was reduced from 30 days to 15 days.

Commercial Paper

2.35 The SCBs' investments in commercial paper increased sharply from the beginning of 1997-98 upto mid-January 1998. The outstanding amount of CPs increased from Rs.646 crore on March 31, 1997 to a peak of Rs.5,249 crore as on January 15, 1998 and thereafter declined and stood at Rs.1,500 crore as on March 31, 1998 (Appendix Table II.10). The conspicuous increase in CP issues was mainly on account of the fact that corporates found it cost effective to raise resources through CP route due to the sharp decline indiscount rates. The typical discount rate which ranged between 11.3 - 12.3 per cent during the fortnight ended March 31, 1997 declined to a low of 8.0 - 9.3 per cent during the fortnight ended November 15, 1997. Thereafter, following the measures taken in January 1998 to mop up liquidity from the system, typical discount rates on CPs increased from 9.8 - 11.5 per cent during the fortnight ended January 15, 1998 to 14.2 - 15.5 per cent during the fortnight ended March 31, 1998 which resulted in a steady decline in the CP issues between mid-January to March 31, 1998 (Appendix Table II.10). Accordingly, the SCBs' investments in CPs too showed a decline during this period.

2.36 During 1998-99, there was a steady increase in the outstanding CP amount from Rs.1,500 crore as on March 31, 1998 to Rs.5,107 crore as on August 31, 1998 while the typical discount rate declined from 13.0-15.3 per cent during the fortnight ended April 15, 1998 to 8.5-11.0 per cent during the fortnight ended August 31, 1998. Thereafter with the firming up of typical discount rates in the range of 11.0 -13.0 per cent during September 1998, the outstanding amount of CP declined to Rs.4,588 crore as on September 30,1998.

2.37 Effective May 25, 1998, the minimum period of maturity of CPs issued by corporate customers and PDs was reduced from 30 days to 15 days. Further, Satellite Dealers (SDs) enlisted with RBI to deal in Government securities market were allowed to issue CPs, with prior approval from RBI, with effect from June 17, 1998 to enable them to have access to short term borrowings through CP route.

Bills Rediscounting Market

2.38 Bills rediscounting market witnessed lower activities during 1997-98. Total amount of bills rediscounted by SCBs with the financial institutions, mutual funds and the PDs decreased from Rs.1,029 crore in end-March 1997 to Rs.286 crore by end-March 1998 and then increased to Rs.408 crore by end-August 1998.

7. PLRs and spread over PLRs of Scheduled Commercial Banks

LENDING RATES

2.39 The Monetary and Credit Policy for the first half of 1997-98 announced on April 15, 1997, outlined several measures for streamlining and improving credit delivery system by giving greater freedom to banks. With effect from April 16, 1997, the Bank Rate was reactivated as a signal and a reference rate by linking the maximum deposit rate for maturity of 30 days and upto one year to the Bank Rate and prescribing the maximum deposit rate at ‘not exceeding the Bank Rate minus 2 percentage points per annum'. In response to these measures, banks lowered interest rates on deposits of shorter maturity by 1 - 2 percentage points. The reduction in the cost of funds of the banks was also passed on to the borrowers by lowering Prime Lending Rates (PLRs). PLRs were reduced by 0.5 - 1.5 percentage points after April 15, 1997 and again in July 1997 by 0.5 to 1.5 percentage points.

2.40 In July 1997, PLRs of SCBs were in the range of 13.5 - 17.5 per cent as against the range of 14.0 - 19.0 per cent in April 1997. Further, consequent upon number of measures introduced in the credit policy announced on October 21, 1997, like the cuts in the Bank Rate and CRR, the deregulation of interest rates on domestic term deposits and the introduction of separate PLR, also called Prime Term Lending Rate (PTLR), for term loans of 3 years and above, the PLRs of public sector banks declined from 13.5 - 15.0 per cent to 12.5 - 13.5 per cent and PLRs of private sector banks declined by about 1 percentage point. PTLRs for term loans of 3 years and above were below the respective PLRs of banks by about 0.15 - 0.50 percentage point.

2.41 Due to increase in CRR in December 1997 and in the Bank Rate in January 1998 on account of monetary and foreign exchange situation, banks undertook upward revision in their lending rates (Table II.17).

