

Operations and Performance of Commercial Banks

Introduction

3.1 The business and financial performance of scheduled commercial banks (SCBs)¹ during 2007-08 continued to be shaped by the strong macroeconomic performance during the year. In line with the policy initiatives undertaken by the Reserve Bank, the growth in credit by SCBs exhibited some moderation during the year. The moderation in credit was observed across all the sectors, barring services. On the liability side, deposit growth continued to be strong, *albeit* it was marginally lower than that in the previous year mainly on account of deceleration in term deposits. Banks' investments in government and other securities recorded a higher growth during 2007-08, partly on account of a large issuance of MSS securities during the year. However, as percentage of net demand and time liabilities (NDTL), investment by banks in Government and other approved securities remained more or less at the previous year's level. Overall, the credit-deposit ratio of banks declined during the year as a result of continued strong growth in deposits combined with moderation in credit.

3.2 Net interest margins of banks continued to decline during the year, reflecting the increase in competitive pressures. However, sharp increase in non-interest income and subdued growth in operating costs resulted in sharp increase in net profits of SCBs during the year. Consequently, return on assets showed a marginal improvement in

2007-08. Despite increase in gross non-performing assets (NPAs) in absolute terms during the year, asset quality (gross NPAs as percentage of gross loans and advances) of banks in general and of public sector banks in particular continued to improve. The capital to risk-weighted assets ratio of the banking sector also showed marked improvement during the year, both on account of large capital raised by banks from the capital market during 2007-08 and increase in reserves.

3.3 Against this backdrop, this chapter profiles the operations and financial performance of SCBs at the aggregate as well as bank group levels. The chapter is organised into eleven sections. Section 2 analyses the balance sheet operations of SCBs on an aggregate basis, while Section 3 delineates their off-balance sheet operations. Financial performance of SCBs is analysed in Section 4. Section 5 delineates the trends in soundness indicators. Operations of SCBs in the capital market are detailed in Section 6, while technological developments in banking during the year are covered in Section 7. Regional spread of banking is set out in Section 8. Section 9 presents an update on customer service and financial inclusion. Apart from the SCBs, 91 regional rural banks (RRBs)² and four local area banks (LABs) were also operating in the country. While the performance of SCBs forms the core of this chapter, the performance of RRBs and LABs is detailed separately in Section 10 and Section 11, respectively.

¹ As at end-March 2008, SCBs comprised 28 public sector banks (State Bank of India and its seven associates, 19 nationalised banks and the IDBI Bank Ltd.), 8 new private sector banks, 15 old private sector banks and 28 foreign banks.

² As at end-March 2008.

2. Liabilities and Assets of Scheduled Commercial Banks

3.4 As the process of consolidation of banks continued during 2007-08, the number of SCBs declined from 82 at end-March 2007 to 79 at end-March 2008 due to merger of two old private sector banks and amalgamation of a foreign bank. The Sangli Bank Ltd. was amalgamated with ICICI Bank Ltd. under Section 44A of the Banking Regulation Act, 1949 effective April 19, 2007. Under the same Section, the Reserve Bank, on August 27, 2007 sanctioned the Scheme of Amalgamation of Lord Krishna Bank Ltd. with Centurion Bank of Punjab Ltd. The Scheme came into force with effect from the commencement of business on August 29, 2007. Subsequently, the Scheme of Amalgamation of Centurion Bank of Punjab Ltd. with HDFC Bank Ltd. was sanctioned by the Reserve Bank on May 20, 2008; the Scheme came into force with effect from the commencement of business on May 23, 2008.

3.5 Consequent upon the global acquisition of banking business (excluding credit card and travel related business) of American Express Bank Ltd. (AEBL) by Standard Chartered Bank as a stock sale, the Reserve Bank sanctioned amalgamation of the Indian branches of AEBL with the Indian branches of Standard Chartered Bank on March 5, 2008. Furthermore, American Express Banking Corporation (AEBC), the parent bank of AEBL, was issued a banking license under Section 22 of the BR Act, 1949 to open its maiden branch in New Delhi for conducting the business relating to credit cards, travel related services and institutional deposits of AEBL, which was transferred to it prior to the sale of AEBL's banking business to Standard Chartered Bank.

3.6 The aggregate balance sheet of SCBs expanded by 25.0 per cent during 2007-08 as compared with 24.2 per cent in the previous year (Table III. 1). The continued higher growth

in assets of SCBs than the growth rate of the economy resulted in the increase in the ratio of assets of SCBs to GDP (at current market prices) to 91.8 per cent at end-March 2008 from 83.5 per cent at end-March 2007. As banks improved their capital base during 2007-08, the leverage (measured by the equity multiplier, which is defined as total assets divided by the total equity) of the banking

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

(Amount in Rs. crore)

Item	As at end-March			
	2007		2008	
	Amount	Per cent to Total	Amount	Per cent to Total
1	2	3	4	5
Liabilities				
1. Capital	29,559	0.9	39,900	0.9
2. Reserve and Surplus	1,89,619	5.5	2,75,657	6.4
3. Deposits	26,96,936	77.9	33,20,054	76.7
3.1. Demand Deposits	3,54,895	10.3	4,42,055	10.2
3.2. Savings Bank Deposits	6,31,651	18.3	7,44,051	17.2
3.3. Term Deposits	17,10,388	49.4	21,33,947	49.3
4. Borrowings	2,43,010	7.0	2,97,349	6.9
5. Other Liabilities and Provisions	3,00,836	8.7	3,93,523	9.1
Total Liabilities/Assets	34,59,961	100.0	43,26,486	100.0
Assets				
1. Cash and Balances with RBI	1,95,265	5.6	3,22,997	7.5
2. Balances with Banks and Money at Call and Short Notice	1,58,302	4.6	1,10,326	2.6
3. Investments	9,50,981	27.5	11,76,154	27.2
3.1 Government Securities (a+b)	7,54,446	21.8	9,25,799	21.4
a) In India	7,50,722	21.7	9,20,241	21.3
b) Outside India	3,723	0.1	5,558	0.1
3.2 Other Approved Securities	12,764	0.4	10,587	0.2
3.3 Non-Approved Securities	1,83,771	5.3	2,39,767	5.5
4. Loans and Advances	19,81,236	57.3	24,77,039	57.3
4.1 Bills purchased and Discounted	1,24,292	3.6	1,50,983	3.5
4.2 Cash Credits, Overdrafts, etc.	7,09,803	20.5	8,89,663	20.6
4.3 Term Loans	11,47,140	33.2	14,36,391	33.2
5. Fixed Assets	31,362	0.9	42,395	1.0
6. Other Assets	1,42,812	4.1	1,97,573	4.6

Note : Data for 2006-07 are as reported in the balance sheets of banks for 2007-08 and hence may not match with those reported in the Report on Trend and Progress of Banking in India, 2006-07, as the figures for 2006-07 were revised by some banks.

Source: Balance Sheets of respective banks.

system during the year declined significantly to 13.7 at end-March 2008 from 15.8 a year ago.

3.7 The composition of assets of SCBs during 2007-08 remained more or less the same as in the previous year. On the liability side, the share of reserves and surplus increased, while that of deposits declined. Aggregate deposits of SCBs continued to show strong growth during 2007-08, though it was lower than the previous year. Capital and reserves grew at a significantly higher rate in 2007-08 in comparison with 2006-07. The growth rate of loans and advances moderated as compared with that in the previous year,

partly reflecting the impact of measures taken by the Reserve Bank such as increase in cash reserve ratio (CRR), which, in turn, was reflected in the significant increase in cash and balances with the Reserve Bank. Banks' investments in Government securities grew at a much higher rate in comparison with the last year [Table III.1, Table III.2 and Appendix Table III.1 (A) to (C)].

