Chapter III

Operations and Performance of Commercial Banks

3.1 Robust macroeconomic performance continued to underpin the business and financial performance of scheduled commercial banks (SCBs)[1] during 2004-05. Operations of SCBs were marked by a shift in the behaviour of the credit aggregates. Reversing the decelerating trend of the previous year, bank credit exhibited a robust growth during the year. The credit offtake was also broad-based with agriculture and industry joining the housing and retail segments in driving up the demand for credit. On the liability side, growth of deposits slowed down, *albeit* marginally. In order to meet the increased demand for credit, banks increased recourse to non-deposit resources and restricted fresh investment in Government securities. Profitability of public sector and new private sector banks improved, despite hardening of sovereign yields. Reflecting the strong growth in credit volumes, net-interest income increased sharply, alleviating to a large extent the impact of sharp decline in non-interest income. Thus, banks, in general, were successful in weathering the impact of an upturn in the interest rate cycle. Asset quality of SCBs improved further during 2004-05 as reflected in the decline in gross non-performing assets in absolute terms for a third year in succession, despite the switch over to the 90-day delinquency norm with effect from March 2004. Banks' capital base kept pace with the sharp increase in risk-weighted assets. Improved business and financial performance was reflected in a sharp rise in prices of most of the bank stocks.

3.2 In the above backdrop, this Chapter profiles the operations and financial performance of scheduled commercial banks at the aggregate and bank group levels. The chapter is organised into eleven sections. Section 2 analyses the balance sheets of SCBs from a macro perspective, while off-balance sheet operations of SCBs are presented in Section 3. Section 4 discusses their financial performance. Section 5 profiles the performance of soundness indicators. Operations of SCBs in the capital market are detailed in Section 6, followed by a discussion of technological progress in banks in Section 7. Regional spread of banking is analysed in Section 8. This is followed by a discussion on customer service in banks in Section 9. The operations of regional rural banks (RRBs) and local area banks (LABs) are briefly analysed in Section 10 and Section 11, respectively.

2. Liabilities and Assets of Scheduled Commercial Banks

3.3 The aggregated balance sheet of SCBs expanded at a higher rate of 19.3 per cent (15.2 per cent excluding the impact of conversion of a non-banking entity into a banking entity since October 1, 2004) during 2004-05 as compared with 16.2 per cent in 2003-04 (Table III.1). The ratio of assets of SCBs to GDP at factor cost at current prices increased significantly to 80.4 per cent from 78.3 per cent in 2003-04, reflecting further deepening of the banking sector. The degree of leverage enjoyed by the banking system as reflected in the equity multiplier (measured as total assets divided by total equity) declined to 15.8 from 16.9 in the previous year.

3.4 The behaviour of major balance sheet indicators showed a divergent trend during 2004-05. On the back of robust economic growth and industrial recovery, loans and advances witnessed strong growth, while investments, in a rising interest rate scenario, slowed down significantly. Deposits showed a lacklustre performance in the wake of increased competition from other saving instruments. Borrowings and net-owned funds (capital and reserves and surplus), however, increased sharply underscoring the growing importance of non-deposit resources of SCBs.

3.5 Bank group-wise, assets of new private sector banks grew at the highest rate (19.4 per cent), followed by public sector banks (15.1 per cent, excluding the conversion impact), foreign banks (13.6 per cent) and old private sector banks

[1] Scheduled commercial banks (SCBs) consist of 28 public sector banks (State Bank of India and its seven associates, nationalised banks and other public sector bank (one)), 9 new private sector banks, 20 old private sector banks and 31 foreign banks.

Table III.1: Consolidated Balance Sheet of Scheduled Commercial Banks

(Amount in Rs. crore)

Item	As at end-March					
	2004		2005		2005 #	
	Amount	per cent to total	Amount	per cent to total	Amount	per cent to total
1	2	3	4	5	6	7
Liabilities						
1. Capital	22,348	1.1	25,183	1.1	25,905	1.1
2. Reserves and Surplus	94,254	4.8	1,18,326	5.2	1,23,530	5.2
3. Deposits	15,78,450	80.0	18,21,884	80.1	18,36,987	78.0
3.1 Demand Deposits	2,03,237	10.3	2,30,709	10.1	2,34,595	10.0
3.2 Savings Bank Deposits	3,73,677	18.9	4,43,052	19.5	4,44,944	18.9
3.3 Term Deposits	10,01,536	50.7	11,48,123	50.5	11,57,447	49.1
4. Borrowings	95,562	4.8	1,18,311	5.2	1,68,316	7.1
5. Other Liabilities and Provisions	1,83,402	9.3	1,90,918	8.4	2,01,244	8.5
Total Liabilities/Assets	**19,74,017**	**100.0**	**22,74,622**	**100.0**	**23,55,983**	**100.0**
Assets						
1. Cash and Balances with RBI	1,13,246	5.7	1,15,711	5.1	1,18,087	5.0
2. Balances with Banks and Money at Call and Short Notice	82,033	4.2	92,927	4.1	96,204	4.1
3. Investments	8,04,199	40.7	8,43,081	37.1	8,68,135	36.8
3.1 In Government Securities (a+b)	6,39,143	32.4	6,84,005	30.1	6,98,903	29.7
a. In India	6,36,266	32.2	6,80,641	29.9	6,95,540	29.5
b. Outside India	2,877	0.1	3,363	0.1	3,363	0.1
3.2 In Other Approved Securities	18,100	0.9	16,291	0.7	16,291	0.7
3.3 In Non-approved Securities	1,46,956	7.4	1,42,785	6.3	1,52,941	6.5
4. Loans and Advances	8,64,271	43.8	11,05,725	48.6	11,51,138	48.9
4.1 Bills Purchased and Discounted	66,968	3.4	87,188	3.8	89,544	3.8
4.2 Cash Credit, Overdrafts, *etc.*	3,72,207	18.9	4,35,777	19.2	4,37,060	18.6
4.3 Term Loans	4,25,096	21.5	5,82,760	25.6	6,24,534	26.5
5. Fixed Assets	21,409	1.1	22,161	1.0	23,051	1.0
6. Other Assets	88,860	4.5	95,018	4.2	99,367	4.2

: Including the impact of conversion of a non-banking entity into a banking entity.

Source : Balance sheets of respective banks.

(10.6 per cent) (Table III.2). PSBs continued to account for the major share in total assets, deposits, advances and investments of SCBs at end-March 2005, followed distantly by new private sector banks. The share of foreign banks in total assets and advances was higher than that of old private sector banks [Table III.3 and Appendix Tables III.1(A) to III.1(C)].

Deposits

3.6 Deposits of SCBs grew at a lower rate of 15.4 per cent (excluding the conversion impact) during 2004-05 as compared with 16.4 per cent in the previous year on account of slowdown in demand deposits and savings deposits. Deceleration in demand deposits was due mainly to the base effect as demand deposits had witnessed

Table III.2: Growth of Balance Sheet of Scheduled Commercial Banks : Bank Group-wise

(Per cent)

Item	As at end-March									
	2004					2005				
	Public Sector Banks	Old Private Sector Banks	New Private Sector Banks	Foreign Banks	All SCBs	Public Sector Banks	Old Private Sector Banks	New Private Sector Banks	Foreign Banks	All SCBs
1	2	3	4	5	6	7	8	9	10	11
1. Capital	3.5	-2.5	5.4	3.3	3.5	5.8 (0.9)	27.8	6.7	51.0	15.9 (12.7)
2. Reserves and Surplus	25.6	17.9	24.2	14.5	23.6	30.6 (22.6)	7.0	56.6	17.3	31.1 (25.5)
3. Deposits	13.9	15.5	41.0	15.7	16.4	16.8 (15.6)	10.8	21.1	7.9	16.4 (15.4)
3.1 Demand Deposits	11.6	15.0	105.6	50.8	23.6	15.6 (12.8)	19.2	10.6	19.7	15.4 (13.5)
3.2 Savings Bank Deposits	20.2	24.2	85.1	40.1	23.6	18.0 (17.4)	17.8	32.7	23.4	19.1 (18.6)
3.3 Term Deposits	11.9	13.8	24.0	-0.1	12.7	16.5 (15.3)	8.2	21.6	-2.0	15.6 (14.6)
4. Borrowings	34.9	-10.7	-3.8	8.9	9.3	207.0 (41.7)	0.9	10.6	24.3	76.1 (23.8)
5. Other Liabilities and Provisions	11.7	18.5	24.2	41.8	15.9	10.0 (2.2)	12.9	6.3	12.8	9.7 (4.1)
Total Liabilities/Assets	**14.4**	**15.0**	**28.3**	**16.3**	**16.2**	**20.6 (15.1)**	**10.6**	**19.4**	**13.6**	**19.3 (15.2)**
1. Cash and Balances with RBI	29.3	19.5	38.6	59.7	31.5	6.8 (4.0)	13.0	-7.9	-7.0	4.3 (2.2)
2. Balances with Banks and Money at Call and Short Notice	0.1	18.5	48.6	48.5	9.2	13.0 (7.3)	31.8	33.3	19.5	17.3 (13.3)
3. Investments	14.8	19.0	31.9	1.9	15.9	9.5 (5.5)	-6.2	7.2	2.2	8.0 (4.8)
3.1 In Government Securities	18.0	23.9	36.4	6.1	19.2	11.2 (8.3)	-1.3	2.3	4.4	9.3 (7.0)
3.2 In Other Approved Securities	-5.7	-21.7	27.3	11.0	-6.1	-9.8 (-9.8)	-24.4	-8.8	25.0	-10.0 (-10.0)
3.3 In Non-approved Securities	3.8	9.4	23.1	-11.2	6.3	3.9 (-6.4)	-19.7	17.9	-6.3	4.1 (-2.8)
4. Loans and Advances	15.4	12.4	28.6	16.0	16.9	35.0 (27.8)	22.7	32.8	24.5	33.2 (27.9)
of which: Term Loans	32.5	21.4	27.6	26.9	30.4	54.5 (39.8)	30.8	30.9	34.1	46.9 (37.1)
5. Fixed Assets	8.9	-1.0	7.4	-10.6	5.6	16.6 (8.8)	4.6	-4.2	-3.6	7.7 (3.5)
6. Other Assets	0.8	1.0	-2.4	40.4	5.3	11.2 (3.7)	6.9	18.6	10.0	11.8 (6.9)