Table II. 17 : Distribution of Prime Lending Rate of Public Sector Banks according to Ranges

Month/ Year	PLR Range									
	12.5	12.75	13.0	13.25 - 13.75	14.0	14.5	14.5 - 15.0	15.0 - 15.5	15.5 16.0	Total No. of Banks
1	2	3	4	5	6	7	8	9	10	11
1997										
March	-	-	-	-	-	5	13	8	1	27
						(18.5)	(48.1)	(29.6)	(3.7)	
April	-	-	-	-	1	4	13	8	1	27
					(3.7)	(14.8)	(48.1)	(29.6)	(3.7)	
May	-	-	-	-	11	15	1	-	-	27
					(40.7)	(55.6)	(3.7)			
July	-	-	-	8	11	7	1	-	-	27
				(29.6)	(40.7)	(25.9)	(3.7)			
26-Sep	-	-	-	8	13	5	1	-	-	27
				(29.6)	(48.1)	(18.5)	(3.7)			
24-Oct	-	-	-	8	13	5	1	-	-	27
				(29.6)	(48.1)	(18.5)	(3.7)			
21-Nov	1	-	17	5	3	1	-	-	-	27
	(3.7)		(63.0)	(18.5)	(11.1)	(3.7)				
1998										
31-Jan	-	-	7	4	9	7	-	-	-	27
			(25.9)	(14.8)	(33.3)	(25.9)				
27-Feb	-	-	2	1	16	8	-	-	-	27
			(7.4)	(3.7)	(59.3)	(29.6)				
27-Mar	-	-	2	-	16	9	-	-	-	27
			(7.4)		(59.3)	(33.3)				
24-Apr	-	-	2	6	12	7	-	-	-	27
			(7.4)	(22.2)	(44.4)	(25.9)				
8-May	-	-	6	9	9	9	-	-	-	27
			(22.2)	(33.3)	(33.3)	(11.1)				
22-May	-	1	10	11	4	1	-	-	-	27
		(3.7)	(37.0)	(40.7)	(14.8)	(3.7)				
19-June	-	1	11	13	1	1	-	-	-	27
		(3.7)	(40.7)	(48.1)	(3.7)	(3.7)				
31-July	-	1	11	14	-	1	-	-	-	27
		(3.7)	(40.7)	(51.9)		(3.7)				
28-August	-	1	11	14	-	1	-	-	-	27
		(3.7)	(40.7)	(51.9)	-	(3.7)				

2.42 With the reduction in CRR and the Bank Rate, subsequently in March-April 1998, banks once again reduced their PLRs. In the credit policy announced on April 29, 1998, the reduction in the Bank Rate from 10 per cent to 9.0 percent influenced a number of scheduled commercial banks to revise their PLR downwards by 0.5 - 2.0 percentage points. As at end of June 1998, PLRs of scheduled commercial banks were in the range of 12.75 per cent to 18.50 per cent and PTLR of scheduled commercial banks was in the range of 12.50 - 17.50 per cent. The maximum spread over PLR was in the range of 3.0 to 7.5 per cent as against 2.0 to 6.25 per cent prior to April 1998 policy announcements.

8. Scheduled Commercial Banks and Government Securities Market

2.43 SCBs invested in Government securities to the extent of 30.9 per cent of aggregate deposits as on last Friday of March 1998 as compared with 31.4 per cent a year earlier. In incremental terms, this ratio was 28.1 per cent in 1997-98 as against 37.1 per cent in 1996-97. In view of the growing linkages between various markets in the financial system, efforts were made to further improve the market clearing mechanisms in the primary market and also provide depth and volume to the secondary market.

TRENDS IN YIELDS IN PRIMARY AND SECONDARY MARKET IN GOVERNMENT SECURITIES

2.44 The prevalence of easy liquidity conditions in the money market and the resultant declining interest rates enabled the Reserve Bank to conduct market borrowings of the Central Government smoothly during the period April-December, 1997. In the remaining part of the year 1997-98, the interest rate firmed up due to measures introduced by the Reserve Bank to correct the imbalances in the money market. The coupon rates of Government dated securities ranged from 10.85 to 13.05 per cent in the primary market during the year (Chart II.9). Table II.18 provides an overview of yields on Government Securities in the primary market for the last four years.