3.8 Among the banks groups, the balance sheets of foreign and new private sector banks expanded at a higher rate as compared with other bank groups (Table III.2). As a result, the combined share of foreign and new private sector bank groups in total assets of SCBs

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

(Per cent)

Item	As at end-March									
	2007					2008				
	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	0.7	4.4	5.6	45.4	17.3	5.2	1.8	14.6	71.0	35.0
2. Reserve and Surplus	20.0	11.6	17.4	30.6	20.0	31.3	47.1	97.9	35.0	45.4
3. Deposits	22.9	6.0	38.8	32.5	24.6	23.1	19.8	23.1	26.8	23.1
3.1. Demand Deposits	19.3	3.9	36.7	19.3	21.1	20.4	23.4	38.6	28.3	24.6
3.2. Saving Bank Deposits	15.0	6.7	33.3	16.3	16.4	14.9	16.2	40.5	20.2	17.8
3.3. Term Deposits	27.3	6.1	40.6	47.1	28.7	27.0	20.2	16.0	27.7	24.8
4. Borrowings	5.7	22.3	42.8	33.0	19.6	24.1	8.0	26.1	14.2	22.4
5. Other Liabilities and Provisions	16.3	16.1	51.1	72.4	28.1	28.5	21.3	17.5	65.5	30.8
Total Liabilities/Assets	21.1	7.1	38.7	37.6	24.2	23.9	21.2	27.5	32.7	25.0
1. Cash and Balances with RBI	26.1	25.9	93.7	49.8	35.2	61.5	74.4	74.3	81.2	65.4
2. Balances with Banks and Money at Call and Short Notice	26.8	5.8	91.9	41.9	35.9	-31.7	-20.2	-33.7	-25.1	-30.3
3. Investments	4.9	-3.6	26.4	36.4	9.7	20.2	23.1	31.3	38.4	23.7
3.1 Government Securities (a+b)	3.6	-2.2	33.0	37.5	9.3	20.5	20.0	21.8	47.5	22.7
a. In India	3.6	-2.0	32.9	37.5	9.4	20.3	20.0	21.9	47.5	22.6
b. Outside India	-8.6	-100.0	125.0	0.0	-5.9	58.3	0.0	-53.6	0.0	49.3
3.2 Other Approved Securities	-7.8	-30.9	-10.3	0.2	-8.5	-16.7	-20.7	12.0	-60.9	-17.0
3.3 Non-Approved Securities	13.8	-7.6	11.4	32.8	13.3	22.6	37.7	57.0	5.2	30.5
4. Loans and Advances	30.2	12.0	39.9	29.5	30.6	24.8	20.2	26.4	27.5	25.0
4.1 Bills Purchased and Discounted	22.4	-15.4	20.7	21.3	19.9	16.3	36.9	36.8	36.5	21.5
4.2 Cash Credits, Overdrafts, etc.	25.6	11.6	42.3	20.9	25.6	24.3	20.3	31.0	33.8	25.3
4.3 Term Loans	34.6	16.5	40.7	38.7	35.3	26.2	18.3	24.6	21.2	25.2
5. Fixed Assets	37.7	-5.6	4.2	24.4	25.0	42.6	26.2	15.9	32.3	35.2
6. Other Assets	7.1	0.7	33.9	72.9	22.5	31.2	-1.5	28.1	67.0	38.3

Source : Balance Sheets of respective banks.

increased further to 25.6 per cent at end-March 2008 from 24.8 per cent at end-March 2007. The growth rates in the assets of public sector banks and old private sector banks during 2007-08 at 23.9 per cent and 21.2 per cent, respectively, were higher than those during the previous year. However, their assets grew at a lower rate than those of SCBs as a whole [Appendix Table III.1 (A) to (C)].

3.9 The impact of differential growth rate across different banks groups was broadly reflected in their market shares in terms of major indicators of balance sheets (Table III.3).

Deposits

3.10 Aggregate deposits of scheduled commercial banks showed a lower growth of 23.1 per cent during 2007-08 as compared with 24.6 per cent in the previous year. The deceleration in aggregate deposits was on account of moderation in the growth of term deposits (24.8 per cent) as compared with that in the previous year (28.7 per cent). Demand deposits and saving bank deposits showed a higher growth than that in the previous year.

3.11 The trend of increasing dependence of banks on certificates of deposit (CDs) continued during 2007-08. The amount of

CDs outstanding increased by 58.5 per cent to Rs.1,47,792 crore by end-March 2008. CDs outstanding as percentage of aggregate deposits increased to 4.5 per cent as on March 28, 2008 from 3.5 per cent a year ago (Appendix Table III.2).

3.12 Bank groups-wise analysis reveals that deposits of foreign sector banks grew at the highest rate (26.8 per cent). While deposits of public sector banks and new private sector banks showed a growth of 23.1 per cent each, old private sector banks' deposits increased by 19.8 per cent during 2007-08. Though the growth in deposits of old private sector banks was significantly higher than that in the previous year, their share in aggregate deposits of SCBs declined further, *albeit* marginally during 2007-08. The share of foreign banks in aggregate deposits increased marginally during 2007-08, while that of public and new private sector banks remained at the previous year's level (Chart III.1).

Non-Deposit Resources

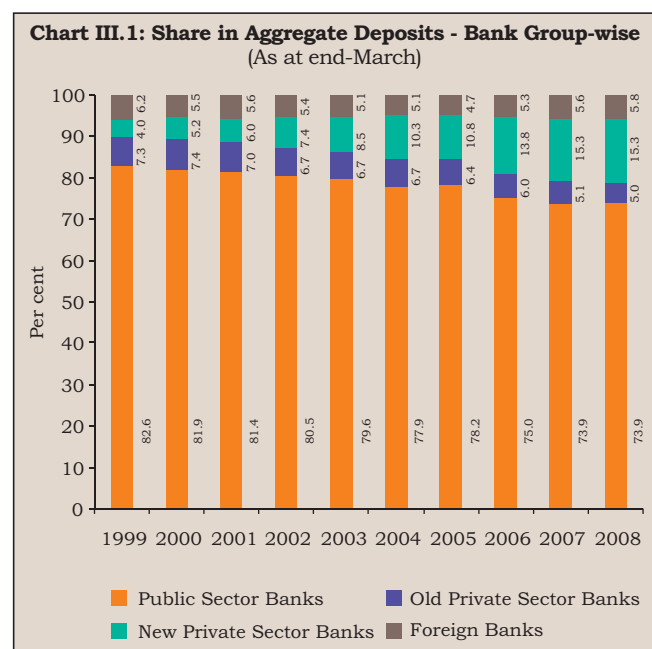
3.13 Among the non-deposit resources, borrowings by banks increased by 22.4 per cent during 2007-08 as compared with a growth of 19.6 per cent in the previous year (Table III.2). Resources raised from the capital

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		Investments	
	2007	2008	2007	2008	2007	2008	2007	2008
1	2	3	4	5	6	7	8	9
Public Sector Banks	70.5	69.9	73.9	73.9	72.7	72.6	69.9	67.9
Nationalised Banks	44.2	43.5	48.8	48.4	45.2	45.3	44.9	42.7
State Bank Group	23.3	23.4	23.5	23.3	24.3	24.0	22.3	22.4
Other Public Sector Bank	3.0	3.0	1.6	2.2	3.2	3.3	2.7	2.8
Private Sector Banks	21.5	21.7	20.5	20.3	20.9	20.9	22.6	23.7
Old Private Sector Banks	4.6	4.5	5.1	5.0	4.7	4.5	4.6	4.6
New Private Sector Banks	16.9	17.2	15.3	15.3	16.2	16.4	18.0	19.1
Foreign Banks	7.9	8.4	5.6	5.8	6.4	6.5	7.5	8.4
Scheduled Commercial Banks	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source : Balance sheets of respective banks.



market through public issues (excluding offer for sale) in the domestic capital market increased sharply by Rs.30,455 crore during 2007-08 as compared with Rs.1,066 crore

during 2006-07. This was mainly on account of good performance of banking scrips in the secondary market, strong financial results of banks, increased need to raise capital in the face of sharp expansion of balance sheets, ensuing implementation of Basel II norms and tightening of capital adequacy norms for sensitive sectors (refer Section 6 for details).

International Liabilities of Banks

3.14 International liabilities of banks grew at a slower rate of 8.4 per cent during 2007-08 as compared with 17.6 per cent in the previous year. The slowdown was mainly due to decline in FCNR(B) deposits, NRE deposits, own issues of securities and lower growth in ADRs/GDRs and equities of banks held by non-residents. On the other hand, NRO rupee deposits, foreign currency borrowings, and capital/remittable profits of foreign banks in India increased at a higher rate (Table III.4).

