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Banking Sector Developments in India, 1980-2005: What the Annual Accounts Speak?

Ramasastri A.S. and Achamma Samuel*

Banking sector in India is currently passing through an exciting and challenging phase. The reform measures have brought about sweeping changes in this vital sector of the country's economy. This paper is an attempt to study the trends in important banking indicators for the 25-year period from 1980 to 2005. Analysing the data from balance sheets of banks, the paper draws some important conclusions for the banking sector as a whole as well as for different bank groups.

JEL Classification : G 21

Keywords : Commercial Banks, Annual Accounts, Income and Expenditure, Assets and Liabilities

Introduction

The banking system is central to a nation's economy. Banks are special as they not only accept and deploy large amounts of uncollateralised public funds in a fiduciary capacity, but also leverage such funds through credit creation. In India, prior to nationalisation, banking was restricted mainly to the urban areas and neglected in the rural and semi-urban areas. Large industries and big business houses enjoyed major portion of the credit facilities. Agriculture, small-scale industries and exports did not receive the deserved attention. Therefore, inspired by a larger social purpose, 14 major banks were nationalised in 1969 and six more in 1980. Since then the banking system in India has played a pivotal role in the Indian economy, acting as an instrument of social and economic change. The rationale behind bank nationalisation has been succinctly put forth by eminent bankers:

* The authors are Director and Assistant Adviser, respectively, in the Department of Statistical Analysis and Computer Services. The views expressed in the paper are those of the authors' and not of the institution to which they belong.

"Many bank failures and crises over two centuries, and the damage they did under *laissez faire* conditions; the needs of planned growth and equitable distribution of credit, which in privately owned banks was concentrated mainly on the controlling industrial houses and influential borrowers; the needs of growing small scale industry and farming regarding finance, equipment and inputs; from all these there emerged an inexorable demand for banking legislation, some government control and a central banking authority, adding up, in the final analysis, to social control and nationalisation" (Tandon, 1989).

Post nationalisation, the Indian banking system registered tremendous growth in volume. Despite the undeniable and multifold gains of bank nationalization, it may be noted that the important financial institutions were all state owned and were subject to central direction and control. Banks enjoyed little autonomy as both lending and deposit rates were controlled until the end of the 1980s. Although nationalisation of banks helped in the spread of banking to the rural and hitherto uncovered areas, the monopoly granted to the public sector and lack of competition led to overall inefficiency and low productivity. By 1991, the country's financial system was saddled with an inefficient and financially unsound banking sector. Some of the reasons for this were (i) high reserve requirements, (ii) administered interest rates, (iii) directed credit and (iv) lack of competition (v) political interference and corruption. As recommended by the Narasimham Committee Report (1991) several reform measures were introduced which included reduction of reserve requirements, de-regulation of interest rates, introduction of prudential norms, strengthening of bank supervision and improving the competitiveness of the system, particularly by allowing entry of private sector banks. With a view to adopting the Basel Committee (1988) framework on capital adequacy norms, the Reserve Bank introduced a risk-weighted asset ratio system for banks in India as a capital adequacy measure in 1992. Banks were asked to maintain risk-weighted capital adequacy ratio initially at the lower level of 4 per cent, which was gradually increased to 9 per cent. Banks were also directed to identify problem loans on their balance sheets and make provisions for bad loans and bring down the burgeoning problem of non-performing assets. The period 1992-97 laid the foundations for reform in the banking system (Rangarajan, 1998). The second Narasimham Committee Report (1998) focussed on issues like strengthening of the banking system, upgrading of technology and human resource development. The report laid emphasis on two aspects of banking regulation, *viz.*, capital adequacy and asset classification and resolution of NPA-related problems.

Commercial banks in India are expected to start implementing Basel II norms with effect from March 31, 2007. They are expected to adopt the standardised approach for credit risk and the basic indicator approach for operational risk initially. After adequate skills are developed, both at the banks and at the supervisory levels, some banks may be allowed to migrate to the internal rating based (IRB) approach (Reddy 2005).

At present, banks in India are venturing into non-traditional areas and generating income through diversified activities other than the core banking activities. Strategic mergers and acquisitions are being explored and implemented. With this, the banking sector is currently on the threshold of an exciting phase.

Against this backdrop, this paper endeavours to study the important banking indicators for the last 25-year period from 1981 to 2005. These indicators have been broadly grouped into different categories, *viz*., (i) number of banks and offices (ii) deposits and credit (iii) investments (iv) capital to risk-weighted assets ratio (CRAR) (v) non performing assets (NPAs) (vi) Income composition (vii) Expenditure composition (viii) return on assets (ROAs) and (ix) some select ratios. Accordingly, the paper discusses these banking indicators in nine sections in the same order as listed above. The paper concludes in section X by drawing important inferences from the trends of these different banking parameters.

Section I

Number of Banks and Offices

The number of offices of all scheduled commercial banks almost doubled from 29,677 in 1980 to 55,537 in 2005. This rapid increase

Table 1: Number of Scheduled Commercial Banks- Bank Group-wise

Year	SBI & its Associates		Nationalised Banks		Foreign Banks		Domestic Private Sector Banks		All Scheduled Commercial Banks	
	Number of Banks	Number of Offices	Number of Banks	Number of Offices	Number of Banks	Number of Offices	Number of Banks	Number of Offices	Number of Banks	Number of Offices
1980	8	7745	20	18083	13	NA	34	3849	75	29677
1985	8	10568	20	25061	20	NA	32	4833	80	40462
1990	8	12074	20	29800	22	148	25	3961	75	45983
1995	8	12947	19	31817	27	157	32	4213	86	49134
2000	8	13589	19	33905	42	237	33	5437	101	53168
2005	8	13896	20	35075	31	245	29	6321	88	55537

Note : Number of banks and branches of the Nationalised bank group for the year 2005 includes IDBI Ltd.

Source : Data on number of bank offices are taken from *Banking Statistics, 1972 to 1996, Basic Statistical Returns,* 1998 and various issues of Statistical Tables Relating to Banks in India for the years from 1996 to 2005.

in the number of bank offices is observed in the case of all the bank groups. However, the number of banks in the case of foreign bank group and domestic private sector bank group decreased from 42 in 2000 to 31 in 2005 and from 33 in 2000 to 29 in 2005, respectively. This fall in the number of banks is reflective of the consolidation process and, in particular, the mergers and acquisitions that are the order of the banking system at present (Table 1).

Section II

Deposits and Credit

II.1 Credit Deposit Ratio

The credit-deposit ratio (C-D ratio) provides an indication of the extent of credit deployment for every unit of resource raised in the form of deposits. The C-D ratios of all scheduled commercial banks decreased gradually from 63.3 per cent in 1980 to 49.3 per cent in 2000. This declining trend has been reversed in the recent years, with the ratio increasing to 62.7 per cent in 2005. The foreign bank group recorded the highest C-D ratio (87.1 per cent) and State Bank Group the lowest (56.3 per cent) in 2005. The C-D ratios of all the bank groups had fallen drastically in 2000, except for foreign banks. With respect to domestic private sector banks group, this ratio

Table 2: Credit Deposit Ratios of Scheduled Commercial Banks

(Per cent)

Year	SBI & its Associates	Nationalised Banks	Foreign Banks	Domestic Private Sector Banks	All Scheduled Commercial Banks
	C-D Ratio	C-D Ratio	C-D Ratio	C-D Ratio	C-D Ratio
1980	74.4	58.9	73.5	54.3	63.3
1985	64.6	58.9	74.1	55.5	60.8
1990	74.0	56.6	62.3	54.1	61.6
1995	57.1	48.0	54.3	54.3	51.4
2000	50.3	46.4	72.2	49.0	49.3
2005	56.3	61.3	87.1	70.5	62.7