Chart II.9 : Trends in Yields of Government Securities - 1997-98

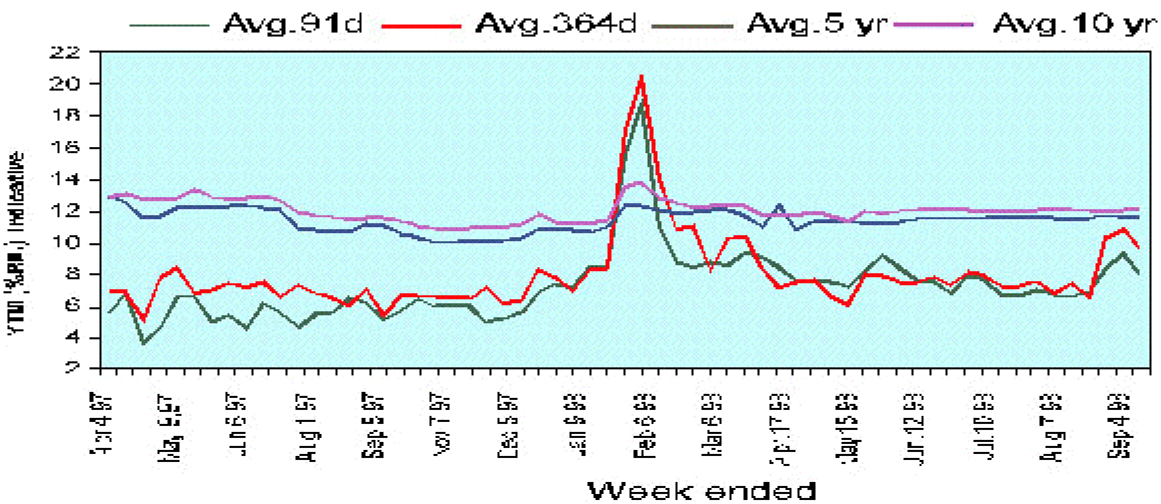


Table II.18 : Yields on Government Securities in the Primary Market - 1994-95 to 1997-98 (April-October)

Period	Maturities					
	Treasury Bills @			Dated Securities $		
	14 Days	91 Days	364 Days	2 Year	5 Year	10 Year
1	2	3	4	5	6	7
1994-95	-	9.16	10.15	-	12.00	12.35
					12.71	
1995-96	-	12.67	12.87	13.25	13.25	13.75
				13.50	13.85	14.00
1996-97	4.95	9.67	11.67	13.50	13.75	13.85
				13.62	13.55	13.65
1997-98	-	6.68	8.68	-	12.69	13.05
					11.15	12.15

$ Coupon Rates.
@ Average implicit yield at cut-off prices.

Liquidity Support to Primary Dealers (PDs)

2.45 In order to develop market for Government securities, the Reserve Bank extends liquidity support to Primary Dealers (PDs) and Satellite Dealers (SDs). The limit on liquidity support to Primary Dealers (PDs) in the form of reverse repos during 1997-98 (April-March) was fixed at Rs. 3,710 crore. Due to volatile exchange market in January 1998, the Reserve Bank announced that PDs in Government securities market will have access to liquidity support on discretionary basis, subject to RBI stipulations relating to their operations in the call money market. Besides, the Monetary and Credit Policy of first half of the 1998-99 has announced that the practice of reverse repos with PDs in specified securities is being dispensed with and instead liquidity support against the security holdings in SGL Accounts would be provided. Accordingly, in September 1998, it has been decided that liquidity support to PDs will henceforth be provided by way of demand loan against the security of their holdings in SGL accounts. Advances will be granted against the collateral of holdings of Government of India dated securities and 91/364-day auction Treasury Bills in SGL accounts maintained with the Reserve Bank.

Satellite Dealers (SDs)

2.46 As on November 18, 1997 the Reserve Bank has granted approval to 9 entities for registration as SDs. The Bank has also granted in-principle approval to two banks to be accredited as SDs in the Government securities market. The limit on liquidity support to SDs in the form of reverse repos during 1997-98 was fixed at Rs.759.19 crore.

2.47 With effect from June 17, 1998, SDs have been permitted access to short-term borrowings through issuance of CPs subject to fulfilment of certain conditionalities.

VALUATION OF INVESTMENT PORTFOLIO OF BANKS

2.48 As the Reserve Bank is endeavouring to make a higher portion of banks' investments in Government and approved securities marked to market and achieve fully marking to market of all Government securities investments at the earliest, the ratio of investments in permanent category was brought down to 40 per cent for the year ending March 1998. It has been proposed to further bring down the ratio for permanent category to 30 per cent for the year ending 1998-99. In line with best international practice, it has been proposed to increase the ratio of current investments in approved securities progressively to 100 per cent in the next three years.

9. Rural Credit

2.49 The availability of institutional credit and its timely distribution is very crucial in rural credit delivery system. The NABARD, as a developmental agency, is playing a pivotal role in the overall development of agriculture and, in particular, the management of proper flow of credit for the development of the rural sector. To enable NABARD to provide short-term credit facilities to co-operative banks and RRBs, the Reserve Bank has renewed the General Line of Credit (I and II) of Rs.5,700 crore for NABARD during 1997-98. It consisted of Rs.4,850 crore under GLC I (for seasonal agricultural operations) and Rs.850 crore under GLC II (for various approved other short-term purposes). The share capital of NABARD is also proposed to be increased by Rs.500 crore to Rs.2,000 crore during 1998-99 with a contribution of Rs.400 crore from the Reserve Bank and Rs.100 crore from the Government of India. With this, the share capital of NABARD will consist of Rs.1,450 crore from the Reserve Bank and Rs.550 crore from the Government. These steps would enable the NABARD to effectively leverage its equity and mobilise additional resources for investment credit.