Note : Figures in brackets exclude the impact of conversion a non-banking entity into a banking entity.

Source : Balance sheets of respective banks.

an unusually high growth last year. The growth in demand deposits, however, was in line with the long-term average. Savings deposits, which reflect the strength of the retail liability franchise and are at the core of the banks' customer acquisition efforts, grew at a healthy rate, although the growth was somewhat lower than the high growth of last year. The higher growth of term deposits was mainly on account of NRI deposits and certificates of deposit (CDs). Excluding these deposits, the growth rate of term deposits showed a deceleration, which was on account of a possible substitution in favour of postal deposits and other investment products, which continued to grow at a high rate benefiting from tax incentives and their attractive rate of return in comparison with time deposits.

Table III.3: Major Components of Balance Sheets of Scheduled Commercial Banks: Bank Group-wise

(As at end-March)

(Per cent)

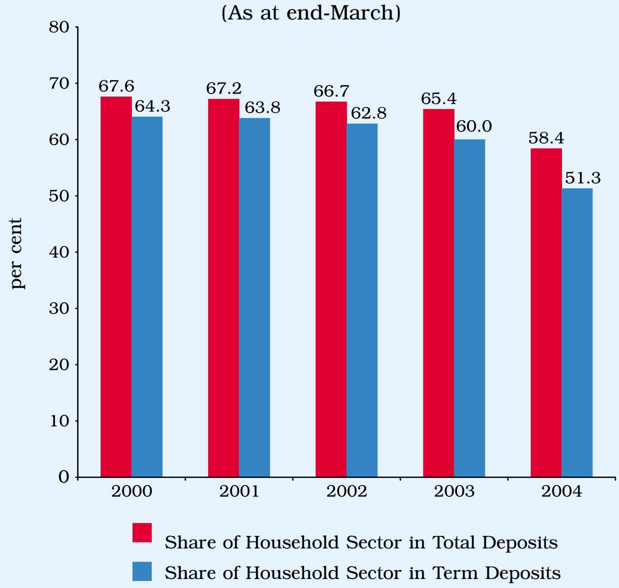
Bank Group	Assets			Deposits			Advances			Investment		
	2004	2005	2005#	2004	2005	2005#	2004	2005	2005#	2004	2005	2005#
1	2	3	4	5	6	7	8	9	10	11	12	13
Scheduled Commercial Banks	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Public Sector Banks	74.5	74.4	75.3	77.9	78.0	78.2	73.2	73.2	74.2	77.9	78.4	79.0
Nationalised Banks	46.7	46.8	45.2	50.3	50.2	49.8	47.7	47.4	45.6	47.1	47.4	46.1
State Bank Group	27.8	27.6	26.6	27.6	27.8	27.5	25.5	25.8	24.7	30.8	30.9	30.0
Other Public Sector Bank	–	–	3.5	–	–	0.8	–	–	3.9	–	–	2.9
Private Sector Banks	18.6	18.8	18.2	17.0	17.3	17.1	19.8	20.0	19.2	17.0	16.6	16.1
Old Private Sector Banks	6.1	5.9	5.7	6.7	6.4	6.4	6.4	6.2	5.9	5.9	5.3	5.1
New Private Sector Banks	12.5	12.9	12.5	10.3	10.9	10.8	13.3	13.8	13.3	11.0	11.3	11.0
Foreign Banks	6.9	6.8	6.5	5.1	4.7	4.7	7.0	6.8	6.5	5.2	5.0	4.9

– : Nil/Negligible.
\# : Including the impact of conversion of a non-banking entity into a banking entity.
Source : Balance sheets of respective banks.

3.7 The findings of the Banking Statistical Returns (BSR) survey on 'Composition and Ownership Pattern of Deposits with Scheduled Commercial Banks' for March 2004[2] reveal that the share of the household sector, which has the largest share in deposits held with the SCBs, declined sharply from 65.4 per cent at end-March 2003 to 58.4 per cent at end-March 2004. The decline was more pronounced in respect of term deposits held by the household sector in total term deposits of SCBs (Chart III.1). The latest data reveal that household savings declined during 2004-05. The competition for deposits among banks is intensifying and some banks have launched special campaign to raise deposits, especially from rural areas.

Chart III.1: Share of Household Sector in Bank Deposits

(As at end-March)



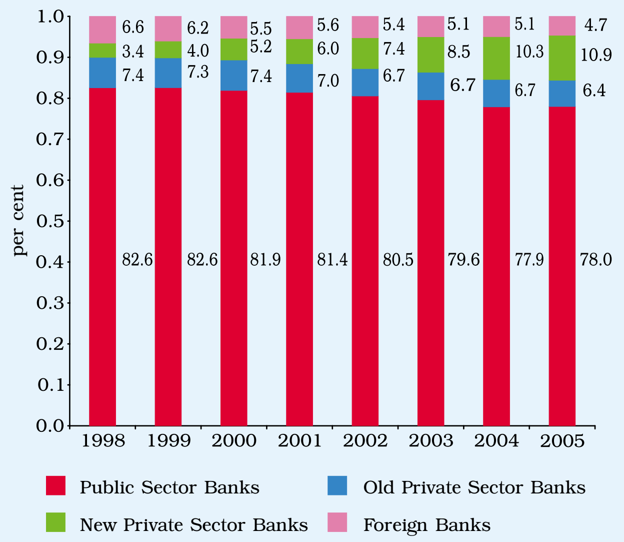
3.8 Non-resident foreign currency deposits, which had declined sharply in the previous year on account of redemptions of Resurgent India Bonds (RIBs), registered a moderate increase during 2004-05. SCBs resorted to increased issuances of CDs during the year, which is somewhat unusual in an environment of easy liquidity conditions. The outstanding amount of CDs rose sharply from Rs.4,626 crore in April 2004 to Rs.12,078 crore in March 2005 (Appendix Table III.2).

3.9 A number of factors appeared to have resulted in increased demand for CDs. Mutual funds have turned to CDs after the Securities and Exchange Board of India (SEBI) put restrictions on their placing funds in bank deposits. Reduction in stamp duty on CDs effective March 1, 2004, withdrawal of tax deduction at source, withdrawal of restriction on premature closure of deposits under CDs *vis-à-vis* alternative competing instruments such as fixed deposits and greater opportunity for secondary market trading are some of the other factors that led to the increased demand for CDs. The issuance of CDs was also driven by bank-specific factors. Banks with limited branch network and retail customer base increasingly resorted to issuance of CDs. Some of the top rated banks have been getting their CDs rated for better access to the market even though such rating is not mandatory under the extant guidelines.

3.10 Across bank groups, the rate of expansion of deposits was highest in respect of new private sector banks (21.1 per cent), followed by PSBs (15.6 per cent), old private sector banks (10.8 per cent) and foreign banks (7.9 per cent). The share of new private sector banks in total deposits has gradually increased over the years (Chart III.2).

[2] RBI Bulletin, September 2005.