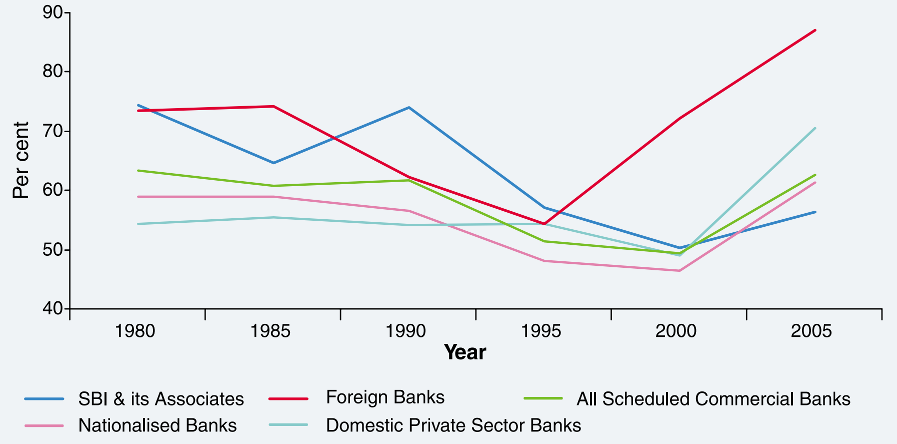
Note : Ratio includes the impact of the conversion of two non-banking entities into banking entities.
Source : Base data are taken from Annual Accounts of Scheduled Commercial Banks 1979 to 2004 and Statistical Tables Relating to Banks in India 2004-05.

was high at 70.5 per cent in 2005. With respect to State Bank Group and nationalised bank group, the C-D ratios were lower at 56.3 per cent and 61.3 per cent, respectively, which were less than the C-D ratio of all scheduled commercial banks at 62.7 per cent in 2005. There has been a significant increase in the C-D ratios in 2005 across all the bank groups. (Table 2 and Chart 1).

II.2 Per Office Deposits and Credit

The overall business of foreign banks per office is higher than the per office business of other bank groups. Across the board, the

Chart 1: Credit Deposit Ratios of Scheduled Commercial Banks



per office deposits are more than the per office credit as expected. With respect to all scheduled commercial banks, deposits per office increased from Rs.1.4 crore in 1980 to Rs. 33 crore in 2005 and credit per office also increased from Rs. 0.9 crore to Rs. 20.7 crore during the same period (Table 3).

II.3 Type-wise Deposits

Over the years, there has been a shift in the composition of deposits. While the savings bank deposits of all scheduled commercial banks remained more or less constant at around one fourth of the total deposits, term deposits increased from 55.1 per cent in 1980 to 63.0 per cent in 2005. On the other hand, demand deposits fell from 19.7 per cent in 1980 to 12.8 per cent in 2005. More or less similar trend is observed for both State Bank Group and also for the nationalised bank group. In the case of foreign banks and domestic private sector bank groups, the pattern in the composition of deposits differs from that of the public sector banks. In the case of foreign banks, demand deposits, which formed 25.7 per cent in 1980, increased to 30.1 per cent in 2005. The share of savings bank deposits in total deposits of foreign banks, decreased from 21.5 per cent in 1980 to 9.9 per cent in 2000. This share was 17.9 per cent in 2005. The analysis shows that more funds of short-term nature are parked with the foreign banks group. This may be an indication that the business class is attracted towards better

Table 3: Per Office deposits and credit of Scheduled Commercial Banks

(Rs. crore)

Year	SBI & its Associates		Nationalised Banks		Foreign Banks		Domestic Private Sector Banks		All Scheduled Commercial Banks	
	Deposits	Credit	Deposits	Credit	Deposits	Credit	Deposits	Credit	Deposits	Credit
1980	1.5	1.1	1.5	0.9	-	-	0.6	0.3	1.4	0.9
1985	2.8	1.8	2.5	1.5	-	-	1.0	0.5	2.5	1.5
1990	4.7	3.5	4.3	2.4	60.3	37.6	2.0	1.1	4.4	2.7
1995	8.7	5.0	7.4	3.6	178.5	97.0	6.9	3.8	8.3	4.2
2000	18.9	9.5	14.2	6.6	208.1	150.3	20.9	10.3	16.9	8.3
2005	36.4	20.5	26.5	16.2	353.1	307.4	49.5	34.9	33.0	20.7

Source : Base data are taken from Annual Accounts of Scheduled Commercial Banks 1979 to 2004 and Statistical Tables Relating to Banks in India 2004-05.

service offered by foreign banks. In the case of domestic private sector bank group, while the composition of demand deposits did not vary much over the 25-year period, the share of savings deposits fell from 26.8 per cent in 1980 to 16.0 percent in 2005, whereas term deposits increased from 56.7 per cent to 69.5 per cent over the same period. Even though bank deposit rates are low, people prefer to park major portion of their funds in the form of term deposits because of the risk free returns and assured returns it provides. We can infer that the interest rate structure has definitely influenced the maturity structure of bank deposits. For example, since the year 2000, the share of term deposits to total deposits declined across bank groups except for State Bank group. The deposit rates of 1 to 3 yrs maturity show that there is a clear fall in the rates since 2000. This could be the major reason for decline in term deposits after 2000 (Table 4 and Chart 2).

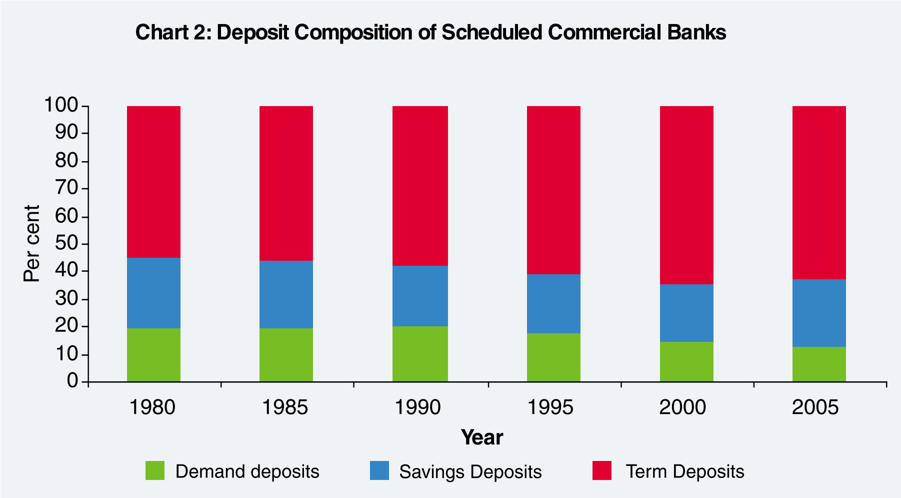
Table 4: Bank Group-wise Deposits of Scheduled Commercial Banks: Type-wise

(Per cent)

Year	SBI & its Associates			Nationalised Banks			Foreign Banks		
	Demand Deposits	Savings Bank Deposits	Term Deposits	Demand Deposits	Savings Bank Deposits	Term Deposits	Demand Deposits	Savings Bank Deposits	Term Deposits
1980	24.6	23.3	52.1	17.6	26.1	56.3	25.7	21.5	52.8
1985	24.7	23.4	52.0	16.5	24.9	58.6	33.7	16.9	49.4
1990	26.7	22.9	50.4	16.7	22.2	61.1	26.9	9.3	63.8
1995	22.5	22.5	55.0	15.8	23.5	60.7	15.5	8.3	76.2
2000	17.7	21.5	60.7	11.9	24.1	64.0	21.6	9.9	68.5
2005	14.1	25.0	60.9	9.9	27.2	63.0	30.1	17.9	51.9

Year	Domestic Private Sector Banks			All Scheduled Commercial Banks		
	Demand Deposits	Savings Bank Deposits	Term Deposits	Demand Deposits	Savings Bank Deposits	Term Deposits
1980	16.5	26.8	56.7	19.7	25.2	55.1
1985	16.9	27.3	55.8	19.4	24.3	56.2
1990	16.9	25.1	58.0	19.9	22.0	58.1
1995	16.0	15.0	69.0	17.6	21.6	60.8
2000	14.3	11.0	74.7	14.4	20.9	64.7
2005	14.4	16.0	69.5	12.8	24.2	63.0

Source : Base data are taken from Annual Accounts of Scheduled Commercial Banks 1979 to 2004 and Statistical Tables Relating to Banks in India 2004-05.