2.50 Agriculture credit by PSBs witnessed marked improvement from Rs.31,012 crore as on last Friday of March 1997 to Rs.34,304.50 crore as on last Friday of March 1998, an increase of Rs.3,292.50 crore. However, the percentage of total agricultural advances to net bank credit has declined from 16.3 per cent to 15.7 per cent during the said period. From the year 1994-95, the Reserve Bank has advised all PSBs to prepare Special Agricultural Credit Plans. The disbursements to agriculture under this plan during 1996-97 aggregated Rs.14,253.43 crore. For 1997-98, the disbursements to agriculture under the plan amounted to Rs.14,808.35 crore up to March 1998 as against the target of Rs.16,069.04 crore.

2.51 With the objective of promoting credit to Khadi and Village Industries Boards (KVIBs), a consortium of banks has been formed under the leadership of the State Bank of India. In the consortium, the shares will be allotted to each bank on the basis of priority sector shortfall. The outstanding credit provided by banks, which are treated as their indirect lending to small scale industries under priority sector, amounted to Rs.465.71 crore, out of the disbursed amount of Rs.510.00 crore as at the end of September 1998.

2.52 In order to cater to the needs of the local people and to provide efficient and competitive financial intermediation services in areas of operation extending over two or three contiguous districts as also to tapping retail savings where the branches of commercial banks are insignificant, the Reserve Bank has given ‘in principle' approval for setting up Local Area Banks (LABs), one each in Maharashtra, Karnataka and Andhra Pradesh, subject to the proposed banks complying with certain conditions. Such banks will have to observe overall priority sector lending target of 40 per cent of net bank credit and the sub-target of 10 per cent of net bank credit for lending to weaker sections. Interest rates on advances for LABs stand deregulated as in the case of RRBs.

Rural Infrastructural Development Fund (RIDF)

2.53 As stated in Chapter I, there are four tranches of Rural Infrastructural Development Funds in operation at NABARD for financing rural infrastructure; RIDF-I with a corpus of Rs.2,000 crore, RIDF-II with a corpus of Rs. 2,500 crore, RIDF-III with a corpus of Rs.2,500 crore and RIDF-IV with a corpus of 3,000 crore. But utilisation of the funds is low and needs to be sharply improved.

PRIORITY SECTOR ADVANCES BY PUBLIC SECTOR BANKS

2.54 The priority sector advances of PSBs amounted to Rs.91,319 crore and formed 41.8 per cent of the NBC as on the last Friday of March 1998. Agricultural advances of PSBs increased by Rs.3,293 crore to Rs.34,305 crore as on the last Friday of March 1998 forming 15.7 per cent of net bank credit (16.3 per cent last year). Credit to SSI units increased from Rs. 31,542 crore (16.6 per cent of NBC) as at end-March 1997 to Rs. 38,109 crore (17.5 per cent of NBC) as at end-March 1998 (Appendix Table II.11).

PRIORITY SECTOR ADVANCES BY INDIAN PRIVATE SECTOR BANKS

2.55 The private sector commercial banks are also required to fulfil similar targets and sub-targets as applicable to domestic public sector banks for lending to the priority sectors. The data on priority sector advances of all the Indian private sector banks indicated that during the year 1997-98 (upto March 1998), the total amount went up to Rs.11,614 crore from Rs.8,832 crore in March 1997, showing 40.9 per cent of NBC as on last Friday of March 1998. Their direct credit to agriculture, as proportion of NBC, was 9.7 per cent in March 1998 as against 9.1 per cent in March 1997. Advances to SSI units, as proportion of NBC, were at 20.6 per cent in March 1998, as compared with 22.2 per cent in March 1997 (Appendix Table II.12).

PRIORITY SECTOR ADVANCES BY FOREIGN BANKS

2.56 The foreign banks operating in India are required to fulfil a lower target of 32 per cent of net bank credit in lending to the priority sector with a specific lending sub-targets of 10 per cent for SSI and 12 per cent of net credit for exports sector. The total priority sector advances of foreign banks which amounted to Rs.6,139 crore in March 1997, constituting 37.7 per cent of NBC, increased to Rs.6,940 crore accounting for 34.3 per cent of NBC as on last Friday of March 1998 (Appendix Table II.13). Advances to SSI units under priority sector stood at Rs.2,084 crore, equivalent to 10.3 per cent of NBC as compared with Rs. 1,836 crore (11.3 per cent of NBC) in March 1997. The export credit by foreign banks amounted to Rs.4,950 crore as at end-March 1998 (24.5 per cent of NBC).

Integrated Rural Development Programme (IRDP)

2.57 During the year 1997-98, covering upto March 1998, bank credit of Rs.1,990.68 crore and Government subsidy of Rs.1,106.21 crore has been disbursed to 16.97 lakhs families below poverty line (Table II.19).