Chart III.2: Share in Aggregate Deposits - Bank Group-wise
(As at end-March)



Non-Deposit Resources

3.11 A significant development during 2004-05 was the high growth of non-deposit resources, *viz.*, net owned funds (capital and reserves) and borrowings. In order to strengthen the capital base and meet increased demand for funds, several banks accessed both domestic and international capital markets with the equity issues. Banks raised Rs.7,444 crore from domestic equity market and Rs.1,473 crore by way of Global Depository Receipts (GDRs) in the international market during 2004-05 (see Section 6). The increase in reserves reflected the impact of premium charged on equity issues and increase in retained earnings. Increase in borrowings was on account of increase in debt issues in the domestic capital market and more so due to increase in foreign currency borrowings (Box III.1). Of the total increase in borrowings of Rs.22,749 crore, 52.5 per cent (Rs.11,941 crore) was in foreign currency (see also paragraph 3.13).

Box III.1: Growing Significance of Non-Deposit Resources

Banks have traditionally funded their lending operations mainly with deposits. However, in recent years, some changes have taken place on the liability side of the banks' balance sheet. While deposits continue to be the main source of funding, the relative significance of non-deposit resources has increased. Within non-deposit resources, the shares of borrowings and reserves in total liabilities have increased gradually (Chart 1). Although the share of capital has declined over the years, the share of net-owned funds has gone up marginally. In order to meet the capital adequacy requirements, banks have relied mainly on retained earnings. Banks' profitability in recent years has improved significantly as a result of which they are able to plough back their profits.

Two significant sources of borrowings in recent years have been subordinated debt, issued to augment their Tier II capital in the domestic capital market and increase in foreign currency borrowings. The sharp expansion in foreign currency borrowing has been on account of various liberalisation measures relating to the capital account for facilitating residents' foreign currency requirement for productive purposes. Flexibility given to banks to tap the source of foreign borrowings, especially for granting pre-shipment credit in foreign currency (PCFC)/export bills rediscounting (EBR) to exporters has been another factor contributing to higher foreign currency borrowings. Banks have also been allowed to use funds generated through buy-sell swaps in domestic forex markets for granting such loans subject to Aggregate Gap Limit approved by the Reserve Bank.

To the extent banks rely on borrowings to fund their lending operations, they are exposed to uncertainties as players in the securities market are more sensitive to interest rates and market conditions. Borrowings from the market generally also tend to be expensive than deposits and large reliance on market borrowings could erode the interest margin. However, long-term nature of such borrowings reduces liquidity risk and enables banks to finance long-term projects.

A sharp growth of non-deposit resources has also monetary implications as conventional broad monetary aggregate does not adequately reflect the growth of assets in the balance sheet. This is evident from the ratio of net non-monetary liabilities (NNML), which after declining steadily between 1990-91 and 1998-99, rose sharply in 2004-05 (Chart 2).

Chart 1: Non-Deposit Resources of SCBs - Changing Pattern
(As at end-March)

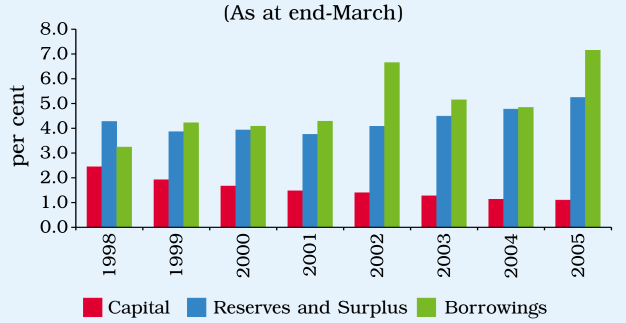
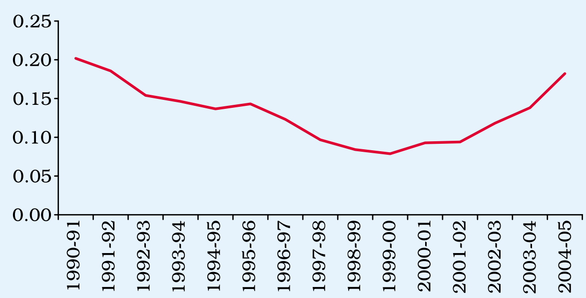


Chart 2: Ratio of Non-Monetary Liabilities to M_3



International Liabilities of Banks

3.12 International liabilities of banks increased by 15.5 per cent during 2004-05 compared with 10.1 per cent in 2003-04. The increase was contributed largely by foreign currency borrowings and other liabilities consisting mainly of proceeds raised by way of ADRs/GDRs and equities of banks held by non-residents. Foreign currency borrowings increased by 35.5 per cent during 2004-05 on top of the increase of 82.5 per cent in the previous year. Non-resident external rupee (NRE) deposits grew at a lower rate of 13.0 per cent during 2004-05 as compared with the sharp increase of 42.9 per cent in the previous year. Resources raised by way of ADRs/GDRs grew by 92.8 per cent during 2004-05 over and above the increase of 66.9 per cent in the previous year (Table III.4).

3.13 Although foreign currency deposits continue to dominate the international liabilities of SCBs, their relative significance *vis-à-vis* foreign currency borrowings has undergone a significant shift in last few years (Chart III.3).

Table III.4: Major Components of International Liabilities of Scheduled Commercial Banks

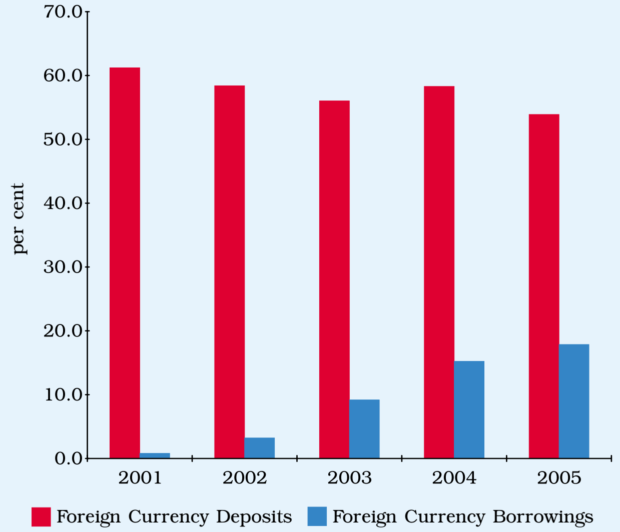
(Amount in Rs. crore)

Liability type	As at end-March		
	2003	2004	2005
1	2	3	4
1. Deposits and Loans	1,45,930 (72.8)	1,78,994 (81.1)	2,03,154 (79.7)
of which:			
a) Foreign Currency Non Resident Bank [FCNR (B)] Deposits	43,989	45,386	50,796
b) Foreign Currency Borrowings*	18,411	33,598	45,539
c) Non-Resident External Rupee (NRE) Deposits	53,124	75,938	85,811
d) Non-Resident Non Repatriable (NRNR) Rupee Deposits	15,207	7,335	824
2. Own Issues of Securities Bonds (including IMD/RIBs)	44,087 (22.0)	27,720 (12.6)	26,805 (10.5)
3. Other Liabilities	10,475 (5.2)	14,017 (6.4)	25,039 (9.8)
of which:			
a) ADRs/GDRs	3,833	6,396	12,331
b) Equities of Banks held by Non-Residents	556	1,379	3,239
c) Capital/Remittable Profits of Foreign Banks in India and Other Unclassified International Liabilities	6,086	6,242	9,469
Total International Liabilities	**2,00,493**	**2,20,730**	**2,54,999**

* : Inter-bank borrowings in India and from abroad, external commercial borrowings of banks.

Note : 1. Based on Locational Banking Statistics.
2. Figures in brackets are percentages to total.

Chart III.3: Foreign Currency Deposits and Borrowings in International Liabilities
(As at end-March)

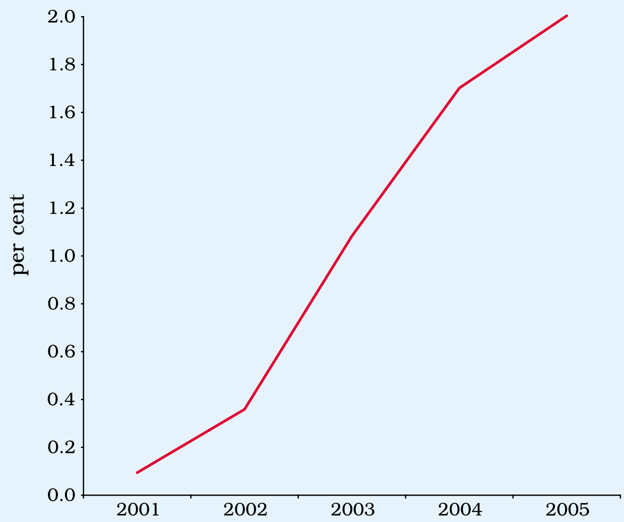


3.14 The relative significance of international liabilities of SCBs in total liabilities also increased in recent years (Chart III.4).