Table III.4: International Liabilities of Banks - By Type

(Amount in Rs. crore)

Item	As at end-March		
	2006	2007	2008
1	2	3	4
1. Deposits and Loans	2,46,246	2,71,403	2,89,362
	(80.3)	(75.2)	(74.0)
<i>of which:</i>			
a) Foreign Currency Non-Resident Bank [FCNR(B)]	58,110	68,086	60,340
	(19.0)	(18.9)	(15.4)
b) Foreign currency Borrowings *	63,722	61,470	77,257
	(20.8)	(17.0)	(19.8)
c) Non-resident External Rupee (NRE) A/C	100,310	112,907	111,301
	(32.7)	(31.3)	(28.5)
d) Non-Resident Ordinary (NRO) Rupee Deposits	5,449	6,855	11,387
	(1.8)	(1.9)	(2.9)
2. Own Issues of Securities/Bonds (including IMD/RIBs)	4,856	10,036	9,166
	(1.6)	(2.8)	(2.3)
3. Other Liabilities	55,506	79,258	92,329
	(18.1)	(22.0)	(23.6)
<i>of which:</i>			
a) ADRs/GDRs	14,835	23,515	25,111
	(4.8)	(6.5)	(6.4)
b) Equity of banks held by non-residents	28438	40328	45603
	(9.3)	(11.2)	(11.7)
c) Capital/remittable profits of foreign banks in India and other unclassified international liabilities	12,233	15,415	21,615
	(4.0)	(4.3)	(5.5)
Total International Liabilities	3,06,609	3,60,698	3,90,857
	(100.0)	(100.0)	(100.0)

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

Note : Figures in parentheses are percentages to total.

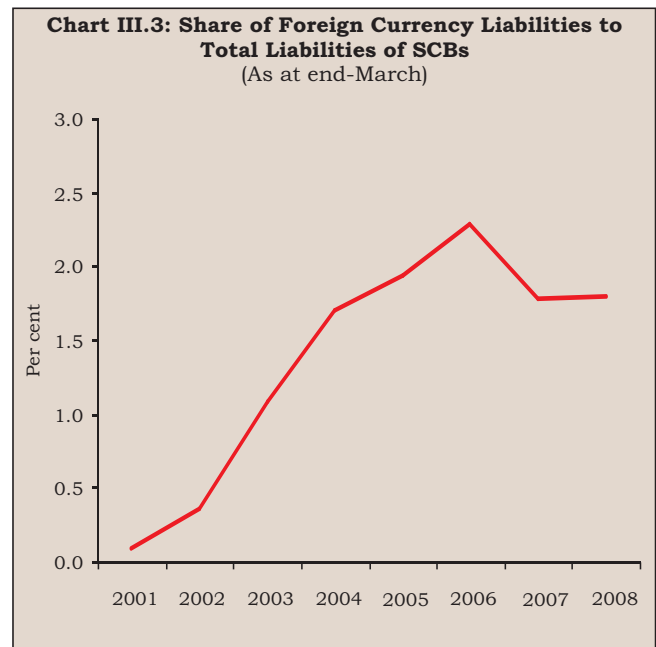
Source : Locational Banking Statistics.

3.15 The share of foreign currency deposits in total international liabilities continued to decline during 2007-08, whereas that of borrowings increased to 19.8 per cent from 17.0 per cent in the previous year (Chart III.2).

3.16 The share of foreign currency liabilities of scheduled commercial banks in their total liabilities in 2007-08 remained unchanged at the previous year's level (Chart III.3).

Bank Credit

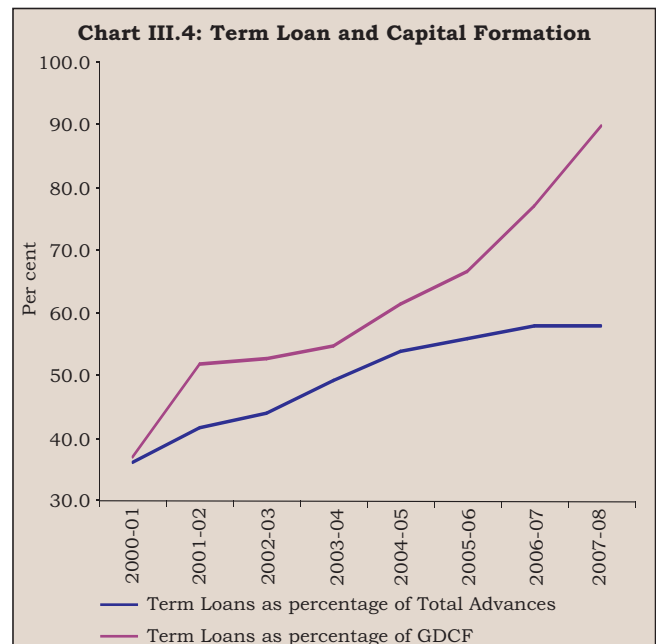
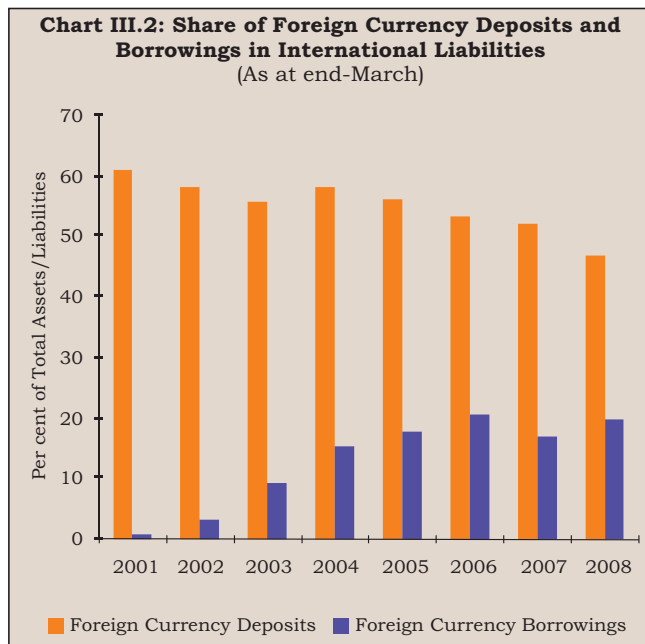
3.17 Growth rate in aggregate loans and advances of SCBs decelerated to 25.0 per cent during 2007-08 from 30.6 per cent in 2006-07 and an average growth of 31.9 per cent during 2004-05 to 2006-07. This was mainly on account of sharp deceleration in growth of terms loans (which constituted 58.0 per cent of total loans and advances) to 25.2 per cent in 2007-08 from 35.3 per cent in the previous year. Notwithstanding the deceleration in terms loans, the ratio of term loans to gross domestic capital formation (GDCF) in the country increased to 89.9 per cent in 2007-08 from 77.1 per cent in the previous year (Chart III.4). Among the other major components, bills purchased and discounted



witnessed a higher growth in the 2007-08, while cash credit and overdraft grew broadly at the same rate as in the previous year.

Sectoral Deployment of Bank Credit

3.18 The overall deceleration in bank credit during 2007-08 was reflected in the flow of credit to all the major sectors, barring the services sector. The deceleration was more



pronounced in respect of agriculture and allied activities and personal loans, whereas credit to industry showed a marginal slowdown. Apart from general moderation of overall credit, drought in certain pockets of the country, lower demand for credit in anticipation of waiver under Debt Waiver Scheme, exclusion of loans to bodies such as Electricity Boards from the category of agricultural lending under the revised priority sector guidelines and lower investment credit may have contributed to the deceleration in credit to agriculture (Table III.5 and Appendix Table III.3).

3.19 Provisional data on sectoral deployment of credit up to September 28, 2008 indicate that, on a year-on-year basis, overall credit growth was higher at 26.9 per

Table III.5 Sectoral Deployment of Gross Bank Credit: Flows
(Variations over the year)

(Amount in Rs. crore)

Sector	2006-07		2007-08	
	Absolute	Per cent	Absolute	Per cent
1	2	3	4	5
1. Agriculture and Allied Activities	56,426	32.4	43,260	18.8
2. Industry (Small, Medium and Large)	1,46,890	26.7	1,74,566	25.0
<i>Of which: Small</i>	25,888	28.4	27,924	32.2
3. Personal Loans	96,486	26.8	48,656	10.7
<i>Of which: Housing</i>	45,791	24.7	24,659	10.7
4. Other Services	96,596	30.2	1,29,743	31.1
<i>Of which:</i>				
(i) Wholesale Trade (other than food procurement)	10,422	26.3	4,472	8.9
(ii) Real Estate Loans	18,483	69.2	17,070	37.8
(iii) Non-Banking Financial Companies	14,722	42.9	26,274	53.6
Total Non-Food Gross Bank Credit (1 to 4)	3,96,399	28.2	4,01,799	22.3
<i>Of which, Priority Sector</i>	1,23,404	24.2	1,04,544	16.5

Notes : 1. Data are provisional and relate to select scheduled commercial banks which account for more than 90 per cent of bank credit of all scheduled commercial banks. Data include the figures of Bharat Overseas Bank, which was merged with Indian Overseas Bank on March 31, 2007.