II.4 Bank Group-wise Share in Deposits

The bank group-wise share in deposits of scheduled commercial banks depicts that nationalised bank group contributed more than 50 per cent in the total deposits mobilised by all scheduled commercial banks in the year 2005. This share dropped from 64.4 per cent in 1980 to 50.7 per cent in 2005. The share of deposits of State Bank group remained more or less constant during the 25-year period constituting a little more than one fourth of the total deposits by all scheduled commercial banks. State Bank group is successful in holding on to its percentage share of deposits in total deposits of all scheduled commercial banks. However, nationalised bank group is seen to be slipping in this area. The share of foreign bank group in total deposits is showing increasing trend. The share of foreign banks increased from 2.9 per cent to 4.7 per cent and in the case of domestic private sector banks, it increased from 5.3 per cent in 1980 to 17.0 per cent in 2005. This shows that banks in the private sector have taken a head start in the deposit mobilisation after the liberalisation measures adopted with regard to entry of new private sector banks in 1995 (Table 5).

II.5 Security-wise Advances

The advances secured by tangible assets in the case of all scheduled commercial banks increased from 73.2 per cent in 1992 to

Table 5: Bank Group-wise Share of Deposits of Scheduled Commercial Banks to Total

(Per cent)

Year	SBI & its Associates	Nationalised Banks	Foreign Banks	Domestic Private Sector Banks
1980	27.4	64.4	2.9	5.3
1985	29.3	63.2	2.9	4.6
1990	28.1	63.6	4.4	3.9
1995	27.8	58.2	6.9	7.2
2000	28.5	53.4	5.5	12.6
2005	27.6	50.7	4.7	17.0

Source : Base data are taken from Annual Accounts of Scheduled Commercial Banks 1979 to 2004 and Statistical Tables Relating to Banks in India 2004-05.

76.4 percent in 2005. For all the bank groups, with the exception of foreign bank group, advances secured by tangible assets were more than 70 per cent for the period 1992 to 2005. In the case of foreign banks, such secured loans increased from 54 per cent in 1992 to 57.9 per cent in 2005. Advances covered by government / bank guarantees with respect to all scheduled commercial banks decreased from 15.1 per cent to 5.9 per cent during the same period. Such type of advances declined for each of the bank groups. It is interesting to note here that unsecured loans granted by foreign banks group was more than a third of the total advances for all the years from 1992 to 2005. For all other bank groups, unsecured loans were less than 21 per cent. It is also noteworthy that unsecured advances granted by State Bank of India and its Associates increased sharply from 15.4 per cent in 2004 to 20.9 percent in 2005 (Table 6 and Chart 3).

II.6 Bank Group-wise Share in Advances

The bank group-wise share of advances of scheduled commercial banks depicts that nationalised bank group contributed about 50 per cent of the total credit advanced by all scheduled commercial banks followed by State Bank Group with a share of about 25 per cent, domestic private sector banks with a share of 19 per cent and foreign banks about 7 per cent in the year 2005. This indicates that banks in the public sector even after the implementation of reforms since 1991, contribute about 75 per cent of the total credit advanced by all scheduled commercial banks.

Table 6: Security-wise Advances of Scheduled Commercial Banks

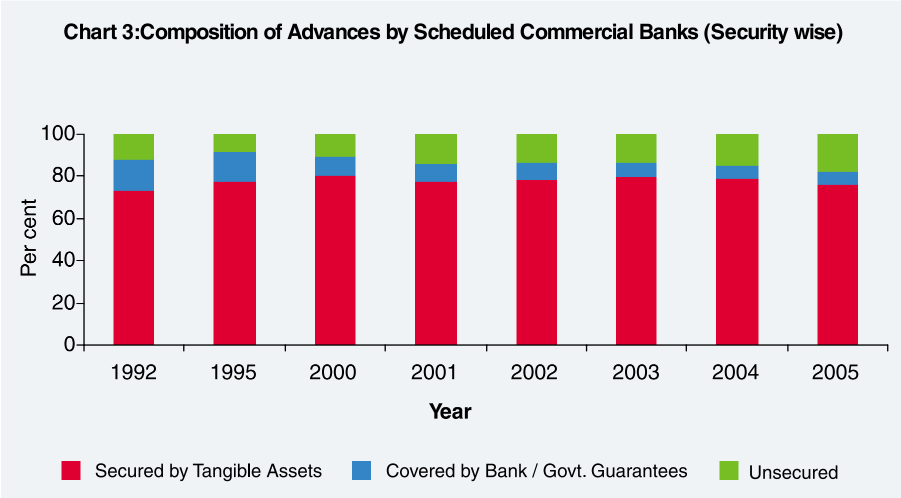
(Per cent)

Year	SBI & its Associates			Nationalised Banks			Foreign Banks		
	Secured by tangible assets	Covered by Bank/ Govt. Guara-ntees	Un-secured	Secured by tangible assets	Covered by Bank/ Govt. Guara-ntees	Un-secured	Secured by tangible assets	Covered by Bank/ Govt. Guara-ntees	Un-secured
1992	70.8	24.7	4.5	76.4	10.0	13.6	54.0	13.9	32.1
1995	78.3	18.0	3.7	76.0	14.3	9.7	67.2	5.9	26.8
2000	86.0	8.3	5.8	81.6	8.7	9.7	56.1	8.1	35.9
2001	81.0	7.6	11.4	80.0	8.5	11.5	51.9	9.3	38.8
2002	81.4	6.3	12.3	77.2	9.9	12.9	53.1	12.0	34.9
2003	80.4	7.2	12.4	79.9	7.2	12.9	56.2	11.3	32.6
2004	77.3	7.4	15.4	80.1	6.5	13.3	58.7	7.3	34.0
2005	74.7	4.4	20.9	77.6	7.2	15.1	57.9	5.6	36.4

Year	Domestic Private Sector Banks			All Scheduled Commercial Banks		
	Secured by tangible assets	Covered by Bank/ Govt. Guara-ntees	Un-secured	Secured by tangible assets	Covered by Bank/ Govt. Guara-ntees	Un-secured
1992	76.2	8.7	15.1	73.2	15.1	11.7
1995	87.0	6.4	6.6	77.2	14.0	8.8
2000	76.7	11.9	11.4	80.2	8.9	10.9
2001	77.6	8.3	14.1	77.7	8.3	14.1
2002	85.9	5.8	8.3	78.0	8.4	13.6
2003	85.5	6.4	8.1	79.4	7.4	13.3
2004	85.1	5.1	9.7	78.9	6.5	14.6
2005	81.7	4.4	14.0	76.4	5.9	17.7

Source : Base data are taken from Annual Accounts of Scheduled Commercial Banks 1979 to 2004 and Statistical Tables Relating to Banks in India 2004-05.

This trend may not continue in future as the data reveals that the share of the public sector banks declined from 92.1 per cent in 1980 to 74.3 per cent in 2005. On the other hand, the advances made by foreign banks increased from 3.3 per cent in 1980 to 6.5 per cent in 2005 and that made by private banks in the domestic sector increased from 4.5 per cent in 1980 to 19.2 per cent in 2005. Data supports that in the post reform period, public sector banks



are facing increasing competition from the private sector banks-both foreign and domestic (Table 7).