Bank Credit

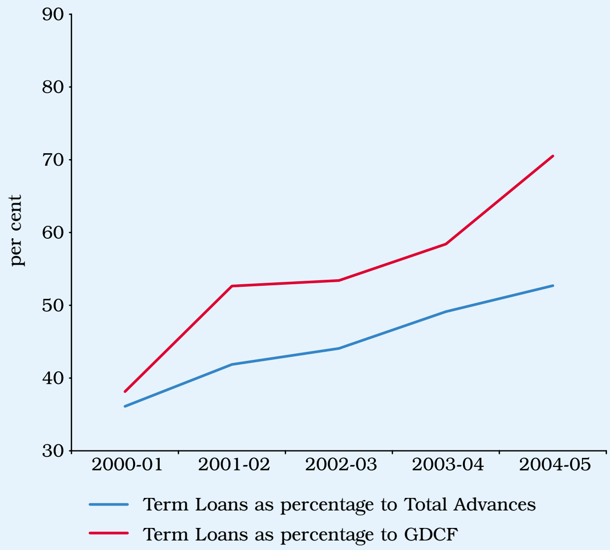
3.15 Credit extended by SCBs registered a robust growth of 26.0 per cent (excluding the conversion impact) during 2004-05 as compared with 15.3 per cent in the previous year. Food credit increased by

Chart III.4: Foreign Currency Liabilities to Total Liabilities of Scheduled Commercial Banks
(As at end-March)



Rs.5,159 crore as against a decline of Rs.13,518 crore in the previous year. Non-food credit, on the other hand, increased by 26.5 per cent (net of conversion) as compared with 18.4 per cent in the previous year. All the three components of credit, *viz.*, bills purchased and discounted, cash credit and overdrafts, and term loans registered a higher growth as compared with the previous year. Term loan, which constitutes the largest component with its share of over 50.0 per cent in total credit, registered the highest growth of 46.2 per cent. As a result, its share, both in total advances and gross domestic capital formation, increased in recent years (Chart III.5).

Chart III.5: Term Loan and Capital Formation



Note: GDCF for 2004-05 based on average growth rate of past three years.

Sectoral Deployment of Gross Bank Credit

3.16 The flow of credit turned broad-based during 2004-05. While credit growth to housing, small road transport operators and retail loans continued to be strong, credit flows to agriculture and industry picked up significantly during 2004-05. On the back of strong industrial recovery, credit to industry (medium and large) registered healthy growth of 17.4 per cent during 2004-05 as against a modest growth of 5.1 per cent in the previous year (Table III.5 and Appendix Table III.3). Credit to the infrastructure sector, in particular, grew sharply. Reversing the decline in previous two years, food credit also increased during the year due to higher procurement operations. Credit growth in respect of wholesale trade and priority sector was also robust. Broad-basing of credit is a healthy development as large concentration of credit to a few economic sectors increases the vulnerability to the sector-specific problems and exposes the lending institutions to heightened credit risk (Box III.2).

Priority Sector Advances

3.17 Credit to the priority sector increased sharply by 31.0 per cent on top of the rise of 24.7 per cent in the previous year. On an incremental basis, the flow of credit to the priority sector was Rs.81,793 crore (accounting for 39.3 per cent of net bank credit) as against Rs.52,225 crore (accounting for 54.8 per cent) in the previous year. The credit to the priority sector during the year was driven mainly by agriculture and 'other priority sectors'. Credit to agriculture almost doubled in the last three years, *i.e.*, from end-March 2002 to end-March 2005. The growth in credit to small scale industries was modest (Table III.6).

Table III.5: Sectoral Deployment of Non-food Credit: Flows

(Variations over the year)

(Amount in Rs. crore)

Sector	2003-04		2004-05	
	Absolute	Per cent	Absolute	Per cent
1	2	3	4	5
1. Priority sector	52,225	24.7	81,793	31.0
2. Industry (Medium and Large)	12,042	5.1	42,976	17.4
3. Wholesale Trade (other than food procurement)	2,289	10.1	8,947	36.0
4. Other Sectors	41,811	27.7	69,328	36.0
of which: Housing	15,394	42.1	23,192	44.6
Non-Banking Financial Companies	2,675	18.9	1,808	10.8
Real Estate Loans	-317	-5.4	5,035	90.3
Total (1 to 4)	**1,08,367**	**17.5**	**2,03,044**	**27.9**
of which: Export Credit	8,485	17.2	8,227	14.3

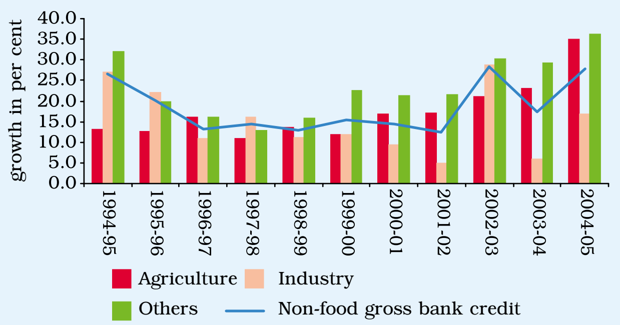
Note : Data are provisional and relate to select scheduled commercial banks which account for 85-90 per cent of bank credit of all scheduled commercial banks.

Box III.2: High Credit Growth – Is It a Cause of Concern?

Credit growth gained a sharp momentum during 2004-05 and the trend continues in the current financial year. A period of credit boom presents both opportunities and challenges to policymakers. While the surge in financial intermediation is generally associated with increased growth and efficiency, excessive credit growth often leads to some erosion in credit quality. Policymakers, therefore, face the dilemma as to how to minimise the risks that may arise from such a decline in credit quality, while still allowing bank lending to contribute to higher growth and efficiency.

The sectoral deployment of credit serves as a useful first-hand indicator of the riskiness of banks' credit portfolio, which is crucial to any asset-liability management exercise. A major thrust to non-food credit growth has, in recent years, emanated from sectors other than agriculture and industry, particularly, housing, small road transport operators and retail loans. During 2004-05, however, credit to agriculture and industry also joined the other sectors in driving the demand for non-food credit to a higher trajectory. As a result, deployment of credit during 2004-05 was more broad-based in comparison with the preceding years. A pick up in agricultural and industrial activity led to increased demand for credit from these sectors. Credit to agriculture after displaying some swings till 2001-02, grew at a high rate (20 per cent and above) thereafter, reflecting largely the renewed policy thrust on credit to agriculture (Chart 1).

Chart 1: Growth in Non-food Credit : Sector-wise



Credit to industry has broadly followed the trend in industrial production (Chart 2). Although the flow of credit to industry increased by 17.4 per cent during 2004-05 as compared with 5.1 per cent in the corresponding period of the previous year, it remained lower than the overall credit growth. Consequently, the share of industry in gross bank credit declined during 2004-05 (Table). This could be explained by reduced dependence of corporates on bank finance and a greater reliance on internal resources and funds from the capital market, both overseas and domestic.

Credit to other sectors has remained higher than the overall non-food credit growth, barring 1997-98, highlighting the growing importance of services sector in the Indian economy. Although retail credit has been growing sharply, the overall share of such sectors remained quite small, unlike several other countries, such as the US, the UK, China and Japan, where retail lending constitutes a sizeable share of banks' lending portfolios.

The credit to GDP ratio has grown steadily from about 10 per cent at end-December 1969 to slightly above 40 per cent by end-March 2005 (Chart 3). However, despite the steady increase over the years, the credit to GDP ratio in India is much lower than several advanced and emerging market economies (Chart 4). This suggests that financial deepening is

Chart 2: Industrial Credit and Industrial Production

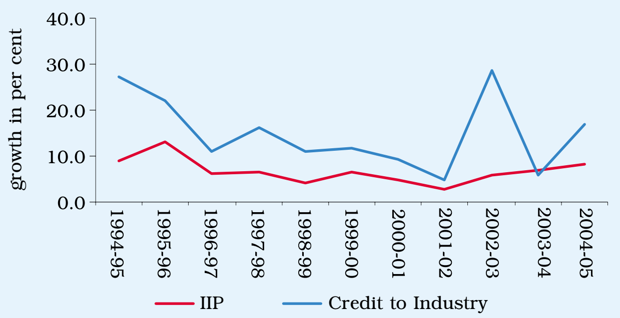


Table: Deployment of Gross Non-Food Bank Credit by Major Sectors

(Per cent)

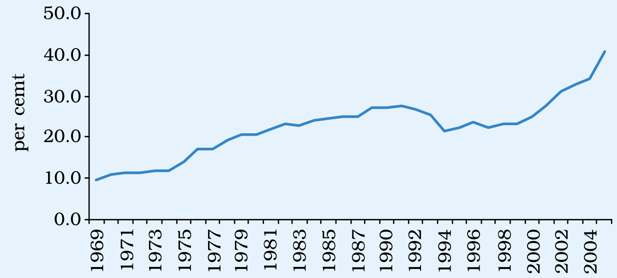
Sector	Growth Rate		Share in Total	
	2003-04	2004-05	2003-04	2004-05
Agriculture	23.2	35.2	12.4	13.1
Industry	5.9	17.0	43.0	39.3
Others	29.4	36.3	44.6	47.5
of which:				
Wholesale Trade*	10.1	36.0	3.3	3.5
Housing	42.1	44.6	6.8	7.7
Real Estate Loans	-5.4	90.3	0.7	1.1
Other Non-priority Sector Personal Loans	26.0	67.2	4.6	6.0

* : Other than food procurement.
Note: Industry includes SSI, medium and large industries.

still low in India and is expected to improve further with the development of the financial sector.