2. Gross bank credit data include bills rediscounted with Reserve Bank, Exim Bank, other financial institutions and inter-bank participations.

cent as compared with 22.2 per cent a year ago. Bank credit growth to agriculture and personal loans decelerated to 20.6 per cent and 15.3 per cent (23.2 per cent and 18.5 per cent a year ago), respectively, while credit to industry and services increased at a higher rate of 33.1 per cent and 32.2 per cent (23.2 per cent and 24.1 per cent a year ago), respectively. Credit growth to real estate remained high at 45.9 per cent, notwithstanding a sharp deceleration.

Priority Sector Advances

3.20 The Reserve Bank has taken several initiatives in recent years to enhance the credit flow to the sectors considered to be constrained by the inadequate credit availability. The priority sector definition was modified from time to time to take into account the structural changes in the economy. As per the revised guidelines, the priority sector broadly comprises agriculture, small enterprises sector, micro credit, education and housing. The targets and sub-targets for all banks are now linked to the adjusted net bank credit (ANBC) or credit equivalent amount of off-balance sheet exposures (CEOBSE), whichever is higher (refer Chapter II).

3.21 The growth in priority sector lending by banks during 2007-08 decelerated to 16.9 per cent in line with the deceleration in overall bank credit. Among bank groups, the outstanding priority sector advances of public sector banks at end-March 2008 increased by 16.8 per cent as compared with a growth of 27.2 per cent a year ago. Deceleration in priority sector advances was mainly due to lower growth in lending to agriculture and other priority sector advances, including micro credit and housing. Advances to micro and small enterprises sector by PSBs, however, exhibited a significantly higher growth of 45.0 per cent in 2007-08 as compared with an

increase of 24.4 per cent during 2006-07. Notwithstanding some deceleration, total priority sector advances by PSBs during 2007-08 as a percentage of their ANBC/CEOBSE improved significantly to 44.6 per cent as compared with 39.7 per cent in the previous year (Table III.6). Among the other priority sector advances by PSBs, advances to housing constituted the largest share (10.8 per cent ANBC/CEOBSE) followed by retail credit (3.0 per cent of ANBC/CEOBSE), education (1.5 per cent of ANBC/CEOBSE) and micro-credit (0.2 per cent of ANBC/CEOBSE) (Appendix Table III.4 and III.5). Total priority sector advances extended by private sector banks during 2007-08 grew by 12.9 per cent as compared with a rise of 35.6 per cent in the previous year. While advances to micro and small enterprises sector by private sector banks in 2007-08 increased by around two and half times, advances to agriculture registered a lower growth of 10.9 per cent as compared with 41.7 per cent in the previous year. Total priority sector advances by private sector banks, as on the last reporting Friday

Table III.6: Priority Sector Lending by Public and Private Sector Banks
(As on the last reporting Friday of March)

Item	Public Sector Banks		Private Sector Banks	
	2007	2008@	2007	2008@
	2	3	4	5
Priority Sector Advances	5,21,376	6,08,963	1,44,549	1,63,223
	(39.7)	(44.6)	(42.9)	(47.5)
<i>of which:</i>				
Agriculture	2,02,614	2,48,685	52,034	57,702
	(15.4)	(17.4 [^])	(12.7)	(15.4)
Micro and Small Enterprises*	1,02,550	1,48,651	13,136	46,069
	(7.8)	(10.9)	(3.9)	(13.4)
Other Priority Sector#	2,06,661	2,11,627	76,919	59,452
	(15.7)	(15.5)	(22.9)	(17.3)
@ : Provisional.				
* : The revised guidelines on priority sector advances issued on April 30, 2007 take into account the revised definition of small and micro enterprises as per the Micro, Small and Medium Enterprises Development Act, 2006.				
# : Includes retail trade, micro-credit, education and housing.				
[^] : Indirect agriculture is reckoned up to 4.5 per cent of ANBC for calculation of percentage.				
Note : Figures in parentheses represent percentages to net bank credit/ANBC/CEOBSE.				

of March 2008, constituted 47.5 per cent of ANBC or CEOBSE (Appendix Table III.6 and III.7).

3.22 As on the last reporting Friday of March 2008, lending to the priority sector by foreign banks constituted 39.5 per cent of their ANBC/CEOBSE as against the target of 32 per cent. Of this, credit to the micro and small enterprises (MSE) and export sectors constituted 12.2 per cent and 22.8 per cent, respectively, of ANBC/CEOBSE (Table III.7 and Appendix Table III.8).

3.23 At individual bank-level, 12 banks achieved the overall target of lending to the priority sector and sub-targets of lending to agriculture and weaker sections. Twenty seven banks (12 public sector banks and 15 private sector banks) achieved the overall target, but did not achieve the sub-targets. Only two private sector banks did not achieve the overall target as also the sub-targets (Table III.8; Appendix Table III.5(A), III.7(A) and III.8(A)).

Special Agricultural Credit Plans (SACP)

3.24 With a view to increasing the flow of credit to agriculture, the Reserve Bank in 1994-95 had advised public sector banks to prepare special agricultural credit plans (SACP) on an annual basis. Under SACP, banks are required to fix self-set targets for achievement during the year (April-March). The targets are generally fixed by the banks showing an increase of about 20-25 per cent over the disbursements made in the previous year. During 2005-06 and 2006-07, public sector banks disbursed Rs.94,278 crore and Rs.1,22,443 crore, respectively, surpassing the targets under the plan. The disbursements under the plan during 2007-08 aggregated Rs.1,33,226 crore, constituting 87.6 per cent of the target of Rs.1,52,133 crore. Drought in certain regions, lower investment credit, lower

Table III.7: Priority Sector Lending by Foreign Banks
(As on the last reporting Friday of March)

(Amount in Rs. crore)

Sector	2006		2007		2008@	
	Amount	Percentage to ANBC/CEOBSE	Amount	Percentage to ANBC/CEOBSE	Amount	Percentage to ANBC/CEOBSE
1	2	3	4	5	6	7
Priority Sector Advances	30,439	34.4	37,831	33.4	50,301	39.5
<i>of which:</i>						
Export credit	17,326	19.6	20,711	18.3	29,007	22.8
Micro and Small Enterprises*	8,430	9.5	11,637	10.3	15,489	12.2

@ : Provisional.

* : The revised guidelines on priority sector advances issued on April 30, 2007 take into account the revised definition of small and micro enterprises as per the Micro, Small and Medium Enterprises Development Act, 2006.

demand for credit in anticipation of waiver under Debt Waiver Scheme and general moderation of overall credit growth would have contributed to the shortfall. The SACP mechanism was also made applicable to private sector banks from 2005-06. The disbursements to agriculture by private sector banks under SACP during 2006-07 aggregated Rs.44,093 crore, surpassing the target of Rs.40,656 crore by 8.3 per cent. As against the target of Rs.41,427 crore for 2007-08, disbursements to agriculture by private sector banks aggregated Rs.47,862 crore, exceeding the target by 15.5 per cent.

3.25 Public sector banks were advised to earmark 5 per cent of their ANBC to women. At end-March 2008, aggregate credit to women

by public sector banks constituted 6.12 per cent of their ANBC with 24 banks reaching the target. Eight PSBs opened 19 specialised women branches.

Micro finance

3.26 The SHG-Bank Linkage Programme has emerged as a major micro finance programme in the country. It is being implemented by commercial banks, RRBs and co-operative banks. At end-March 2008, 2.9 million SHGs were having outstanding bank loans of Rs.12,366 crore. During the year 2007-08, 552,992 new SHGs were provided with bank loans and 186,883 existing SHGs with repeat loans. Total bank loans disbursed during the year were Rs.4,228 crore, of which repeat bank loans existing SHGs were Rs.1,686 crore (see Chapter VI for details).