II.7 Priority Sector Advances

Priority sector advances of scheduled commercial banks showed some marginal decline from 35 per cent in 1992 to 34 per cent in 2005. This declining trend is observed in the case of all bank groups except for foreign banks. In the case of foreign banks, priority sector advances increased over the years since the banking sector reforms started. Of the total advances, nationalised banks advanced loans to priority sectors to the extent of 37.4 per cent and State Bank group to the extent of 35.3 per cent in 2005. Such loans were low

Table 7: Bank Group-wise Share of Advances of Scheduled Commercial Banks to Total

(Per cent)

Year	SBI & its Associates	Nationalised Banks	Foreign Banks	Domestic Private Sector Banks
1980	32.2	59.9	3.3	4.5
1985	31.1	61.2	3.5	4.2
1990	33.7	58.4	4.5	3.4
1995	30.8	54.3	7.3	7.6
2000	29.1	50.3	8.0	12.6
2005	24.8	49.5	6.5	19.2

Source: Base data are taken from Annual Accounts of Scheduled Commercial Banks 1979 to 2004 and Statistical Tables Relating to Banks in India 2004-05.

Table 8: Percentage of Priority Sector Advances to Total Advances: Bank Group-wise

(Per cent)

Year	SBI & its Associates	Nationalised Banks	Foreign Banks	Domestic Private Sector Banks	All Scheduled Commercial Banks
1992	36.0	38.4	7.9	28.9	35.0
1995	31.1	33.6	20.7	27.0	31.3
2000	32.3	34.1	21.4	26.6	31.5
2001	32.2	333.9	21.1	24.5	31.0
2002	31.4	34.1	21.6	16.9	29.2
2003	31.2	36.2	21.9	22.2	31.1
2004	33.2	38.6	23.2	26.9	33.7
2005	35.3	37.4	25.8	26.5	34.0

Source : Base data are taken from Annual Accounts of Scheduled Commercial Banks 1979 to 2004 and Statistical Tables Relating to Banks in India 2004-05.

with respect to domestic private sector banks group at 26.5 per cent and foreign banks at 25.8 per cent. A target of 40 per cent of net bank credit has been stipulated for lending to the priority sector by domestic scheduled commercial banks both in the public and private sectors and a target of 32 per cent has been stipulated for lending to the priority sector by foreign bank groups at present. However, the data presented in this section are percentages of priority sector lending to gross bank credit (Table 8).

Section III

Investments

Bank group-wise investments show that all scheduled commercial banks invested 92.6 per cent of their total investments in government and other approved securities in the year 1980, which declined to 82.4 per cent in 2005; whereas other investments increased from 7.4 per cent to 17.6 per cent during the same period. This could be due to the reduction in SLR requirements. Even though the SLR requirements have been reduced from a high of 38.5 per cent in 1992 to the statutory minimum of 25 per cent, banks still prefer to invest large portion of their investments in approved securities, because of the risk-free and assured returns they get through such investments. In the case of public sector banks and foreign banks, there was a reduction in investment in government securities and a preference for other investments like shares, bonds and debentures, which are not counted for SLR requirements. However, in 2005, a major reduction was noticed with respect to investments in other securities and a clear preference for government and other approved securities. As against this, in the case of domestic private sector banks, there is a clear preference for investments in other securities after the year 1995 and a reduction of investments in government and other approved securities. Since the year 2000, with the entry of more private sector banks, this group invested more than one third of their total investments in non-SLR securities, which indicates that the private banks of late are currently venturing into more riskier, nonetheless challenging business (Table 9 and Chart 4).

Table 9: Bank Group-wise Distribution of Investments of Scheduled Commercial Banks

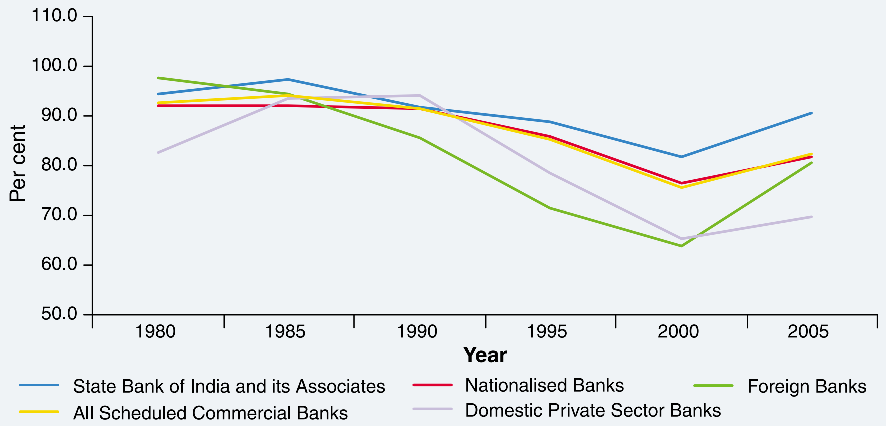
(Per cent)

Year	SBI & its Associates		Nationalised Banks		Foreign Banks	
	Govt. & Other Appr. Securities	Other Invest-ments	Govt. & Other Appr. Securities	Other Invest-ments	Govt. & Other Appr. Securities	Other Invest-ments
1980	94.5	5.5	92.2	7.8	97.7	2.0
1985	97.3	2.7	92.2	7.8	94.5	5.5
1990	91.9	8.1	91.6	8.4	85.5	14.5
1995	88.7	11.3	85.8	14.2	71.4	28.6
2000	81.8	18.2	76.4	23.6	63.8	36.2
2005	90.5	9.5	81.7	18.3	80.5	19.5

Year	Domestic Private Sector Banks		All Scheduled Commercial Banks	
	Govt. & Other Appr. Securities	Other Invest-ments	Govt. & Other Appr. Securities	Other Invest-ments
1980	82.6	17.2	92.6	7.4
1985	93.6	6.3	94.0	6.0
1990	94.1	5.9	91.5	8.5
1995	78.5	21.5	85.2	14.8
2000	65.2	34.8	75.7	24.3
2005	69.8	30.2	82.4	17.6

Source : Base data are taken from Annual Accounts of Scheduled Commercial Banks 1979 to 2004 and Statistical Tables Relating to Banks in India 2004-05.

Chart 4: Percentage Share of Investments in Approved Securities to Total Investments



Section IV

Capital To Risk-weighted Assets Ratio (CRAR)

The capital to risk weighted assets ratio (CRAR) is an indicator for assessing soundness and solvency of banks. Out of 92 scheduled commercial banks, 75 banks could maintain the CRAR of more than 8 per cent during the year 1995-96, when the prescribed CRAR was 8 per cent. During 1999-2000, 96 banks maintained CRAR of 9 to 10 per cent and above when the prescribed rate was 9 per cent. In 2004-05, out of 88 scheduled commercial banks, 78 banks could maintain CRAR of above 10 per cent and 8 banks between 9 and 10 per cent. All banks in the State Bank group maintained capital to risk weighted assets ratio of more than 10 per cent in 2004-05. In the nationalised bank group, 17 banks reached more than 10 per cent CRAR level except two banks whose CRAR during 2004-05 was between 9-10 per cent. During 2004-05, there were 2 banks in the old private sector category whose CRAR was less than 9 per cent (Table 10).