Table II.19 : Advances under IRDP

Year	No. of beneficiaries (Lakhs)	Total Credit (Rs.crore)
1	2	3
1992-93	20.69	1,037
1993-94	25.38	1,408
1994-95	22.15	1,451
1995-96	20.90	1,701
1996-97	18.89	1,953
1997-98 (Provisional)	16.97	1,991

Lead Bank Scheme (LBS)

2.58 During the year 1997-98, the number of districts covered in the country under the Lead Bank Scheme (LBS) has increased. As on March 31, 1998, 536 districts have been covered under the LBS in the country. There were 21 new districts as a result of reorganization/bifurcation of some of the existing districts. PSBs were assigned with lead responsibility of these districts.

2.59 Table II.20 presents an overall picture of Annual Credit Plan of all financial institutions (including SCBs, RRBs and Co-operative banks) under the LBS. For improving credit flow to rural areas of North Eastern States, major banks operating in that area have been advised to instruct their branch managers to closely associate themselves with the villages for recovery rather than depend on legal approach.

Table II.20 : Annual Credit Plan of Financial Institutions under Lead Bank Scheme

(Rs. crore)

Sector	1996-97			1997-98
	Target	Achievement	Per cent of Achievement	Target
1	2	3	4	5
a) Agriculture & Allied activities	25,422.29	23,277.58	91.6	27,611.37
b) SSI	7,713.24	8,772.33	113.7	9,681.14
c) Services	8,269.47	6,929.43	83.8	8,608.27
Total	41,405.30	38,979.34	94.1	45,900.78

Prime Minister's Rozgar Yojana for Educated Unemployed (PMRY)

2.60 The Prime Minister's Rozgar Yojana (PMRY) scheme was launched in the year 1993-94 with the aim of providing sustained self-employment in micro-enterprises to rural and urban unemployed youth, resident in a particular area for more than three years, with family income not exceeding Rs.24,000 per annum. The progress of the scheme upto the year 1998-99 (upto August 1998) is presented in Table II.21.

Table II.21 : Financial Assistance under PMRY

(Amount in Rs.crore)

Year	Target	Sanction		Disbursements	
		No. of borrowal accounts	Amount	No. of borrowal accounts	Amount
1	2	3	4	5	6
1994-95	2,39,215	1,82,467	1,025.09	1,12,812	596.52
1995-96	3,21,360	2,88,913	1,683.35	2,29,771	1,281.97
1996-97	3,07,163	2,68,152	1,588.74	2,09,516	1,199.77
1997-98	3,45,000	2,42,969	1,455.12	1,34,553	747.54
1998-99(Aug.1998)*	3,61,350	19,148	108.31	9,391	50.75

* Cut-off date for completion of disbursement is February 1,1999.

10. Prudential Regulatory Measures

NPA - AGRICULTURAL ADVANCES

2.61 From the accounting year 1997-98, the advances granted for agricultural purposes may be treated as NPA, if interest and/or instalment of principal remains unpaid, after it has become past due, for two harvest seasons instead of two quarters stipulated earlier.

Bridge Loans

2.62 Effective October 21, 1997, banks have been permitted to sanction bridge loans to companies for a period not exceeding one year against expected equity flows/issues. Such loans should be accommodated within the ceiling of 5 per cent of incremental deposits of the previous year prescribed for banks' investments in ordinary shares/convertible debentures of corporates including PSU shares, loans sanctioned to corporates for meeting promoters' contribution and units of mutual fund schemes, the corpus of which is not exclusively invested in corporate debt instruments. Banks are also advised to formulate their own internal guidelines with the approval of their Board of Directors for grant of such loans. Banks have been advised to exercise adequate caution and attention to obtain security for such loans.

Advances against Shares and Debentures/Bonds

2.63 Effective October 21, 1997, banks have been given freedom to stipulate margins on loans to individuals against preference shares and debentures/bonds of corporate bodies. However, the minimum margin on loans to individuals against equity shares will continue to be 50 per cent as hitherto.

2.64 Based on the recent developments relating to the depository system and also the amendment of SEBI (Depositories and Participants) Regulations to facilitate the pledge of dematerialised securities effective November 8, 1997, it has been decided that for securities which are held in dematerialised form under the depository system, the requirement that the shares/debentures should be transferred in bank's name be withdrawn. Banks are therefore, free to take their own decision in regard to transfer of securities in their names. The shares pledged with the bank under the depository mode will however, continue to be included for the purpose of determining the limits prescribed under Section 19(2) of the Banking Regulation Act, 1949.