Credit to Industry

3.27 Growth in credit to industry (small, medium and large) decelerated marginally to 25.0 per cent in 2007-08 from 26.7 per cent in the previous year. As credit growth to industry grew faster than the overall credit growth, the share of outstanding credit to industry in non-food gross bank credit increased to 39.6 per cent at end-March 2008 from 38.7 per cent at end-March 2007.

Table III.8: Achievement of Targets under the Priority Sector

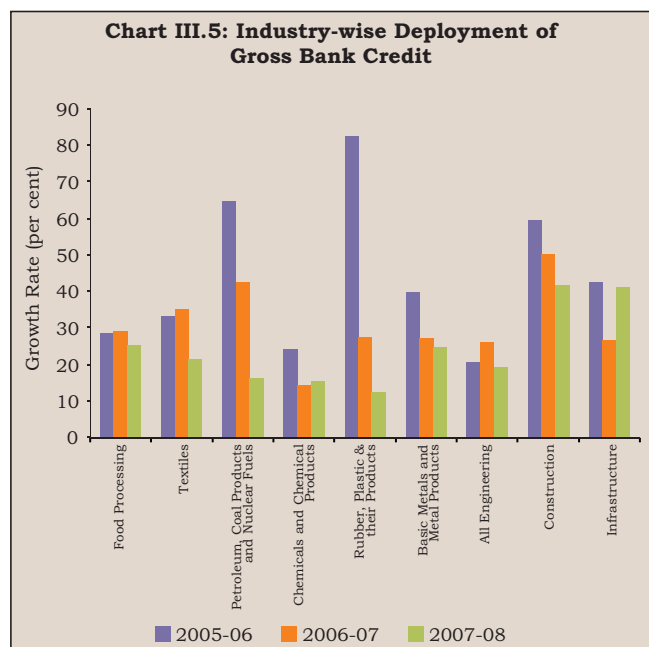
(Number of banks)

Target/Sub-target	Public Sector	Private Sector	Total
1	2	3	4
1. Overall/Agriculture/Weaker Sections	12	-	12
2. Only Overall	12	15	27
3. Overall and Agriculture	3	6	9
4. Overall and Weaker Sections	3	-	3
5. Agriculture and Weaker Sections	-	-	-
6. Only Agriculture	-	-	-
7. Only Weaker Sections	-	-	-
8. None	-	2	2
- : Nil.			

Infrastructure, which has the largest share in credit outstanding, also accounted for the largest share of incremental bank credit to industry in absolute terms, followed by basic metals and metal products, and textiles. In terms of growth rates, credit to cement and cement products showed the highest growth rate (51.3 per cent), followed by construction (41.7 per cent) and infrastructure (41.5 per cent) (Chart III.5 and Appendix Table III.9). Compared to the previous year, credit growth to most of the sectors decelerated during 2007-08, barring a few sectors including infrastructure, leather and leather products, chemical and chemical products, and cement and cement products.

Credit to Micro and Small Enterprises (MSE) Sector

3.28 The total credit provided by public sector banks to the micro and small enterprises (MSE) as on last reporting Friday of March 2008 was Rs.1,48,651 crore, representing 10.9 per cent of ANBC/CEOBSE and 24.4 per cent of their total priority sector



advances. Within the MSE sector, advances to manufacturing enterprises and service enterprises were at Rs.1,14,146 crore and Rs.32,094 crore constituting 76.8 per cent and 21.6 per cent, respectively, of the total advances to the small enterprises sector. The total credit extended by private sector banks to the MSE sector as on last reporting Friday of March 2008 was Rs.46,069 crore, constituting 13.4 per cent of ANBC/CEOBSE and 28.2 per cent of their total priority sector advances. Out of these advances, advances to manufacturing enterprises and service enterprises amounted to Rs.16,526 crore (35.9 per cent of MSE advances) and Rs.29,178 crore (63.3 per cent of SME advances). The total credit provided by foreign banks to the MSE sector as on last reporting Friday of March 2008 was Rs. 15,489 crore, representing 12.2 per cent of ANBC/CEOBSE and 30.8 per cent of their total priority sector advances.

3.29 At end-March 2008, credit extended by scheduled commercial banks to 85,187 sick MSE units was at Rs.13,849 crore. Of these, 4,210 units with their outstanding bank credit at Rs.247 crore were found to be viable, of which, banks placed 1,262 units, involving an outstanding credit of Rs.127 crore under nursing programmes. 75,829 units with outstanding credit of Rs.13,462 crore were found non-viable. Credit extended by scheduled commercial banks to 14,754 sick medium enterprises (MEs) during the year was Rs.1,740 crore. Out of these, 495 MEs with outstanding bank credit at Rs.328 crore were found to be viable, of which, banks placed 50 MEs, involving an outstanding credit of Rs.185 crore under nursing programmes. 14,226 ME units with outstanding credit of Rs.1,302 crore were found non-viable .

Credit to Khadi and Village Industries Commission

3.30 A consortium of select public sector banks was formed with the State Bank of India as the leader of the consortium 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. At end-September 2008, an amount of Rs.306 crore was outstanding out of Rs.738 crore disbursed by the consortium of banks under the scheme.

Retail Credit

3.31 Growth in retail credit by banks decelerated further during 2007-08 to 17.1 per cent from 29.9 per cent in 2006-07 and 40.9 per cent in 2005-06. It also remained lower than the growth in overall credit by the banking sector (23.2 per cent). As a result, the share of retail credit in total loans and advances declined to 24.5 per cent at end-March 2008 from 25.8 per cent at end-March 2007. Deceleration in the retail portfolio of banks was on account of decline in credit for consumer durables and deceleration in the growth of auto loans, housing loans and other personal loans (Table III.9). The outstanding

amount under credit card receivables, however, increased by almost 50 per cent during 2007-08 reflecting the increase in the usage of credit cards for various payments.

Lending to Sensitive Sectors

3.32 SCBs lending to sensitive sectors (capital market, real estate and commodities) showed a significant deceleration during 2007-08, though it was marginally higher than the overall credit growth. Lending to real estate, which constituted 87.4 per cent of total lending to sensitive sectors, showed a significantly lower growth during 2007-08, partly on account of tightening of prudential norms by the Reserve Bank. The lending to capital market increased significantly during 2007-08. While exposure to commodities showed a significant growth, it remained relatively low (Table III.10). The Reserve Bank in its Annual Policy Statement for 2008-09 had advised banks to exercise caution while extending advances to traders in agricultural commodities to ensure that bank finance was not used for hoarding (Box III.1) Overall exposure of SCBs to sensitive sectors as percentage of aggregate bank loans remained at the previous year's level (20.6 per cent) (Appendix Table III.11).

Table III.9: Retail Portfolio of Banks

(Amount in Rs. crore)

Item	Outstanding as at end-March		Percentage Variation	
	2007	2008	2006-07	2007-08
1	2	3	4	5
1. Housing Loans	2,24,481	2,52,932	25.4	12.7
2. Consumer Durables	7,296	4,802	63.3	-34.2
3. Credit Card Receivables	18,317	27,437	47.3	49.8
4. Auto Loans	82,562	87,998	34.5	6.6
5. Other Personal Loans	1,55,204	1,97,879	31.1	27.5
Total Retail Loans (1 to 5)	4,87,860	5,71,048	29.9	17.1
	(25.8)	(24.5)		
Total Loans and Advances of SCBs	18,93,775	23,32,490	28.5	23.2

Note : Figures in parentheses represent percentage share in total loans and advances.

Source : Off-site Returns (domestic, unaudited and provisional).

Table III.10: Lending to the Sensitive Sectors by Scheduled Commercial Banks
(As at end-March)

(Amount in Rs. crore)

Item	2007		2008	
	Amount	Per cent to Total	Amount	Per cent to Total
1	2	3	4	5
1. Capital Market	35,106 (57.4)	8.6	62,998 (79.5)	12.3
2. Real Estate Market	3,72,874 (42.3)	91.2	4,46,758 (19.8)	87.4
3. Commodities	862 (-39.0)	0.2	1,237 (43.5)	0.2
Total (1+2+3)	4,08,842 (43.1)	100.0	5,10,994 (25.0)	100.0

-: negligible.
Note: Figures in parentheses are percentage variations over the previous year.