Section V

Non-performing Assets (NPAs)

The measure of non-performing assets helps us to assess the efficiency in allocation of resources made by banks to productive

Table 10: Distribution of Scheduled Commercial Banks by CRAR

Year	Bank Group	State Bank Group	Nation-alised Bank Sector Banks	Old Private Sector Banks	New Private	Foreign Banks in India	Scheduled Commer-cial Banks
1995-1996	Below 4 per cent	-	5	3	-	-	8
	Between 4-8 per cent	-	3	3	-	3	9
	Between 8-10 per cent	6	7	7	1	12	33
	Above 10 per cent	2	4	12	8	16	42
1999-2000	Below 4 per cent	-	1	2	-	-	3
	Between 4-9 per cent	-	-	2	-	-	2
	Between 9-10 per cent	-	4	2	1	5	12
	Above 10 per cent	8	14	18	7	37	84
2003-2004	Below 4 per cent	-	-	-	1	-	1
	Between 4-9 per cent	-	-	-	1	-	1
	Between 9-10 per cent	-	1	-	-	-	1
	Above 10 per cent	8	18	20	8	33	87
2004-05	Below 4 per cent	-	-	1	-	-	1
	Between 4-9 per cent	-	-	1	-	-	1
	Between 9-10 per cent	-	2	3	2	1	8
	Above 10 per cent	8	17	15	7	30	78

Source: Handbook of Statistics on the Indian Economy, 2004-05 & Report on Trend and Progress of Banking in India 2004-05.

sectors. The problem of NPAs arise either due to bad management by banks or due to external factors like unanticipated shocks, business cycle and natural calamities (Caprio and Klingebiel, 1996). Several studies have underscored the role of banks' lending policy and terms of credit, which include cost, maturity and collateral in influencing the movement of non-performing assets of banks (Reddy, 2004, Mohan 2003, 2004).

The ratio of gross non-performing assets (NPAs) to gross advances of all scheduled commercial banks decreased from 14.4 per cent in 1998 to 5.1 per cent in 2005. Bank group-wise analysis shows that across the bank groups there has been a significant reduction in the gross non-performing assets. With respect to public sector banks (State Bank group and nationalised bank group together), NPAs have decreased from 16.0 per cent in 1998 to 5.4 per cent in 2005. In the case of foreign banks group, gross NPAs as a percentage to gross advances, which was the lowest among all the groups at 6.4 per cent in 1998, decreased to 2.9 per cent in 2005. With regard to domestic private sector banks group, gross NPAs decreased from 8.7 per cent to 3.9 per cent during the same period. The ratio of net NPAs to net advances of different bank groups also exhibited similar declining trends during the period from 1998 to 2005. The net NPAs of all scheduled commercial banks declined from 7.3 per cent in 1998 to 2.0 per cent in 2005 (Table 11).

The decline in NPAs is more evidenced across bank groups especially since 2003. This reflects on the positive impact of the measures taken by the Reserve Bank towards NPA reduction and specifically due to the enactment of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, ensuring speedier recovery without intervention of courts or tribunal.

The composition of NPAs of public sector banks brings to light certain interesting aspects. It is observed that in 1995 for State Bank group, the share of NPAs was 52.5 per cent for the priority sector, 41.4 per cent for the non-priority sector, and 6.1 per cent for the public sector. These percentages were 47.4 per cent, 51.5 per cent and 1.1 per cent, respectively in 2005. Similarly in the case of nationalised banks also, the NPA composition for non-priority sector

Table 11: NPAs of Scheduled Commercial Banks (Bank Group-wise)

(Per cent)

Year	Public Sector Banks		Foreign Banks		Domestic Private Sector Banks		All SCBs	
	Gross NPA	Net NPA	Gross NPA	Net NPA	Gross NPA	Net NPA	Gross NPA	Net NPA
1998	16.0	8.2	6.4	2.2	8.7	5.3	14.4	7.3
2000	14.0	7.4	7.0	2.4	8.2	5.4	12.7	6.8
2001	12.4	6.7	6.8	1.8	8.4	5.4	11.4	6.2
2002	11.1	5.8	5.4	1.9	9.6	5.7	10.4	5.5
2003	9.4	4.5	5.3	1.8	8.1	5.0	8.8	4.4
2004	7.8	3.0	4.6	1.5	5.8	2.8	7.2	2.9
2005	5.4	2.1	2.9	0.9	3.9	2.2	5.1	2.0

Source : Handbook of Statistics on Indian Economy 2004-05 and Report on Trend and Progress of Banking in India 2004-05.

Table 11A: Composition of NPAs of Public Sector Banks

(Per cent)

Year	SBI & its Associates			Nationalised Banks		
	Priority Sector	Non-priority Sector	Public Sector	Priority Sector	Non-priority Sector	Public Sector
1995	52.5	41.4	6.1	48.7	49.2	2.0
2000	45.2	51.9	2.8	44.1	54.5	1.5
2001	44.2	49.8	6.0	46.2	52.3	1.5
2002	47.0	50.4	2.6	45.7	53.1	1.2
2003	47.5	49.4	3.1	47.1	51.3	1.6
2004	47.1	51.5	1.5	47.7	51.1	1.1
2005	47.4	51.5	1.1	48.4	50.7	0.9

Source: Statistical Tables Relating to Banks in India, Various issues.

has increased, whereas, that for priority sector and public sector, there is a marginal reduction. This shows that not only advances to the priority sector are going non-performing, but more than that, non-priority sector lending is the area where the bankers need to cautiously examine the possibilities of loans becoming non-performing. Here the question of moral hazard, adverse selection and credit rationing comes to the fore. These issues are to be addressed face on. This also goes to explode the commonly held myth that the problem of NPAs is caused mainly due to the credit allocation to priority sectors. (Table 11 A).

Section VI

Income Composition

Income composition of scheduled commercial banks shows that across the different bank groups, interest income viz., income from advances and investments are falling and the percentage of other income is increasing. Other income *inter alia* includes income earned in the form of commission, exchange and brokerage and income from profit on sale of investments. In 1980, the share of interest income of all scheduled commercial banks was 89.0 per cent, which decreased to 82.0 per cent in 2005. Other income on the other hand, increased from 11.0 per cent to 18.0 per cent during the same period. This reflects upon the increasing reliance on non-interest income *vis-à-vis* interest income of commercial banks. This is a welcome trend as it may reduce the risks arising out of the sole dependency on interest as the source of income (Ramasastri, Samuel & Gangadaran, 2004)

Bank group-wise interest and non-interest income shows that in the case of SBI and its Associates, interest income declined from 84.5 per cent in 1980 to 82.3 percent in 2005 and in the case of nationalised banks group, the same declined from 91.4 per cent to 84.0 per cent. In the case of domestic private sector banks also, interest income declined from 90.3 per cent in 1990 to 80.5 per cent in 2005. It is evident from these figures that more than 80 per cent of the income still comes from interest income in the case of public sector banks and domestic private sector banks, which indicates that these banks are seen to be dependent mainly on the traditional way of earning income even though there is a reduction in such dependence. In contrast, foreign banks are seen to be increasingly dependent upon non-interest sources of income. Non-interest income of foreign banks formed about 29.6 per cent of their total income, followed by domestic private sector banks 19.5 per cent, State Bank of India and its Associates 17.7 percent and nationalised banks 16.0 per cent (Table 12 and Chart 5).