2.65 In regard to shares not held in dematerialised form, the existing regulation on transfer of shares in bank's name remains unchanged. Further, the guideline that banks shall exercise voting rights in respect of shares held by them in securities only with prior approval of the Reserve Bank has also been withdrawn and banks are free to decide about the exercise of their voting rights. Banks have been advised to increasingly accept shares/debentures held in depository system in addition to those held in physical form as security for advances.

Settlement of Institutional Transactions in the Depository

2.66 To encourage the use of depository by both institutional and retail investors so as to reduce the risk associated with paper based transactions, SEBI had decided to make it compulsory for institutional investors having a minimum portfolio of securities of Rs.10 crore to settle transactions through the depository from January 15, 1998. Accordingly, the Reserve Bank had advised the banks to settle transactions in the eight securities as notified by SEBI only through the depository. Further, banks having large branch network have been advised to consider registering themselves as depository participants in order to provide depository services to their customers which will help the investors as well as the banks.

2.67 Since April 29, 1998, banks have been permitted to grant loans and advances to individuals against shares/debentures upto a ceiling of Rs.20 lakh per individual borrower if the advances are secured by shares and debentures held in dematerialised form. The minimum margin prescription against dematerialised shares has also been reduced to 25 per cent.

11. Para Banking Activities

EQUIPMENT LEASING, HIRE PURCHASE, ETC. ACTIVITIES

2.68 Banks are permitted to undertake equipment leasing departmentally, with a cap of 5 years on the period of lease and upto 7 years where the value of leased assets was more than Rs.1 crore. To facilitate flow of lease finance to infrastructure projects which involve longer gestation/pay back periods, banks have been given freedom to decide the period of lease finance subject to their framing an appropriate policy with the approval of their Boards and ensuring that suitable safeguards are in place to avoid asset-liability mismatches.

Investment Portfolio of Banks - Transactions in Securities - Role of Brokers

2.69 Banks were instructed in November 1994 not to engage brokers either for inter-bank securities transactions or for transactions with non-bank clients except through members of NSE where the transactions are transparent. Banks have since been permitted to undertake securities transactions through members of the Over The Counter Exchange of India (OTCEI), which is undertaking fully automated, nation-wide trading operations in equity and debt segments.

CREDIT CARD

2.70 A review of the credit card business of banks was conducted recently and a few instances of misuse of credit cards by cardholders in collusion with bank officials have been noticed. Banks were, therefore, advised in December 1997 that they should be selective in issuing credit cards and should make proper appraisal, taking into account the income, repaying capacity of the applicant and other relevant criteria before issuing credit cards.

Formation of Other Subsidiaries for Para-Banking Activities (Barring Housing Finance)

2.71 The State Bank of India has been accorded final approval for setting up a subsidiary jointly with the SBI Capital Markets Ltd., Associate
banks of SBI and Asian Development Bank, viz., SBI Securities Ltd., for undertaking securities broking and trading activities, with paid up capital of Rs.60 crore and with the bank itself taking up 51 per cent of the paid -up share capital.

2.72 The State Bank of India has been accorded final approval to set up a subsidiary "SBI Cards and Payment Services Private Ltd." jointly with GE Capital Corporation (USA) with a paid-up capital of Rs.100 crore and with the bank taking up 60 per cent of the paid-up share capital.

EQUITY INVESTMENT IN COMMODITY EXCHANGE

2.73 Four banks, viz., IndusInd Bank Ltd., Global Trust Bank Ltd., Union Bank of India and Canara Bank were permitted to contribute Rs.50 lakh each to the share capital of First Commodities Clearing Corporation of India Ltd. (FCCCI) to act as institutional members. FCCCI, set up in Kochi by the India Pepper & Spice Trade Association is the first international exchange to be set up in India to deal in pepper futures. Equity participation is a prerequisite for institutional members who are responsible for clearing and guaranteeing the future contracts on the exchange but cannot trade in futures. Margins are required to be provided by traders and the liability of a member bank is limited to the extent of its equity participation which varies from Rs.10 lakh and Rs.50 lakh.

HOUSING FINANCE BY COMMERCIAL BANKS

2.74 The Corporation Bank has been accorded final approval to set up a housing finance subsidiary with an authorised capital of Rs.25 crore and a paid-up capital of Rs.10 crore.

12. Customer Service

2.75 In order to improve the customer services in banks, a number of measures were taken, *viz.*,

a) The increase of individual credit limit under the Electronic Clearing Service (Credit Clearing) from Rs.25,000 to Rs.50,000 with effect from June 1997 which was further raised to Rs.1,00,000 from July 1998.

b) The ECS (Credit Clearing) scheme which was initially operating in the four metropolitan centres, was extended to four more centres viz. Ahmedabad, Bangalore, Hyderabad and Pune with effect from July 1, 1997 and it has been decided to extend it to eight more centres viz. Bhubaneshwar, Chandigarh, Guwahati, Jaipur, Kanpur, Nagpur, Patna and Thiruvananthapuram with effect from July 1, 1998.