Nevertheless, in recognition of the inherent risks in high growth of retail credit, particularly the housing and personal loan segment, the Reserve Bank cautioned banks about the need to sharpen their risk assessment techniques so as to guard against any adverse impact on credit quality. As a counter cyclical measure, risk containment measures were prescribed on housing and consumer loans, and the risk weights in the case of housing loans and consumer credit, including personal loans and credit

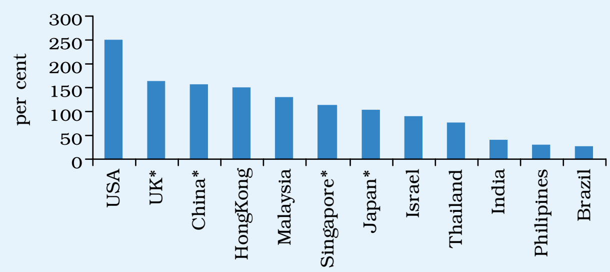
Chart 3: Credit-GDP Ratio in India



Note: Data up to 1987 are on a calendar year basis and thereafter on a financial year basis.

cards were increased from 50 per cent to 75 per cent and from 100 per cent to 125 per cent, respectively, in the Mid-term Review of Annual Policy for the year 2004-05. Furthermore, keeping in view the sharp increase in credit to real estate, banks were advised in July 2005 to put in place a Board approved policy with regard to exposure to the real estate sector and to submit disclosures to the Reserve Bank in separate returns.

Chart 4: Credit-GDP Ratio in Select Countries



Note: Data in respect of US, China, Japan and Singapore refer to 2003, and for other countries for 2004.

NPAs in the retail loan segment are currently at a low level of around 2.0 per cent. Retail loans, unlike corporate sector loans, do not involve any large losses on any single commitment. Therefore, if banks put adequate risk monitoring and management systems in place, there should not be much cause of concern for the future, although past performance may not always be a good guide.

Table III.6: Credit to the Priority Sector

(Amount in Rs. crore)

Category	Outstanding as on			
	March 22, 2002	March 21, 2003	March 19, 2004	March 18, 2005
1	2	3	4	5
Priority Sector (a+b+c)	**1,75,259**	**2,11,609 (20.7)**	**2,63,834 (24.7)**	**3,45,627 (31.0)**
a) Agriculture	60,761	73,518 (21.0)	90,541 (23.2)	1,22,370 (35.2)
b) Small Scale Industries	57,199	60,394 (5.6)	65,855 (9.0)	76,114 (15.6)
c) Other Priority Sectors	57,299	77,697 (35.6)	1,07,438 (38.3)	1,47,143 (37.0)

Note : Figures in brackets indicate growth rates over the previous year.

3.18 Credit to agriculture has been the major thrust area in recent years. Several initiatives have been taken as a follow-up to the announcement made by the Government in June 2004 to double the flow of credit to agriculture over the next three years (Box III.3). The next thrust area of policy is

Box III.3: Credit Flow to Agriculture

Agriculture credit, by promoting agricultural and related business, plays an important role in poverty alleviation and creation of employment. Keeping this in view, the Tenth Five Year Plan envisaged a substantial increase in credit flow to agriculture to Rs.7,36,570 crore as compared with that of Rs.2,29,956 crore achieved during the Ninth Plan period. On June 18, 2004, the Government announced a comprehensive policy envisaging the doubling of credit to agriculture in the next three years through commercial banks, co-operative banks and RRBs. During 2004-05, with an aggregate disbursement of Rs.1,15,243 crore, the targetted credit was exceeded by 10 per cent (Table). Continuing on the same path, the Union Budget 2005-06 proposed to increase the flow of credit by another 30 per cent by commercial banks, RRBs and co-operative banks. Further, the public sector banks were advised to increase the number of borrowers by another 50 lakh.

Major developments relating to agricultural credit in the recent years included, *inter alia*, (a) periodic review and enhancement of credit delivery to agriculture; (b) exclusive focus on the development of rural infrastructure in view of its implications for long-term sustainable agricultural growth; and (c) innovative ways of providing access to institutional finance to the rural poor by promoting micro-finance and other initiatives.

The Reserve Bank has advised public sector banks to prepare Special Agricultural Credit Plans (SACPs) on an annual basis. For the financial year 2004-05, disbursements to agriculture under the plan aggregated Rs.65,218 crore as against the projection of Rs.55,616 crore. As recommended by the Advisory Committee on Flow of Credit to Agriculture and Related Activities from the Banking System (Chairman: Prof. V.S. Vyas) and announced in the Mid-Term Review of Annual Policy Statement for 2004-05, the SACP mechanism has been made applicable to private sector banks from 2005-06. Banks were advised to fix the SACP target for 2005-06 indicating a growth rate of 30 per cent over disbursements during 2004-05. Public sector banks were also advised to make efforts to increase their disbursements to small and marginal farmers to 40 per cent of their direct advances under SACP by March 2007. Banks were allowed to waive margin/ security requirements for agricultural loans up to Rs.50,000 and in the case of agri-business and agri-clinics for loans up to Rs.5 lakh. Interest rates on the Rural Infrastructure Development Fund (RIDF) were revised downwards in alignment with the softening of the interest rate structure over the years. It was decided to continue with the National Agricultural Insurance Scheme (NAIS), introduced in *rabi* season 1999-2000, in its present form for *kharif* and *rabi* seasons 2005-06.

Two innovations, *viz.*, Micro-finance and the *Kisan* Credit Card (KCC) Scheme have emerged as the major policy tools in addressing the problems associated with the distributional aspects of rural credit in recent years. The growing popularity of the KCC scheme reflects its effectiveness in ensuring the timeliness, hassle-free operations as also availability of credit with minimum transaction cost and documentation. During 2004-05, public sector banks issued 43,95,564 KCCs. Cumulatively, the number of KCCs issued by public sector banks increased to 1,83,55,173 till June 2005.

With a view to further increasing the flow of credit to agriculture, several measures were announced by the Reserve Bank in its Annual Policy Statement for 2005-06. These include: (i) setting up of an Expert Group (Chairman: Shri Y.S.P. Thorat) to formulate strategy for increasing investment in agriculture (see Box II.1); (ii) conducting a survey with the help of an outside agency to make an assessment of customer satisfaction on credit delivery in rural areas by banks; and (iii) to increase the limit on loans to farmers through the produce marketing scheme from Rs.5 lakh to Rs.10 lakh under priority sector lending.

Table: Flow of Institutional Credit to Agriculture

(Rs. crore)

Agency\Years	1997-98	1999-2000	2002-03	2003-04	2004-05 (Estimated)
Co-operative Banks	14,085	18,363	24,296	26,959	30,638
RRBs	2,040	3,172	5,467	7,581	11,718
Commercial Banks	15,831	24,733	41,047	52,441	72,886
Total	**31,956**	**46,268**	**70,810**	**86,981**	**1,15,243**

Source: NABARD.

Table III.7: Priority Sector Lending by Public and Private Sector Banks
(As at end-March)

(Amount in Rs. crore)

Item	Public Sector Banks		Private Sector Banks	
	2003-04	2004-05	2003-04	2004-05
1	2	3	4	5
Priority Sector	**2,44,456 (43.6)**	**3,10,093 (43.2)**	**48,920 (47.3)**	**69,384 (43.3)**
of which:				
Agriculture	84,435 (15.1)	1,12,475 (15.7)	14,730 (14.2)	21,475 (12.1)
Small-scale Industries	58,311 (10.4)	67,634 (9.4)	7,590 (7.3)	8,668 (5.4)
Other Priority Sector	1,01,710 (18.1)	1,29,984 (18.1)	26,600 (25.7)	39,241 (24.5)

Note : Figures in brackets represent percentages to net bank credit for the respective groups.

credit to the SME sector and several banks have initiated measures to increase their credit flows to this sector. For instance, some banks have tied-up with credit rating agencies with a view to assigning rating to SSI borrowers. This would help ensure the quality of lending as also enable banks to determine interest rates, margin and collateral requirements for SSI borrowers.