A comparison of the break-up of interest income viz., interest on advances and interest on investments shows that with respect to all scheduled commercial banks, interest income on advances has fallen

Table 12: Income Composition of Scheduled Commercial Banks

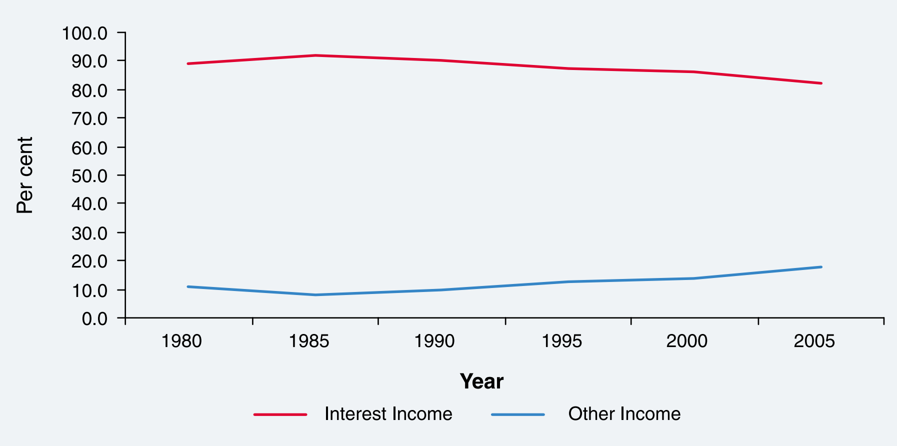
(Per cent)

Year	SBI & its Associates		Nationalised Banks		Foreign Banks		Domestic Private Sector Banks		All Scheduled Commercial Banks	
	Interest Income	Other Income	Interest Income	Other Income	Interest Income	Other Income	Interest Income	Other Income	Interest Income	Other Income
1980	84.5	15.5	91.4	8.6	-	-	-	-	89.0	11.0
1985	88.2	11.8	93.6	6.4	-	-	-	-	91.8	8.2
1990	89.1	10.9	91.9	8.1	82.8	17.2	90.3	9.7	90.3	9.7
1995	86.9	13.1	88.8	11.2	80.1	19.9	86.0	14.0	87.2	12.8
2000	85.8	14.2	88.4	11.6	79.2	20.8	83.9	16.1	86.2	13.8
2005	82.3	17.7	84.0	16.0	70.4	29.6	80.5	19.5	82.0	18.0

'_' : Not Available.

Source : Base data are taken from Annual Accounts of Scheduled Commercial Banks 1979 to 2004 and Statistical Tables Relating to Banks in India 2004-05.

Chart 5: Income Composition of Scheduled Commercial Banks



from 60.7 per cent in 1992 to 52.3 per cent in 2005. Whereas, interest income on investments increased from 25.6 per cent in 1992 to 42.2 per cent in 2005. This is true for all the bank groups (Table 12 A) .

Table 12A: Composition of Interest Income of Scheduled Commercial Banks

(Per cent)

Year	SBI & its Associates			Nationalised Banks			Foreign Banks		
	Interest on Advances	Interest on Investments	Others	Interest on Advances	Interest on Investments	Others	Interest on Advances	Interest on Investments	Others
1992	60.8	22.5	16.7	60.9	28.0	11.1	61.1	21.5	17.4
1995	47.4	44.1	8.5	49.6	42.1	8.3	52.8	41.5	5.7
2000	44.3	43.4	12.3	48.3	45.9	5.7	52.1	40.3	7.5
2001	44.2	43.7	12.2	49.1	45.0	5.9	54.4	38.1	7.5
2002	39.5	47.7	12.8	49.4	44.9	5.7	55.0	37.8	7.2
2003	39.1	48.7	12.1	50.1	45.4	4.6	60.1	35.0	4.9
2004	39.7	51.0	9.3	49.1	47.1	3.8	56.1	37.9	6.0
2005	43.0	48.4	8.6	52.8	43.3	3.9	60.4	32.1	7.5

Year	Domestic Private Sector Banks			All Scheduled Commercial Banks		
	Interest on Advances	Interest on Investments	Others	Interest on Advances	Interest on Investments	Others
1992	56.7	27.6	15.6	60.7	25.6	13.7
1995	56.9	36.0	7.2	49.7	42.3	8.1
2000	50.8	42.1	7.1	47.8	44.3	8.0
2001	49.9	43.5	6.6	48.2	43.9	8.0
2002	48.8	44.6	6.6	46.7	45.2	8.1
2003	57.0	37.8	5.3	48.7	44.4	6.9
2004	59.0	36.1	4.9	48.6	45.7	5.7
2005	63.5	32.1	4.5	52.3	42.2	5.5

Note : 'Others' include interest on balances with RBI and other inter-bank funds and others.

Source : Base data are taken from Annual Accounts of Scheduled Commercial Banks 1979 to 2004 and Statistical Tables Relating to Banks in India 2004-05.

Section VII

Expenditure Composition

The expenditure composition of scheduled commercial banks indicates that the percentage of interest expenses to total expenses of all scheduled commercial banks declined by 2.1 per cent from 66.3 per cent in 1980 to 64.2 per cent in 2005. Percentage of operating expenses to total expenses has increased from 33.7 per cent in 1980 to 35.8 per cent in 2005. In the case of all bank groups, similar trend is noticed except for foreign banks where the interest expenses has decreased from 64.6 per cent in 1990 to 47.9 per cent in 2005. Whereas, percentage of operating expenses to the total expenses of foreign banks increased from 35.4 per cent to 52.1 per cent (Table 13 & Chart 6).

A further break-up of operating expenses reveals that wages, as percentage of operating expenses of public sector banks is more than 60 per cent. These are symptoms of under employment. This situation calls for more apt and pragmatic human resource policies and proper man power planning for the future. The wages of foreign banks increased from 25.9 per cent in 1990 to 30.6 per cent of their

Table 13: Expenditure Composition of Scheduled Commercial Banks

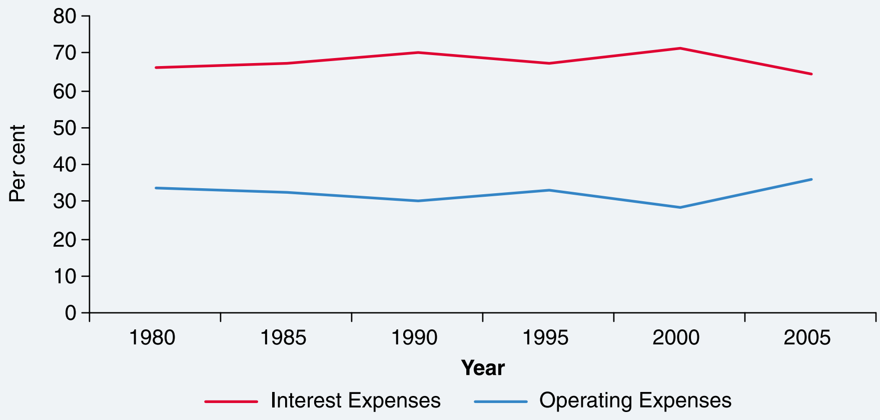
(Per cent)

Year	SBI & its Associates		Nationalised Banks		Foreign Banks		Domestic Private Sector Banks		All Scheduled Commercial Banks	
	Interest expenses to total	Operating expenses to total	Interest expenses to total	Operating expenses to total	Interest expenses to total	Operating expenses to total	Interest expenses to total	Operating expenses to total	Interest expenses to total	Operating expenses to total
1980	64.3	35.7	67.4	32.6	-	-	-	-	66.3	33.7
1985	64.8	35.1	68.6	31.4	-	-	-	-	67.3	32.6
1990	69.0	31.0	71.4	28.6	64.6	35.4	62.8	37.2	69.9	30.1
1995	65.5	34.5	67.6	32.4	67.4	32.6	70.9	29.1	67.1	32.9
2000	70.6	29.4	71.4	28.6	65.8	34.2	78.0	22.0	71.5	28.5
2005	64.9	35.1	65.5	34.5	47.9	52.1	65.3	34.7	64.2	35.8

- = Not Available.

Source : Base data are taken from Annual Accounts of Scheduled Commercial Banks 1979 to 2004 and Statistical Tables Relating to Banks in India 2004-05.

Chart 6: Expenditure Composition of Scheduled Commercial Banks



operating expenses in 2005. In the case of domestic private sector banks group, wages as percentage of operating expenses was 73.5 per cent in 1990 and the same decreased drastically to 33.7 per cent. This goes to indicate that banks in the private sector both foreign and domestic are spending for other business boosting measures like image building, software development etc. (Table 13 A and Chart 6 A).