2.76 At the instance of the Reserve Bank, a survey on collection of outstation cheques was carried out by M/s.Dun & Bradstreet Marketing Research Pvt. Ltd. in New Delhi and Mumbai in selected branches of Commercial banks. The survey revealed that there was undue delay in collection of outstation instruments at branches. The banks were advised to meticulously follow all the instructions issued in connection with collection of outstation cheques based on the recommendations of the Goiporia Committee on customer service. The banks were also advised to introduce additional measures to reduce the time taken for realisation of cheques such as presentation of cheques drawn on MICR centres through NCC, extensive use of modern telecommunication technology etc. The banks were advised to monitor the implementation of these instructions through their internal inspection machinery.

13. Supervisory Issues

FINANCIAL SUPERVISION

2.77 During the period from July 1997 to April 1998, the Board for Financial Supervision (BFS) held nine meetings. The Board has been focusing on the supervisory strategy in respect of (a) off-site surveillance for banks, all-India financial institutions and NBFCs, (b) on-site inspection, (c) restructuring the system of bank inspections in terms of focus, process, reporting and follow-up, (d) strengthening the statutory audit of banks and enlarging the scope of utilising the services of chartered accountants in the supervisory process, and (e) strengthening internal control, management information systems, etc. within the supervised institutions as an extension of the task of supervision.

2.78 During the period under review, the Board considered various memoranda placed by the Department of Banking Supervision (DBS) on the performance of banks, financial institutions and subsidiaries of banks, for the period ended March 1996 and March 1997 and in some cases up to a later period ended September 30, 1997. The Board gave its directions on several regulatory and supervisory issues thrown up in the course of deliberations on the performance of banks as revealed in the inspection reports.

2.79 The Board reviewed the monitoring done by the Department of Banking Supervision in regard to house-keeping in banks such as reconciliation of outstanding entries in inter-branch accounts, inter-bank accounts including Nostro Accounts and balancing of books of accounts.

2.80 The Board also reviewed the progress in the implementation of Technical Assistance Project of Overseas Development Administration [ODA-UK], now DFID, covering certain functional aspects of the Department such as up-gradation of skills of the supervisors through training, up-gradation of the supervisory system through off-site returns and computerisation of the operation of the department.

2.81 The Board considered recommendations of the Shere Working Group on creating separate instrumentality for regulation and supervision of residuary and other non-banking financial companies and extension of Deposit Insurance Scheme.

ADVISORY COUNCIL OF BFS

2.82 The Advisory Council considered the paper prepared by the Department of Banking Supervision on the revised approach to annual financial inspections, the focus of such inspections and the content and coverage of inspection reports. The matters referred to and considered by the Advisory Council also included reports on capital adequacy standards and consequences of non-compliance/slip-back in the capital adequacy ratio by commercial banks, parameters of a bank's performance [public/private sector] to be disclosed.

2.83 The Council also advised on the new supervisory mechanism for NBFCs and methodology for on-site inspections through outside chartered accountants. It also approved the modalities for issuance of certificate of registration to NBFCs under the RBI (Amendment) Act, 1997.

Audit Sub-Committee of BFS

2.84 The audit sub-committee of the BFS reviewed the position and the need for more disclosure and transparency in the final accounts of banks. It was decided that the following seven financial ratios should be disclosed in the notes on account to the annual reports of banks from the year 1997-98.

- Capital Adequacy Ratio-Tier I and Tier II.
- Interest Income as a percentage to Working Funds.
- Non-interest Income as a percentage to Working Funds.
- Operating Profit as a percentage to Working Funds.
- Return on Assets.
- Business [Deposit plus Advances] per employee.
- Profit per employee.

2.85 The committee also reviewed the procedure for appointment of statutory central auditors of public sector banks and revised their fee structure. Considering the increased cost of inputs and special validations required to be made by the statutory auditors of banks, it was decided to increase the fees payable to the auditors effective from 1997-98. The committee also revised the fee structure for conducting the special audit of accounts of NBFCs.

2.86 During the year 1997-98, Annual Financial Inspection was completed in respect of 27 Public Sector banks and 11 Local Head Offices of SBI. The Bank also undertook financial inspection of 35 Private Sector banks and 37 Foreign banks.

2.87 The recommendations of the Working Group on Internal Control and Inspection/Audit System in banks (Jilani Committee) have been implemented. Based on the information received from banks, progress made by both the private sector and the public sector banks in the implementation of the recommendations which are mandatory, has been found to be satisfactory.