3.33 Bank group-wise pattern of lending to sensitive sectors indicates that new private sector banks had the largest exposure to sensitive sectors in 2007-08 in terms of their share in total loans and advances, mainly on account of higher lending to the real estate sector, followed by foreign banks, old private sector banks and public sector banks (Table III.11 and Appendix Table III.11).

Investments

3.34 Investments by banks recorded a high growth of 23.7 per cent in 2007-08 as compared with 9.7 per cent in 2006-07 and a decline of 0.4 per cent in 2005-06 (Table III.12). This broadly reflected the pattern of banks' investment in SLR securities, which constitute the bulk of their investments. In relation to total assets of SCBs, the share of

Government securities declined marginally to 21.4 per cent (27.8 per cent of NDTL) during 2007-08 from 21.8 per cent (27.9 per cent of NDTL) in the previous year whereas that of non-approved securities increased from 5.3 per cent as at end-March 2007 to 5.5 per cent as at end-March 2008 (Table III.1).

3.35 Although the banking sector held excess SLR investment at Rs.98,033 crore (above the then prescribed minimum requirement of 25.0 per cent) at end-March 2008, several banks were operating their statutory liquidity ratio portfolio very close to the prescribed minimum level. The prescribed SLR which was 25.0 per cent of NDTL since October 1997 was revised to 24.0 per cent of NDTL with effect from November 8, 2008. Excess SLR investments of SCBs increased to Rs.1,30,736 crore on November 21, 2008 (including the collateral securities received by banks from the RBI under LAF reverse repo). SLR investments in relation to NDTL declined to 26.9 per cent (Chart III.6).

Non-SLR investments

3.36 Banks' investments in non-SLR securities (i.e., bonds/debentures/shares and commercial papers) increased by 14.3 per cent (Rs.11,961 crore) during 2007-08 as compared with a decline of 5.1 per cent (Rs.4,081 crore) in the previous year. While investments in bonds/debentures declined, those in shares (mutual funds in particular) and commercial paper increased (Table III.13). The total flow of funds from SCBs to the

Box III.1: Exposure of Banks to the Commodity Sector

The turnover in the commodity futures market has shown a significant growth in recent years. Along with the trading volumes, banking sector exposure to commodity market had also shown a noticeable growth. In view of the public policy concerns in regard to trading in food items, the Reserve Bank in the Annual Policy Statement for the year 2008-09 advised the banks to review their advances to traders in agricultural commodities including rice, wheat, oilseeds and pulses as also advances against warehouse receipts. Banks were further advised to exercise caution while extending such advances to ensure that bank finance was not used for hoarding. The first such review was

required to be completed by May 15, 2008 and forwarded to the Reserve Bank for carrying out supervisory review.

Accordingly, banks had carried out review of their exposure to agricultural commodities as on March 31, 2008. The data submitted by banks revealed that the advances to traders in agricultural commodities including advances against warehouse receipts as on March 31, 2008 constituted less than one per cent of their gross advances. Banks have confirmed that they are exercising due caution while extending advances to agricultural commodities so as to ensure that bank finance is not used for hoarding. Another review carried out with reference to the position as on June 30, 2008 revealed no significant change in such exposure of banks.

Table III.11: Lending to the Sensitive Sectors - Bank Group-wise*
(As at end-March)

(Per cent)

Sector/Bank Group	Public Sector Banks		New Private Sector Banks		Old Private Sector Banks		Foreign Sector Banks	
	2007	2008	2007	2008	2007	2008	2007	2008
1	2	3	4	5	6	7	8	9
Capital Market#	1.4	1.8	2.8	5.6	1.8	2.0	3.0	3.3
Real Estate Market@	15.3	15.3	32.3	28.5	16.8	16.5	26.5	23.1
Commodities	0.0	0.0	0.0	0.0	0.5	0.4	0.0	0.1
Total Advances to Sensitive Sectors	16.7	17.2	35.1	34.1	19.1	18.9	29.5	26.4

* : Advances to the sensitive sector as percentage to total loans and advances of the concerned bank group.

: Exposure to the capital market is inclusive of both investments and advances.

@ : Exposure to real estate sector is inclusive of both direct and indirect lending.

commercial sector comprising credit and non-SLR investments increased by 22.6 per cent (Rs.4,44,807 crore) in 2007-08 as compared with 27.3 per cent (Rs.4,22,363 crore) in the previous year.

3.37 In terms of instruments, bank's investments in bonds and debentures declined in recent years, while it increased in shares, commercial papers and units of mutual funds (Table III.14).

International Assets of Banks

3.38 Prevailing macroeconomic and financial market conditions globally have influenced international assets position of banks in India. Overall, there was a deceleration in international assets due to decline in 'nostro balances', holding of debt securities and other assets. Banks reduced

their 'nostro balances' in 2007-08 partly on account of increase in domestic deposit rates. Banks' foreign currency loans to residents recorded a substantially higher growth during 2007-08. As a result, the share of foreign currency loans to residents in total international assets of SCBs increased to 48.7 per cent as at end-March 2008 from 37.0 per cent at end-March 2007. The share of outstanding export bills held by banks (drawn by residents on non-residents) also increased significantly between end-March 2007 and end-March 2008 (Table III.15).

Table III.12: Growth in Investments and Deposits of SCBs

(Per cent)

Year	SLR Investments as per cent of NDTL (end-March)	SLR Investments	Total Investments	Deposits	Loans
1	2	3	4	5	6
2002-03	38.8	24.9	17.9	12.7	14.5
2003-04	41.3	23.8	15.8	16.2	16.8
2004-05	38.2	9.1	8.3	16.6	33.3
2005-06	31.3	-2.9	-0.4	17.8	31.8
2006-07	27.9	10.3	9.7	24.6	30.6
2007-08	27.8	22.8	23.7	23.1	25.0

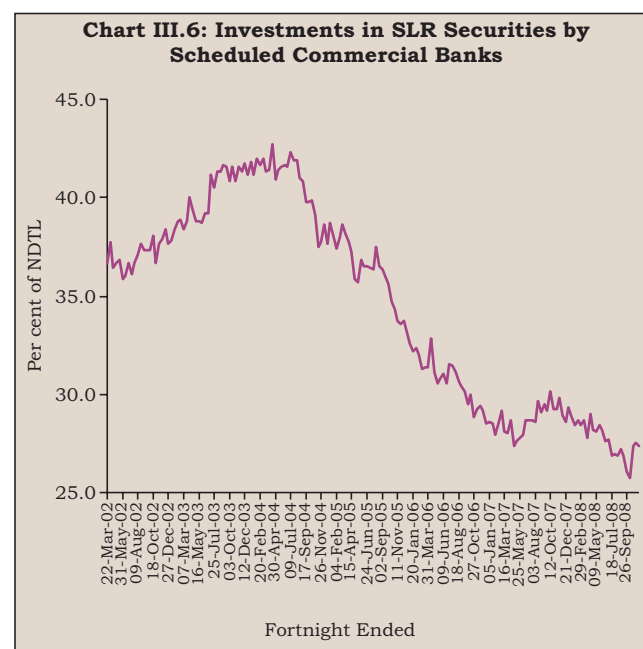


Table III.13: Non-SLR Investments of Scheduled Commercial Banks

(Amount in Rs. crore)

Instrument	As on March 30, 2007	Per cent to Total	As on March 28,2008	Per cent to Total	As on Oct. 12, 2007	Per cent to Total	As on Oct. 10, 2008	Per cent to Total
1	2	3	4	5	6	7	8	9
1. Commercial Paper	8,978	9.0	13,045	11.4	6,582	4.7	10,640	10.5
2. Investment in shares	18,352	19.3	26,410	23.1	20,350	14.3	27,691	27.7
of which:								
a) Public sector undertakings	2,127	2.2	3,023	2.6	1,485	1.4	3,405	3.4
b) Private corporate sector	16,225	17.0	23,387	20.5	18,364	13.0	24,364	24.3
3. Investment in bonds/debentures	56,215	59.0	56,051	49.1	49,353	35.7	52,741	52.6
of which:								
a) Public sector undertakings	28,595	30.0	27,382	24.0	24,867	17.5	23,661	21.8
b) Private corporate sector	27,620	29.0	28,669	25.1	24,666	17.5	29,080	29.0
4. Units of MFs	11,659	12.3	18,692	16.4	64,628	45.8	9,124	9.1
Total Non-SLR Investment (1+2+3+4)	95,204	100.0	1,14,198	100.0	1,25,399	100.0	1,00,244	100.0

Source: Section 42(2) returns submitted by SCBs.