3.19 While public sector banks, as a group, achieved the overall priority sector targets of 40 per cent, they failed to achieve the various sub-targets under the priority sector, *viz.*, sub-targets for agriculture, tiny sector within the SSI sector, advances to weaker sections and targets for Differential Rate of Interest (DRI) Scheme[3]. Significant variation was also observed in the performance of different banks within the public sector with regard to the achievement of sub-targets. Two PSBs (out of 27) failed to meet the overall priority sector lending targets (Appendix Tables III.4 and III.5).

3.20 The performance of private sector banks in the area of priority sector lending remained less satisfactory with 12 out of 30 private sector banks failing to achieve the overall priority sector targets. Only one private sector bank could achieve the sub-targets within the priority sector. Advances to weaker sections for the private sector banks at 1.2 per cent of net bank credit was much lower than the stipulated target of 10 per cent for the sector (Table III.7 and Appendix Tables III.6 and III.7).

3.21 Foreign banks, as a group, achieved the overall priority sector target and the sub-targets for export credit and nearly achieved the sub-target with respect to SSI as well[4] (Table III.8).

3.22 Aggregate credit to women by public sector banks constituted 5.4 per cent of their net bank credit at end-March 2005 with 23 banks achieving the target of 5 per cent of their net bank credit. A consortium of select public sector banks was

Table III.8: Priority Sector Lending by Foreign Banks
(As on the last reporting Friday of March)

(Amount in Rs. crore)

Sector	2003		2004P		2005P	
	Amount	Percentage to net bank credit	Amount	Percentage to net bank credit	Amount	Percentage to net bank credit
1	2	3	4	5	6	7
Priority Sector Advances #	**14,555**	**33.1**	**17,960**	**34.1**	**23,886**	**35.4**
of which:						
Export credit	8,276	18.8	9,760	18.5	11,942	17.7
Small-scale industries	4,010	9.1	5,307	10.1	6,914	10.3

P : Provisional.
: Inclusive of advances to setting up industrial estates, funds provided to RRBs by sponsor banks, loan to software industries, food and agro-processing sector, self-help group and venture capital.

[3] For public and private sector banks, sub-targets of 18 per cent and 10 per cent of net bank credit have been specified for lending to agriculture and weaker sections, respectively.

[4] For foreign banks, sub-targets for lending to the SSI sector and export sector have been specified at 10 per cent and 12 per cent, respectively.

formed, with the State Bank of India (SBI) as the leader, to provide credit to the *Khadi* and Village Industries Commission (KVIC). These loans are provided at 1.5 per cent below the average prime lending rates of five major banks in the consortium. An amount of Rs.342 crore was outstanding out of Rs.738 crore disbursed by the consortium under the scheme at end-March 2005. The outstanding advances of public sector banks under the DRI Scheme at end-March 2005 were of the order of Rs.385 crore under 3.3 lakh borrowal accounts, constituting 0.1 per cent of the aggregate advances outstanding at the end of the previous year, which was much lower than the target of 1.0 per cent.

Micro-finance

3.23 SCBs have come to play a crucial role in advancing micro credit through the SHG-Bank Linkage Programme (SBLP). The year 2004-05 witnessed a surge in bank loans to SHGs at Rs.2,994 crore, reflecting a growth of 61.0 per cent. The share of commercial banks in financing of SHGs increased to 60.0 per cent *vis-à-vis* that of the RRBs (30.0 per cent) and co-operative banks (10.0 per cent) (For details, see Chapter IV).

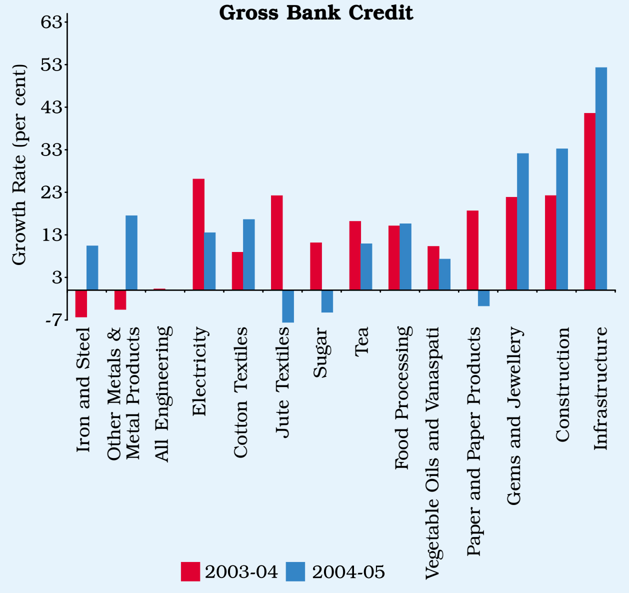
Credit to Industry

3.24 The credit flow to industry increased sharply during 2004-05. The increase in industrial credit was spread across various sectors such as roads and ports, power, telecommunications, gems and jewellery, cotton textiles, iron and steel, petroleum, drugs and pharmaceuticals, construction, electricity, other textiles and residual industries. Increase in the credit to infrastructure industries accounted for 36.6 per cent of increase in industrial credit on top of 62.4 per cent increase in the previous year (Appendix Table III.8). Bank credit to 'all engineering', 'jute textiles', 'sugar' and 'paper and paper products' declined during the year (Chart III.6).

Retail Credit

3.25 Continuing the strong growth in recent years, retail advances increased by 41.2 per cent (Rs.77,947 crore) in 2004-05 as compared with the growth of 27.9 per cent in the overall loans and advances of SCBs. As a result, their share in total loans and advances increased significantly during the year ended March 2005. Housing

Chart III.6: Industry-wise Deployment of Gross Bank Credit



finance registered the highest growth, followed by 'other personal loans' (comprising auto loans, loans to professionals and educational loans) and credit card receivables. Loans for consumer durables, however, declined (Table III.9).

Export Credit

3.26 Export credit grew by 14.3 per cent during 2004-05 as against an increase of 17.2 per cent in 2003-04. The share of export credit in net bank credit has been declining over the years, even though exports have been growing at a rapid pace (Chart III.7). The export credit refinance limit varied significantly during 2004-05 (Appendix

Table III.9: Retail Portfolio of Banks

(Amount in Rs. crore)

Item	Outstanding as at end-March		Percentage Variation
	2004	2005	
1	2	3	4
1. Housing Loan	89,449	1,34,653	50.5
2. Consumer Durables	6,256	3,810	-39.1
3. Credit Card Receivables	6,167	8,405	36.3
4. Other Personal Loans	87,170	1,20,120	37.8
Total Retail Loans (1+2+3+4)	**1,89,041 (21.9)**	**2,66,988 (24.1)**	**41.2**
Total Loans and Advances of SCBs	**8,64,271**	**11,05,725**	**27.9**

Note : Figures within brackets represent percentage share in total loans and advances.
Source : Off-site Returns (Domestic).

Chart III.7: Exports and Share of Export Credit in Net Bank Credit

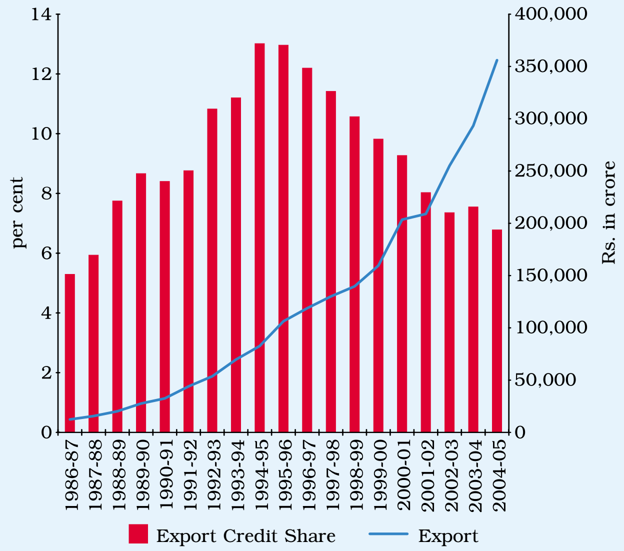


Table III.9). The outstanding export credit refinance availed remained negligible during 2004-05. However, there was a sudden pick-up in export credit refinance in the months of December 2004 and May 2005, reflecting foreign exchange market developments.

Lending to Sensitive Sectors

3.27 Lending by SCBs to the sensitive sectors continued to increase mainly on account of an increase in credit to the real estate (55.8 per cent) (Table III.10). Total exposure of SCBs to the sensitive sectors accounted for 3.5 per cent of aggregate bank loans and advances (comprising 2.2 per cent to real sector, 1.0 per cent to commodities sector and 0.3 per cent to the capital market).