Table 13A:Wages as Percentage of Operating Expenses* of Scheduled Commercial Banks

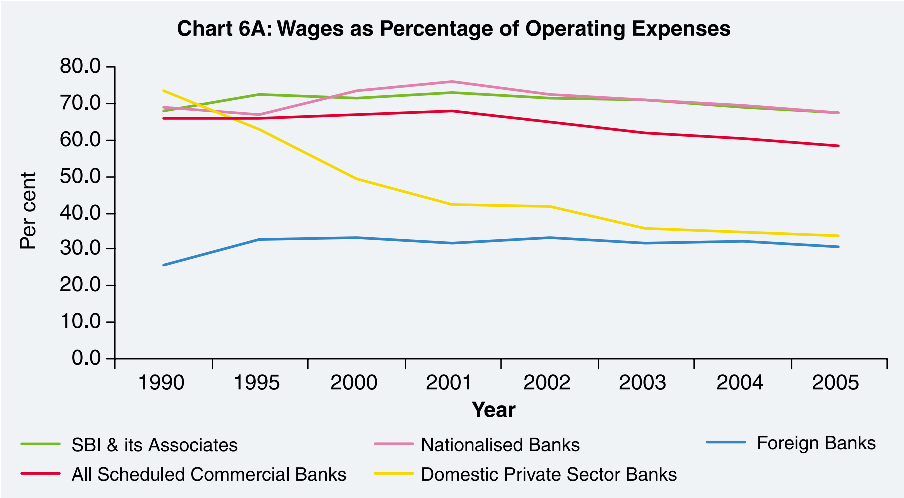
(Per cent)

Year	SBI & its Associates	Nationalised Banks	Foreign Banks	Domestic Private Sector Banks	All Scheduled Commercial Banks
1980	74.1	72.1	-	-	72.9
1985	72.5	71.3	-	-	71.7
1990	67.8	68.9	25.9	73.5	65.7
1995	72.4	67.1	32.8	62.9	66.1
2000	71.6	73.6	33.3	49.1	67.0
2005	67.4	67.4	30.6	33.7	58.3

- = Not Available.

* Wages are calculated as percentage of payments to and provisions for employees to total expenses.

Source : Base data are taken from Annual Accounts of Scheduled Commercial Banks 1979 to 2004 and Statistical Tables Relating to Banks in India 2004-05.



Section VIII

Return on Assets

Return on assets (ROA) is an important performance indicator of banks. Return on assets has been worked out by taking the ratio of net profit or loss to average advances and investments. For all scheduled commercial banks, the ROA increased from 0.1 per cent in 1980 to 1.1 per cent in 2005. Amongst the bank groups, the ROA of foreign banks group is the highest at 1.8 per cent in 2005. All other bank groups recorded a return on assets of 1.1 per cent showing that all banks are making profits and their performances are good. Foreign banks group is on a higher plane with respect to its performance in comparison with other bank groups. Compared to the pre-reform period, the ROA of public sector banks improved significantly after the initiation of reforms. In the case of foreign banks and domestic private sector banks, data are available only from 1995 (Table 14).

The distribution of scheduled commercial banks by ROA reveals that in 1995, with respect to State Bank group, all 8 banks were in the ROA range of up to 1 per cent. This position improved slightly as one bank was in the ROA category of more than 1.5 per cent in 2000 and 2005. This goes to indicate that State Bank group has much potential to enhance their performance. Similarly, majority of the banks in the nationalised group were in the ROA range of less than 1 per cent in

Table 14: Return on Assets (ROAs)* of Scheduled Commercial Banks

(Per cent)

Year	SBI & its Associates	Nationalised Banks	Foreign Banks	Domestic Private Sector Banks	All Scheduled Commercial Banks
1980	0.1	0.1	-	-	0.1
1985	0.1	0.1	-	-	0.1
1990	0.2	0.2	-	-	0.3
1995	0.8	0.1	2.6	1.9	0.6
2000	1.2	0.6	1.7	1.3	0.9
2005	1.1	1.1	1.8	1.1	1.1

'-' = Not Available.

* ROAs are calculated as percentage of net profit / loss to average advances and investments.

Source: Base data are taken from Annual Accounts of Scheduled Commercial Banks 1979 to 2004 and Statistical Tables Relating to Banks in India 2004-05.

1995, which exhibited some improvement since 2000. In the case of domestic private sector banks also, there seems to be more scope for improvement as many banks reported negative ROA in 2005. In contrast to all other bank groups, majority of the foreign banks were placed in the category of high ROA of more than 1.5 per cent (Table 14 A).

Table 14 A: Distribution of Scheduled Commercial Banks by ROA

Year	Range	SBI & its Associates	Nationalised Banks	Foreign Banks	Domestic Private Sector Banks	All Scheduled Commercial Banks
1995	Negative	-	8	-	2	10
	0 to 0.1	1	2	4	11	18
	0.1 to 0.5	3	2	2	3	10
	0.5 to 1.0	4	4	1	3	12
	1 to 1.5	-	1	2	4	7
	>1.5	-	2	18	9	29
2000	Negative	-	1	9	1	11
	0 to 0.1	-	-	6	2	8
	0.1 to 0.5	-	8	1	3	12
	0.5 to 1.0	3	5	2	7	17
	1 to 1.5	4	3	6	8	21
	>1.5	1	2	18	11	32
2005	Negative	-	1	8	10	19
	0 to 0.1	-	-	1	3	4
	0.1 to 0.5	1	2	-	2	5
	0.5 to 1.0	3	6	2	4	15
	1 to 1.5	3	8	4	4	19
	>1.5	1	3	16	6	26

Source : Base data are taken from Annual Accounts of Scheduled Commercial Banks 1979 to 2004 and Statistical Tables Relating to Banks in India 2004-05.

Section IX

Some Select Ratios

The data reveals that the ratio of interest on advances to average advances of all scheduled commercial banks, which is reflective of the lending rates, decreased from 14.0 per cent in 1992 to 7.1 percent in 2005. The prime lending rate was 19.0 per cent in 1992 and in the range of 10.25 to 10.75 per cent in 2005. From this, it is evidenced that banks are lending at the sub prime lending rates. The gap between the PLR and lending rates of all scheduled commercial banks was very less for the years 2000 to 2002. However, this gap widened since 2003. This is true for all the bank groups, which is indicative of the fact that during the recent years, banks are lending at sub PLR rates with wider gaps between PLR and lending rates.

The ratio of interest on investments to average investments, which is reflective of the return on investments, shows that for all scheduled commercial banks, the rates have declined from 10.1 per cent in 1992 to 7.6 percent in 2005. In comparison, the interest rates on central government dated securities (weighted average) declined from 11.8 per cent in 1992 to 6.1 per cent in 2005. Overall trends indicate that the return on investments made by the public sector banks is higher than that of all scheduled commercial banks. An interesting point to note here is that even though private sector banks invested more of their funds in non-SLR securities, still their interest on investments as a percentage to average investments is lower than that obtained by the public sector banks. Between State Bank group and nationalised bank group, the former was successful in getting higher yields on their investments than the latter group.

The ratio of interest on deposits to average deposits of scheduled commercial banks, which is reflective of the deposit rate, declined from 7.5 per cent in 1992 to 4.2 per cent in 2005. These rates are lower than the rates of deposits with 1 to 3 year maturity for all the bank groups. This indicates that banks are able to mobilise deposits at a lower rate than that of the rates for deposits of 1 to 3 years maturity (Table 15 and Chart 7).