3.39 The consolidated international claims of banks, based on immediate country risk, showed a lower growth of 13.5 per cent during 2007-08 as compared with 61.0 per cent during 2006-07. The share of short-term claims (with residual maturity less than one year) in the consolidated international claims declined during 2007-08, with corresponding increase in long-term claims.

3.40 Sector-wise disaggregation of consolidated international claims of banks indicated a decline in the share of banks (36.8 per cent at end-March 2008 from 46.8 per cent at end-March 2007). The share of 'non-bank private' showed a corresponding increase of 10 percentage points during 2007-08 (Table III.16).

3.41 The country-wise consolidated international claims of banks, based on immediate country risk, showed some variations during 2007-08. Continuing the recent trend, the shares of claims on the US and the UK in total consolidated international claims declined, while those on Singapore and Germany increased. The claims on the US, the UK, Singapore, Germany and Hong Kong collectively accounted for over 50 per cent of total international claims (Table III.17).

Developments during 2008-09

3.42 During 2008-09 so far (up to October 24, 2008), aggregate deposits of SCBs increased by 21.0 per cent, year-on-year, as compared with 25.9 per cent a year ago. While

Table III.14: Composition of Non-SLR Investments

(Per cent)

Instrument	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	up to Oct 26, 2007	up to Oct 24, 2008
1	2	3	4	5	6	7	8	9	10
Commercial Paper	7.2	3.1	2.7	2.7	5.4	9.4	11.4	4.6	14.3
Bonds/debentures	81.7	84.2	81.5	79.2	68.9	59.0	49.1	34.2	47.5
Shares	6.6	7.9	7.3	9.4	14.2	19.3	23.1	13.9	25.7
Units of Mutual Funds	4.5	4.9	8.5	8.7	11.5	12.2	16.4	47.3	12.5

Source : Section 42(2) returns submitted by SCBs.

Table III.15: International Assets of Banks - By Type

(Amount in Rs. crore)

Asset	2006	2007	2008
1	2	3	4
International Assets (1+2+3)	1,58,201	2,02,973	2,22,711
1. Loans and Deposits	1,46,014	1,90,888	2,12,126
	(92.3)	(94.0)	(95.2)
<i>of which :</i>			
a) Loans to Non-Residents*	6,270	7,122	8,565
	(4.0)	(3.5)	(3.8)
b) Foreign Currency Loans to Residents **	63,231	75,000	108,440
	(40.0)	(37.0)	(48.7)
c) Outstanding Export Bills drawn on Non-Residents by Residents	31,556	40,846	49,011
	(19.9)	(20.1)	(22.0)
d) Nostro Balances@	44,515	67,487	45,752
	(28.1)	(33.2)	(20.5)
2. Holdings of Debt Securities	2,079	1,761	334
	(1.3)	(0.9)	(0.1)
3. Other Assets @@	10,109	10,324	10,250
	(6.4)	(5.1)	(4.6)
* : Includes rupee loans and foreign currency (FC) loans out of non-residents (NR) deposits.			
** : Includes loans out of FCNR (B) deposits, PCFC's, FC lending to and FC deposits with banks in India.			
@ : Includes placements made abroad and balances in term deposits with non-resident banks.			
@@ : Capital supplied to and receivable profits from foreign branches/subsidiaries of Indian banks and other unclassified international assets.			
Note : Figures in parentheses are percentages to total.			
Source : Locational Banking Statistics.			

demand deposits increased by 15.1 per cent (14.8 per cent a year ago), time deposits

increased by 22.0 per cent (28.0 per cent a year ago). Non-food credit growth accelerated

Table III.16: Classification of Consolidated International Claims of Banks - By Maturity and Sector
(As at end-March)

(Amount in Rs. crore)

Residual Maturity/Sector	2006	2007	2008
1	2	3	4
Total Consolidated International Claims	92,711	1,49,258	1,69,481
a) Maturity-wise			
1) Short-term (residual maturity less than one year)	73,176	1,09,481	1,17,279
	(78.9)	(73.4)	(69.2)
2) Long-term (residual maturity of one year and above)	18,627	39,775	50,232
	(20.1)	(26.6)	(29.6)
3) Unallocated	907	2	1,970
	(1.0)	(0.0)	(1.2)
b) Sector-wise			
1) Bank	43,050	69,781	62,394
	(46.4)	(46.8)	(36.8)
2) Non-Bank Public	1,248	871	748
	(1.3)	(0.6)	(0.4)
3) Non-Bank Private	48,413	78,607	106,339
	(52.2)	(52.7)	(62.7)
Notes : 1. Figures in parentheses are percentages to total.			
2. Unallocated residual maturity comprises maturity not applicable (e.g., for equities) and maturity information not available from reporting bank branches.			
3. Bank sector includes official monetary institutions (e.g., IFC, ECB, etc.) and central banks.			
4. Prior to the quarter ended March 2005, non-bank public sector comprised of companies/ institutions other than banks in which shareholding of state/central governments was at least 51 per cent, including state/central governments and their departments. From March 2005 quarter, 'Non-bank public' sector comprises only state/central governments and their departments and, accordingly, all other entities excluding banks are classified under 'Non-bank private' sector.			
Source : Consolidated Banking Statistics - Immediate Country Risk Basis.			

Table III.17: Consolidated International Claims of Banks on Countries other than India
(As at end-March)

(Amount in Rs. crore)			
Item	2006	2007	2008
1	2	3	4
Total Consolidated International Claims	92,711	1,49,258	1,69,481
<i>of which:</i>			
a) United States of America	23,176 (25.0)	32,875 (22.0)	35,374 (20.9)
b) United Kingdom	14,212 (15.3)	22,598 (15.1)	21,899 (12.9)
c) Singapore	4,182 (4.5)	8,921 (6.0)	11,918 (7.0)
d) Germany	4,678 (5.0)	7,234 (4.8)	10,607 (6.3)
e) Hong Kong	6,652 (7.2)	8,977 (6.0)	9,792 (5.8)
f) United Arab Emirates	4,059 (4.4)	6,686 (4.5)	7,990 (4.7)
Note	: Figures in the parentheses are percentage shares in total international claims.		
Source	: Consolidated Banking Statistics - Immediate Country Risk Basis.		

to 28.9 per cent, year-on-year, from 23.1 per cent a year ago. In view of the increased demand for credit, banks reduced their incremental investments in Government and other approved securities. As on October 24, 2008, the investments in Government and other approved securities showed a lower growth of 11.1 per cent, year-on-year, as compared with 25.0 per cent a year ago.

*Quarterly Trends–Commercial Banking Survey*³

3.43 A quarterly analysis of developments in scheduled commercial banks revealed several features during 2007-08 (Table III.18). Mobilisation of deposits by banks across all the quarters was higher than that during 2006-07. On the other hand, credit expansion, which was lower in the first two quarters, picked up during the third and fourth quarters of 2007-08. Banks' investments in other approved securities declined in all the quarters of the year.

3.44 During Q1 of 2007-08, notwithstanding a decline in demand deposits, aggregate deposits of SCBs increased. The decline in demand deposits mainly reflected the unwinding of large accretion during the previous quarter. Time deposits, however, increased sharply reflecting attractive interest rates on bank deposits. However, during the quarter, bank credit declined, while credit to government increased sharply. Banks also liquidated foreign currency assets.

3.45 In Q2 of 2007-08, bank credit picked up, but net accretion to deposits remained higher than the expansion of credit to the commercial sector, thus, accommodating an increase in credit to government as well. Higher growth in deposits was largely led by increase in time deposits. Banks increased their overseas borrowings and also reduced their investments in foreign currency assets.

3.46 In Q3 of 2007-08, accretion to aggregate deposits and credit offtake declined sharply. The outstanding demand deposits declined and time deposits increased at a much lower rate. Credit to the commercial sector was higher than the fresh accretions in aggregate deposits. To meet the increased credit offtake, banks slowed down their investments in government securities. Furthermore, the SCBs increased their overseas foreign currency borrowings and liquidated their foreign currency assets.