Table III.10: Lending to Sensitive Sector by Scheduled Commercial Banks

(As at end-March)

(Amount in Rs. crore)

Sector	2004	Per cent to Total	2005	Per cent to Total
1	2	3	4	5
1. Capital Market	3,711 (49.4)	12.8	3,767 (1.5)	9.6
2. Real Estate Market	15,848 (27.1)	54.6	24,691 (55.8)	62.9
3. Commodities	9,459 (8.3)	32.6	10,783 (14.0)	27.5
Total (1+2+3)	**29,018 (22.5)**	**100.0**	**39,241 (35.2)**	**100.0**

Note : Figures in brackets are percentage variations over the previous year.

3.28 Among bank groups, old private sector banks had the highest exposure to the sensitive sectors (measured as percentage to total loans and advances of banks), followed by new private sector banks, foreign banks and public sector banks (Table III.11 and Appendix Table III.10).

Investments

3.29 Investments by banks comprise two broad categories, *viz*., Government and other approved securities (SLR investments), and commercial paper, shares, bonds and debentures issued by the corporate sector and public sector undertakings (non-SLR investments). Almost 89 per cent of the investments of banks are in the SLR securities. During 2004-05, investment of SCBs increased by 4.7 per cent (excluding the conversion impact) as against the increase of 15.9 per cent in the previous year.

Table III.11: Lending to Sensitive Sector – Bank Group-wise

(Per cent)

Sector	Public Sector Banks		New Private Sector Banks		Old Private Sector Banks		Foreign Banks	
	2003-04	2004-05	2003-04	2004-05	2003-04	2004-05	2003-04	2004-05
1	2	3	4	5	6	7	8	9
	As percentage to total loans and advances*							
Capital Market	0.2	0.2	1.0	0.7	0.5	0.5	1.8	1.1
Real Estate Market	1.6	1.9	2.9	3.4	2.2	3.4	2.3	2.7
Commodities	1.0	0.8	1.4	1.6	2.7	2.4	0.5	0.7
Total Advances to Sensitive Sectors	**2.7**	**2.8**	**5.3**	**5.7**	**5.4**	**6.3**	**4.6**	**4.6**

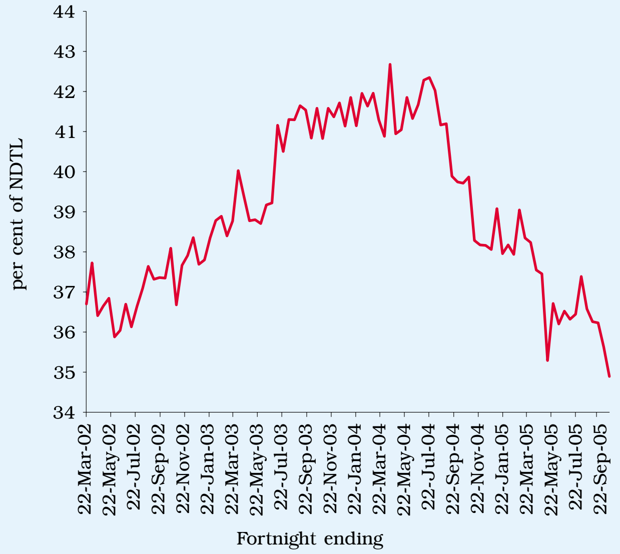
* : Figures relate to advances as percentage to total loans and advances of the concerned bank group.

Investment in Government and Other Approved Securities

3.30 Banks are required to maintain statutory liquidity ratio (SLR) of 25 per cent of net demand and time liabilities (NDTL) in Government and other approved securities. In recent years, however, SCBs held Government and other approved securities much in excess of the statutory stipulation. During 2004-05, the growth in investment in Government and other approved securities was of a much lower order of Rs.42,081 crore (6.4 per cent) as compared with Rs.1,01,871 crore (18.3 per cent) in the previous year. As a result, investments in SLR securities as a percentage of NDTL of banks declined to 38.4 per cent at end-March 2005 from 41.3 per cent at end-March 2004 and the peak of 42.7 per cent on April 16, 2004, before rising marginally to 35.6 per cent on September 30, 2005 (Chart III.8).

3.31 Bank-group wise, investments in Government securities by PSBs grew by 21.2 per cent in 2004-05, lower by about 4 percentage points than in 2003-04. Private sector banks' investments in Government securities increased sharply by 31.5 per cent in 2004-05 compared with an increase of 16.5 per cent in 2003-04, reflecting their efforts to improve capital to risk weighted assets ratio. Investments by foreign banks in Government securities increased by 6.0 per cent in 2004-05 compared with 27.6 per cent in 2003-04.

Chart III.8: Investments in SLR Securities by Scheduled Commercial Banks



Non-SLR investments

3.32 Non-SLR investments of SCBs declined by 3.9 per cent (net of conversion) in 2004-05 compared with a decline of 4.3 per cent in 2003-04, reflecting the portfolio adjustment by banks subsequent to the Reserve Bank guidelines on non-SLR securities issued in November and December 2003. Banks' investments in the securities of the private corporate sector increased marginally, while those in bonds/debentures of PSUs declined during the year (Table III.12).

Table III.12: Non-SLR Investments of Scheduled Commercial Banks

(Amount in Rs. crore)

Sector		Outstanding as on					
		March 19, 2004	Per cent to Total	March 18, 2005	Per cent to Total	March 18, 2005*	Per cent to Total
1		2	3	4	5	6	7
	Non-SLR Investments (1+2+3)	**1,20,718**	**100.0**	**1,24,379**	**100.0**	**1,15,962**	**100.0**
1.	Commercial Paper	3,770	3.1	3,891	3.1	3,621	3.1
2.	Investment in shares issued by *of which:*	9,696	8.0	13,427	10.8	9,918	8.6
	a) Public sector undertakings	1,272	1.1	1,613	1.3	1,565	1.3
	b) Private corporate sector	7,395	6.1	10,288	8.3	7,374	6.4
3.	Investments in bonds/debentures issued by *of which:*	1,07,252	88.8	1,07,061	86.1	1,02,423	88.3
	a) Public sector undertakings	48,646	40.3	45,937	36.9	45,290	39.1
	b) Private corporate sector	27,903	23.1	31,934	25.7	28,620	24.7
4.	Units of UTI and other Mutual Funds	11,808		12,623		11,575	

* : Net of conversion.
Note : Data excludes RRBs. Data are based on statutory Section 42 (2) returns submitted by banks.

Table III.13: International Assets of Banks – By Type

(Amount in Rs. crore)

Asset	Outstanding as at end-March		
	2003	2004	2005
1	2	3	4
International Assets (1+2+3)	**1,04,574**	**1,15,765**	**1,33,237**
1. Loans and Deposits	97,657	1,08,527	1,24,582
of which :			
a) Loans to Non-Residents*	4,634	4,281	4,103
b) Foreign Currency Loans to Residents **	36,859	44,079	58,092
c) Outstanding Export Bills drawn on Non-Residents by Residents	19,242	20,609	26,171
d) *Nostro* Balances@	36,708	39,282	35,673
2. Holdings of Debt Securities	1,027	858	979
3. Other Assets @@	5,890	6,380	7,676

* : Including Rupee loans and foreign currency (FC) loans out of non-residents deposits.
** : Including pre-shipment credit in foreign currency (PCFCs), FC lending to and FC deposits with banks in India.
@ : Including balances in term deposit with non-resident banks (including FCNR funds held abroad).
@@ : Capital supplied to and profits receivable from foreign branches/subsidiaries of Indian banks and other unclassified international assets.
Note : Based on Locational Banking Statistics.

International Assets of Banks

3.33 Strong demand for credit by the resident corporates was reflected in considerable increase in foreign currency loans to residents and also in drawing down of balances in *nostro* accounts. While outstanding export bills drawn on non-residents increased, loans to non-residents declined during 2004-05 (Table III.13).

3.34 Sector-wise classification of the consolidated international claims of banks indicates that the reporting banks preferred to invest in/lend to 'non-bank private' sector. As a result, the share of non-bank private sector increased during 2004-05 to emerge as the largest constituent and the claims on 'bank' sector declined significantly (Table III.14).

3.35 The consolidated international claims of banks, based on immediate country risk, at end-March 2005 were mainly concentrated in the US, Hong Kong and the UK, which together accounted for about 50.3 per cent of total consolidated international claims (Table III.15).