Table 15: Some Select Ratios of Scheduled Commercial Banks (Bank Group-wise)

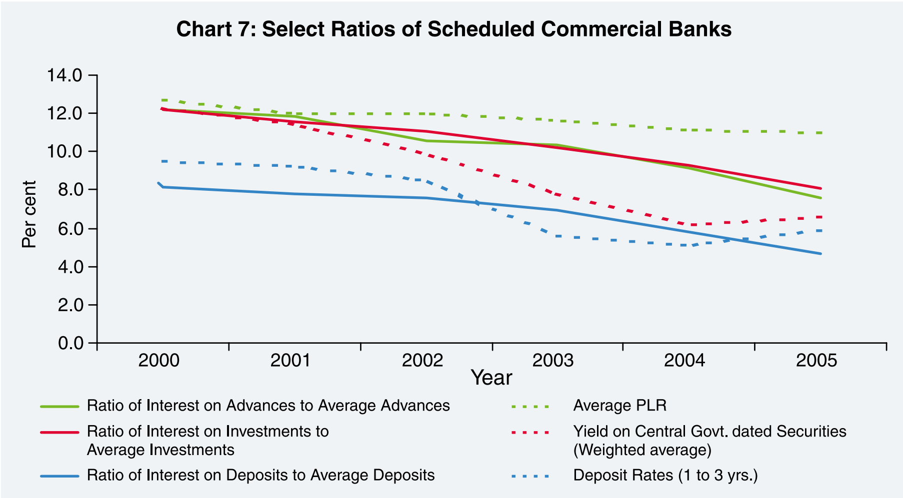
Year	Ratio of Interest on Advances to Average advances					PLR*
	SBI & its Associates	Nationalised Banks	Foreign Banks	Domestic Pvt. Sector Banks	All Sch. Comm. Banks	
1992	13.9	13.4	21.8	13.8	14.0	19.00
1995	11.1	11.5	14.7	13.0	11.7	15.00
2000	10.9	11.8	13.1	12.3	11.7	12.00-12.50
2001	10.7	11.5	13.1	11.7	11.4	11.00-12.00
2002	9.7	10.6	11.6	8.8	10.1	11.00-12.00
2003	9.0	9.8	10.7	10.9	9.9	10.75-11.50
2004	7.9	8.7	9.0	9.8	8.7	10.25-11.00
2005	6.6	7.1	7.3	7.5	7.1	10.25-10.75
Year	**Ratio of interest on Investments to average Investments**					**Interest Rate on Central Govt. Dated Securities (Weighted average)**
	SBI & its Associates	**Nationalised Banks**	**Foreign Banks**	**Domestic Pvt. Sector Banks**	**All Sch. Comm. Banks**	
1992	10.1	10.1	10.1	10.6	10.1	11.78
1995	12.3	11.0	11.0	12.0	11.5	11.90
2000	11.7	11.7	11.7	11.5	11.7	11.77
2001	10.7	11.4	11.4	11.2	11.1	10.95
2002	10.8	11.0	11.0	9.2	10.6	9.44
2003	9.7	10.2	10.2	9.0	9.7	7.34
2004	8.9	9.2	9.2	7.6	8.8	5.71
2005	8.2	7.8	6.9	6.0	7.6	6.11
Year	**Ratio of interest on deposits to average deposits**					**Deposit Rates** (1 to 3 Yrs.)**
	SBI & its Associates	**Nationalised Banks**	**Foreign Banks**	**Domestic Pvt. Sector Banks**	**All Sch. Comm. Banks**	
1992	7.9	7.5	6.9	6.8	7.5	12.00
1995	7.1	6.8	5.9	6.9	6.8	11.00
2000	7.9	7.5	7.2	8.1	7.7	8.50 - 9.50
2001	7.6	7.2	6.7	7.8	7.3	8.50 - 9.00
2002	7.6	6.9	6.1	7.3	7.1	7.50 - 8.50
2003	7.0	6.2	5.3	6.6	6.5	4.25 - 6.00
2004	5.8	5.2	3.9	5.3	5.3	4.00 - 5.25
2005	4.6	4.2	3.0	3.8	4.2	5.25 - 5.50

* Relates to the prime lending rates of 5 major public sector banks.

** Relates to the deposit rates of 5 major public sector banks.

Source : (i) Base data are taken from Annual Accounts of Scheduled Commercial Banks 1979 to 2004 and Statistical Tables Relating to Banks in India 2004-05.

(ii) Handbook of Statistics on the Indian Economy, 2004-05.



The spread between the lending and deposit rates have reduced over the years from 1992 to 2005. The general fall in interest rates in the recent period is in consonance with the monetary policy stance of a soft and flexible interest rate regime.

Section X

Concluding Observations

There has been a spurt in the number of banks during the late 1990s, which decreased during the early period of the new millennium. This could be reflective of the consolidation process, and in particular, the mergers and acquisitions that are the order of the banking system at present. The number of bank offices increased significantly during the early 1980s. After a consolidation phase during the late 1980s and early 1990s, there has been a moderate increase in the number of offices mainly due to the entry of new generation private sector banks since late nineties.

The public sector banks continued to play a very prominent role in both deposit mobilisation and credit disbursal even after the implementation of reforms since 1991. They contribute about 75 per cent of the total deposits mobilised and total credit advanced by all scheduled commercial banks. The entry of domestic private sector banks has been altering this trend to some extent since the late nineties.

There has been a significant change in the composition of deposits, with a clear shift in favour of term deposits, whereas demand deposits witnessed a decline. The share of savings bank deposits remained more or less constant. It is observed that more funds of short-term nature in the form of demand deposits are parked with the foreign banks group. This may be an indication that the business class is attracted towards better service offered by foreign banks.

Even though the SLR requirements have been reduced to the statutory minimum of 25 per cent, banks still prefer to invest large portion of their investments in approved securities, due to the risk-free and assured returns they get through such investments. However, in the case of private sector banks in the domestic sector, there is a clear preference for investments in other securities and a reduction of investments in government and other approved securities. Since the year 2000, with the entry of more private sector banks, this group invested more than one third of their total investments in non-SLR securities, which indicates that the private banks, of late, are currently venturing into more riskier, nonetheless challenging business.

Across the bank groups, there has been a significant reduction in the non-performing assets (NPAs). The composition of NPAs of public sector banks interestingly reveals that NPAs connected to non-priority sector has increased, whereas, NPAs relating to priority sector advances exhibited a decline. This goes to explode the commonly held myth that the problem of NPAs is caused mainly due to the credit allocation made to priority sectors.

The share of non-interest income in the total income has been increasing across the different bank groups. This is a welcome trend as it may reduce the risks arising out of the sole dependency on interest as the source of income.

Wages as a percentage of operating expenses of public sector banks is more than 60 per cent. This situation possibly calls for more apt and pragmatic human resource policies and proper manpower planning for the future of these banks. Banks in the private sector both foreign and domestic, however, have reduced their wage component in the operating expenses and are spending more for other business boosting measures like image building, software development etc.

Compared to the pre-reform period, the ROA of public sector banks improved significantly after the initiation of reforms, although it is still lower as compared to foreign banks.

The objective of the analysis was to study the trends in banking during a span of 25 years, covering both pre- and post- reforms period. The study has clearly brought out the positive effects of the reform measures on the banking industry in general. A comparative analysis of various bank groups with respect to different variables has also identified certain specific problem areas of the respective groups. The pace of the reform process is sometimes a cause for concern and criticism. But, there seems to be a great wisdom in this gradualism.

The Indian approach to financial sector reforms is based on *pancha sutra* or five principles- cautious and proper sequencing; mutually re-inforcing measures, complementarity between reforms in the banking sector and changes in fiscal, external and monetary policies, developing financial infrastructure and developing financial markets (Reddy, 2000). The progress of the banking sector reforms this far, *albeit* slow, vindicates this stand.

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