OFF-SITE MONITORING AND SURVEILLANCE

2.88 The off-site monitoring and surveillance system has been introduced from December 1995 quarter for foreign banks and from March 1996 for Indian banks. At present commercial banks are required to submit two types of off-site returns viz., DSB returns and Bank Profile Returns. In the first tranche of DSB returns, the domestic banks are required to furnish seven reports and foreign banks, five reports, with quarterly data on (i) assets, liabilities and off balance-sheet exposures, (ii) weighting of these exposure, capital base and CRAR, (iii) unaudited operating results, (iv) asset quality, and (v) large credit exposures on single borrowers or borrower group exposures. The two additional reports for domestic banks require reporting on connected and related lending and profile of ownership, control and management (half yearly). Commercial banks have been advised to file Banks Profile Returns on annual basis. These returns provide an overview of each bank's operations for four years (including the current year) and serve as a basis for drawing inferences about bank's asset quality, profitability and solvency position.

2.89 The off-site monitoring system (OSMOS) has been operationalised on Electronic Data Processing (EDP) basis, with the banks filing the reports on floppy diskettes with effect from March 1997. The reports, which are to be received within 21 days from the end of the quarter from foreign banks and new Private Sector banks and within one month from the end of the quarter in respect of the remaining banks, are added to the data base. A core group of analysts examine the returns and look for signals of supervisory concern which are then taken up by Monitoring Divisions with the concerned banks. Peer group formed on the basis of asset sizes are used to prepare First Signal Reports every quarter. Based on the data bases built over the quarters, macro analytical reports on comparative performance of banks within their peer group, concentration of advances amongst large borrower/groups, spread of NPAs etc. are also prepared by the analysts for information of top management. A review of the entire banking system is put up to BFS at half-yearly intervals.

2.90 The second tranche of returns, planned to be introduced after the introduction of Asset Liability Management systems in banks, will call for reports on risk exposures (forex, liquidity exposures and gap, interest rate exposures) and consolidated reporting on financial condition and operating results on a group-wise basis. These returns will enable the supervisors to develop their own views on the bank's risk profile and initiate dialogue for corrective action.

2.91 On the basis of DSB data, the Reserve Bank has been preparing analytical reports on individual banks to bring out supervisory concerns, which are taken up with banks as a part of continuous supervision. Analytical reports are also prepared on certain micro indicators.

Frauds

2.92 The Public Sector Banks have been advised to implement the recommendations of the Ghosh Committee (Committee on Frauds and Malpractices). The Reserve Bank had set up an 'Advisory Board on Bank Frauds' on February 17, 1997 under the Chairmanship of Shri S.S.Tarapore, former Deputy Governor of the Reserve Bank to advise on cases referred by the Central Bureau of Investigation (CBI) either directly or through the Ministry of Finance-Government of India for investigation/ registration of cases against bank officers of the rank of General Manager and above. The Board had started functioning since March 1, 1997 and the Advisory Board will also examine the requests of CBI for sanction for prosecution under Section 197 of the Criminal Procedure Code (CPC) and Section 19 of the Prevention of Corruption Act, 1988. The Board was initially formed with five members including its Chairman. Subsequently, one more member was inducted into the Board in December 1997.

2.93 During the year 1997-98 (July 1997 to March 1998), commercial banks reported 1,827 cases of frauds involving an amount of Rs.377.0 crores. In addition, 8 cases of frauds involving Rs.0.37 crore were reported in the overseas branches of banks. These cases were followed up with the banks for necessary remedial measures and fixing staff accountability. Eight circulars were issued during the year to alert banks about the modus operandi adopted by fraudsters.

ASSET - LIABILITY MANAGEMENT (ALM) SYSTEM

2.94 The Monetary and Credit Policy for the second half of the financial year 1997-98 had indicated that broad guidelines for managing liquidity and interest rate risks faced by banks would be issued to them. Detailed draft guidelines in this respect were circulated to scheduled commercial banks (excluding RRBs) on September 10, 1998, addressing banks' exposures to credit and market risks. It is the intention of the Reserve Bank to ensure that banks adopt ALM system from April 1, 1999. The draft guidelines have been circulated to elicit banks' views on the subject, and the difficulties they may face in the implementation of the System.

DEBT RECOVERY TRIBUNALS

2.95 The need for Debt Recovery Tribunals (DRTs) was felt in the light of difficulties in recovering loans in the normal course due to lengthy legal proceedings involved in the recovery of suit filed loans as also the high cost of litigation. Consequent upon the enactment of Recovery of Debts due to Banks and Financial Institutions Act, 1993, Debts Recovery Tribunals (DRTs) were established so far at Ahmedabad, Bangalore, Chennai, Calcutta, Guwahati, Jaipur, New Delhi, Patna with an Appellate Tribunal at Mumbai and Jabalpur, for expeditious adjudication and recovery of debts. As at end December 1997, 1841 cases have been disposed off by DRTs and Rs.182.05 crore was recovered.