Quarterly Trends - Commercial Banking Survey[5]

3.36 Liquidity in the banking system remained comfortable throughout 2004-05 (Appendix Table III.11). The first quarter began with a large

Table III.14: Sectoral Classification of Consolidated International Claims of Banks

(Amount in Rs. crore)

Sector	Amount outstanding as at end-March		
	2003	2004	2005
1	2	3	4
International Claims of Banks (1+2+3)	**91,061**	**78,124**	**74,238**
1. Bank	51,551 (56.6)	43,057 (55.1)	33,589 (45.2)
2. Non-bank Public	2,331 (2.6)	1,520 (1.9)	1,857 (2.5)
3. Non-bank Private	37,179 (40.8)	33,547 (42.9)	38,792 (52.3)

Note: 1. Figures in brackets are percentages to total.
2. Bank sector includes official monetary institutions (IFC and ECB) and central banks.
3. Prior to the quarter ended March 2005, Non-bank public sector comprised companies/institutions other than banks in which shareholding of State/ Central Governments was at least 51 per cent, including State/Central Government and its departments. From March 2005 quarter, 'Non-bank public' sector comprises only State/Central Government and its Departments and, accordingly, all other entities excluding banks are being classified under ' Non-bank private' sector.
4. Based on CBS (Consolidated Banking Statistics) – immediate country risk basis.

[5] Based on information received under Section 42 (2) Returns of the Banking Regulation Act, 1949.

Table III.15: Consolidated International Claims of Banks on Countries other than India

(Amount in Rs. crore)

Indicator	Amount outstanding as at end-March					
	2003	Per cent to Total	2004	Per cent to Total	2005	Per cent to Total
1	2	3	4	5	6	7
Consolidated International Claims	**91,061**	**100.0**	**78,124**	**100.0**	**74,238**	**100.0**
of which:						
a) United States of America	20,446	22.5	19,915	25.5	22,348	30.1
b) Hong Kong	13,416	14.7	12,353	15.8	7,389	10.0
c) United Kingdom@	12,779	14.0	9,879	12.6	7,608	10.2
d) Germany	3,281	3.6	4,593	5.9	3,607	4.9
e) Singapore	5,776	6.3	3,729	4.8	3,510	4.7
f) Italy	2,832	3.1	1,735	2.2	1,424	1.9
g) France	2,461	2.7	1,684	2.2	1,299	1.7

@ : Excluding Guernsey, Isle of Man and Jersey.

Note : Based on CBS (Consolidated Banking Statistics) – immediate country risk basis.

liquidity overhang in the system, reinforced by strong term deposit mobilisation by commercial banks, even adjusted for the year-end bulge of March 2004. Banks' mobilisation of non-deposit funds was also significant. The commencement of the Government's market borrowing programme and the introduction of the MSS got reflected in the usual beginning-of-the-year surge in commercial banks' investments in Government securities. Commercial credit growth was high against the seasonal trend of slow growth at the beginning of the year. Food credit picked up, reflecting the high *rabi* procurement (Table III.16).

3.37 During the second quarter, time deposits went through a seasonal downturn. Investments in Government securities also recorded a seasonal downturn, despite a surge in MSS operations funded primarily by unwinding of LAF balances. Bank credit started picking up despite repayments of food credit, reflecting the strong appetite for commercial credit. This was funded, in part, by a rebalancing of the gilt portfolio with hardening of interest rates.

3.38 Deposit growth picked up in the third quarter, although much lower than the comparable quarter of the previous year. Credit to commercial sector remained robust. The increase in food credit reflected higher procurement during the *kharif* season. Banks' investments in non-SLR securities expanded. With subdued capital flows since mid-May 2004, commercial banks' *nostro* balances declined by around Rs.3,500 crore. Banks' investments in Government securities declined in an environment of occasional tightness in market liquidity due to a hike in CRR, a temporary slack in capital inflows, advance tax payments, continued growth in non-food credit and festival season currency demand.

3.39 Both demand and time deposits recorded a seasonal spurt during the fourth quarter. Strong FII inflows added further liquidity to the banking system. The spurt in conventional non-food credit was supplemented by large investments in non-SLR securities. Sterilisation operations by the Reserve Bank were reflected in an accrual to commercial banks' investments in Government securities.

3.40 Demand deposits increased in the first two quarters of 2005-06, reflecting the sharp pick-up in non-food credit and a buoyant primary capital market, with funds getting temporarily parked in demand deposits. Time deposits also increased sharply, reflecting the impact of a modest increase in deposit rates and the base effect. Bank credit continued to increase in tandem with broad-based industrial growth. Banks financed the strong demand for credit by the commercial sector by restricting their incremental investments in Government securities.

Credit-Deposit Ratio

3.41 Non-food credit grew at a high rate during 2004-05. Normally, the rate of growth of credit is higher than the rate of growth of deposits due to the base effect – the outstanding deposits is much

Table III.16: Scheduled Commercial Banks – Business in India : Quarterly Trends

(Amount in Rs. crore)

Items	Outstanding as on March 18, 2004	2003-04				2004-05				2005-06	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
1	2	3	4	5	6	7	8	9	10	11	12
Components											
Aggregate Deposits of Residents	16,23,793	65,483	32,455	60,326	82,201	57,050	21,232	38,447	78,251	92,336	1,16,577
Demand Deposits	2,48,028	11,366	-5,950	18,496	30,822	-12,155	2,277	15,280	17,604	15,741	32,226
Time Deposits of Residents	13,75,766	54,117	38,405	41,830	51,380	69,206	18,955	23,167	60,647	76,595	84,351
Call/Term Funding from Financial Institutions	69,523	2,526	2,253	4,822	2,431	5,409	530	35,464	3,451	1,395	6,426
Sources											
Credit to the Government	7,18,982	35,534	45,333	18,342	32,133	40,056	-9,546	-5,918	39,632	-182	10,317
Credit to the Commercial Sector	12,68,425	9,610	5,083	42,823	58,139	32,884	40,538	1,08,835	79,929	65,615	87,779
Food Credit	41,120	587	-12,601	-1,113	-391	7,100	-4,872	5,590	-2,659	3,683	-5,254
Non-food Credit	10,59,308	3,091	15,186	48,992	57,819	30,985	46,477	1,01,812	75,210	57,092	1,00,192
Net Credit to Primary Dealers	1,447	4,485	-779	-4,649	-2,276	-678	977	-923	125	7,466	-3,228
Investments in Other Approved Securities	20,172	-13	-407	50	-928	-184	-561	-1,232	-680	-697	4,845
Other Investments (in non-SLR Securities)	1,46,377	1,460	3,685	-458	3,915	-4,339	-1,482	3,587	7,933	-1,929	-8,775
Net Foreign Currency Assets of Commercial Banks	-75,980	1,564	2,745	5,515	541	-6,706	904	-3,172	-8,652	-1,334	-5,928
Foreign Currency Assets	26,091	199	4,108	-5,311	4,250	-2,741	56	2,441	-8,051	1,164	-368
Non-resident Foreign Currency Repatriable Fixed Deposits	76,405	-1,861	-1,273	-14,087	319	953	-189	-654	692	550	-447
Overseas Foreign Currency Borrowings	25,666	496	2,636	3,261	3,391	3,012	-658	6,267	-90	1,948	6,008
Net Bank Reserves	96,527	20,149	-14,272	6,394	-1,199	10,392	-3,644	14,151	-1,267	9,570	9,316
Capital Account	1,33,688	15,555	-2,088	-4,023	7,280	14,884	1,393	9,435	3,423	24,077	-973
Other items (net)	1,80,949	-16,708	6,269	11,951	-2,299	-717	5,098	30,550	24,517	-44,139	-20,546
Memo:											
Foreign Currency Loans to Residents	46,543	807	-2,168	6,255	2,812	2,089	-1,796	3,028	-486	-1,053	5,492
Release of Resources through change in CRR	–	3,500	–	–	–	–	–	-9,000	–	–	–
Net Open Market Sales to Commercial Banks	–	4,266 *	8,250	9,334	445	–	–	–	–	–	–

– : Nil/Negligible.

* : Valuation over March 31st.

Note :
1. Data relate to last reporting Friday of each quarter.
2. Data include the impact of mergers since May 3, 2002 in the banking system and conversion of a non-banking entity into a banking entity since October 1, 2004.
3. Data are provisional.

higher than the outstanding credit. For instance, while the outstanding deposits at end-March 2005 were Rs.18,19,900 crore, the outstanding credit was Rs.11,04,913 crore. Also, in any given year, the accretion to credit has generally remained lower than the accretion to deposits. During 2004-05, however, incremental credit and deposits were more or less of the same magnitude, while incremental investments in relation to deposits during the year were much lower than in the previous year (Chart III.9). This resulted in some unusual behaviour of the credit-deposit (C-D) ratio and investment-deposit (I-D) ratio.

3.42 The incremental credit-deposit (C-D) ratio was placed lower than the incremental investment-deposit (I-D) ratio up to August 6, 2004. Between August 6 and December 24, 2004, the incremental C-D ratio rose sharply, while the incremental I-D ratio witnessed a downward trend. Beginning January 2005, incremental C-D ratio and the incremental I-D ratio stabilised at around 100 per cent and 20 per cent, respectively. The sharp decline in incremental I-D ratio could be explained in view of high credit demand which prompted banks to restrict fresh investments in Government securities. The incremental C-D ratio even touched