3.47 During Q4 of 2007-08, both aggregate deposits and credit to the commercial sector increased sharply. Accretion to deposits was higher than the expansion in credit to the commercial sector. Higher growth in deposits was led by time deposits, while demand deposits after remaining subdued for most part of 2007-08 recorded robust expansion

³ Based on information received under Section 42(2) Returns of the Banking Regulation Act, 1949.

Table III.18: Operations of Scheduled Commercial Banks

(Amount in Rs. crore)

Item	Outstanding as on March 28, 2008	Variation									
		2006-07				2007-08				2008-09	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
1	2	3	4	5	6	7	8	9	10	11	12
Components											
1. Aggregate Deposits of Residents (a+b)	31,40,004	30,677	1,66,396	31,469	2,66,158	58,993	2,08,191	67,544	2,60,803	53,155	1,86,384
a. Demand Deposits	5,24,310	-41,272	43,300	-8,905	71,967	-41,898	57,771	-7,894	86,600	-77,630	49,993
b. Time Deposits of Residents	26,15,695	71,949	1,23,096	40,374	1,94,190	1,00,890	1,50,420	75,439	1,74,204	1,30,785	1,36,391
2. Call/Term Funding from Financial Institutions	1,06,504	3,118	-1,576	-4,468	5,618	-2,984	5,756	7,441	10,455	-1,116	4,506
Sources											
1. Credit to the Government	9,58,661	23,238	10,723	602	40,753	50,067	68,965	27,436	36,136	33,245	-23,374
2. Credit to the Commercial Sector (a to d)	25,49,097	22,606	1,41,465	64,777	1,97,555	-13,527	1,34,775	94,969	2,42,980	40,471	1,27,214
a. Bank Credit	23,61,914	14,050	1,40,364	74,213	1,95,485	-36,348	1,42,638	87,012	2,37,422	31,325	1,49,229
i. Food Credit	44,399	607	-7,840	8,171	4,891	-2,564	-6,948	3,259	4,131	5,478	1,11,865
ii. Non-food Credit	23,17,515	13,443	1,48,204	66,042	1,90,593	-33,784	1,49,586	83,752	2,33,291	25,557	37,364
b. Net Credit to Primary Dealers	3,521	-1,963	3,988	-2,783	-812	-282	780	1,370	-1,146	-797	-1,500
c. Investments in Other Approved Securities	13,053	526	-1,132	-352	-297	-384	-1,010	-654	-357	-194	5,848
d. Other Investments (in non-SLR Securities)	1,70,609	9,993	-1,756	-6,301	3,178	23,487	-7,634	7,241	7,061	10,136	-26,363
3. Net Foreign Currency Assets of Commercial Banks (a-b-c)	-70,196	-21,137	10,844	13,322	1,974	2,817	-16,584	974	-16,793	-19,924	-4,481
a. Foreign Currency Assets	31,189	-13,919	8,830	11,781	8,567	-8,312	-9,934	-781	-8,537	-8,383	3,044
b. Non-resident Foreign Currency Repatriable Fixed Deposits	56,935	3,917	1,671	1,233	1,364	-4,202	-1,181	-3,490	-1,653	2,048	3,611
c. Overseas Foreign Currency Borrowings	44,451	3,301	-3,685	-2,774	5,229	-6,928	7,830	1,734	9,909	9,494	3,914
4. Net Bank Reserves	2,71,166	-6,090	20,381	-15,423	52,629	6,468	76,009	-22,695	21,268	28,526	35,163
5. Capital Account	2,72,622	12,025	6,168	2,250	4,630	26,813	24,184	6,887	11,937	47,618	1,479

Note : Data relate to last reporting Friday of each quarter.

particularly in January and February 2008, when there was also increased volatility in the equity market. Commercial banks increased their overseas foreign currency borrowings, while reducing their investment in foreign currency assets. The movements in bank reserves during the fourth quarter as also for the year as a whole, reflected, apart from movements in deposits, the increase in the cash reserve ratio (CRR).

3.48 During Q1 of 2008-09, accretion to aggregate deposits was lower than in the previous year while demand deposits registered a negative growth. Bank credit, however, remained strong compared with its first quarter performance in last year. Credit

to government also remained strong. In order to finance the increased activity, banks resorted to drawdown of foreign currency assets and substantial recourse to overseas borrowings.

3.49 In the Q2 of 2008-09, accretion to aggregate deposits increased sharply led by both demand and time deposits. Increase in aggregate deposits, however, remained lower than the Q2 of last year. Bank credit also increased sharply. Banks reduced their investment in government securities and also in non-SLR securities. During the quarter, commercial banks reduced their investment in foreign currency assets and also overseas foreign currency borrowings.

Credit-Deposit Ratio

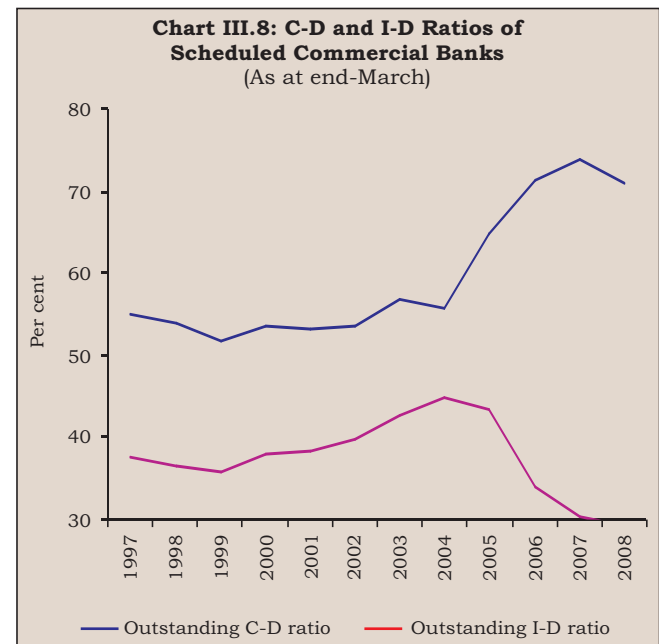
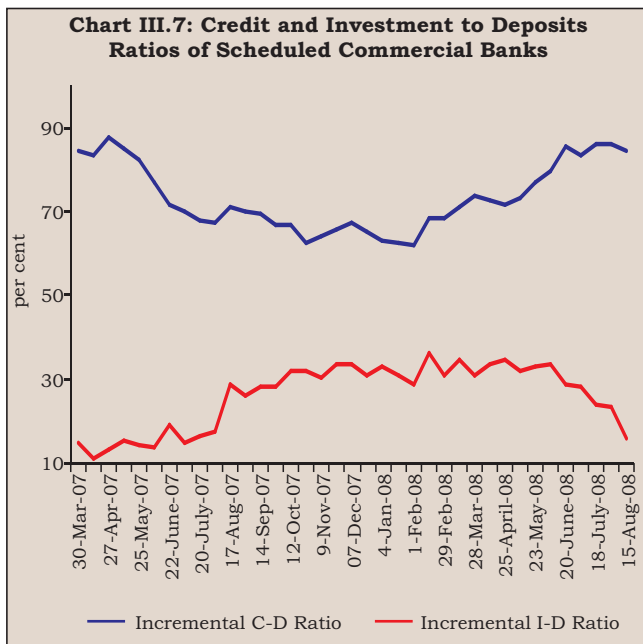
3.50 The credit-deposit ratio (CDR) and the investment-deposit ratio (IDR) of SCBs reflected the trend in the credit and deposit growth rates. On account of the strong credit growth during the previous three years (2004-05 to 2006-07), investment by banks showed a significantly lower average growth of about 6 per cent. In fact, banks liquidated some investments in 2005-06 leading to a sharp decline in incremental IDR. During 2007-08, however, with the moderation in credit growth and strong growth in deposits, the incremental credit-deposit ratio, as on March 28, 2008, declined to 73.6 per cent as compared with 84.3 per cent as on March 30, 2007. Incremental IDR, on the other hand, increased sharply to 30.8 per cent as on March 28, 2008 from 14.7 per cent as on March 30, 2007. The intra-year movement in the incremental CDR and IDR indicates that the gap between the two ratios, which narrowed during the last quarter of 2007, widened again after February 2008 (Chart III.7).

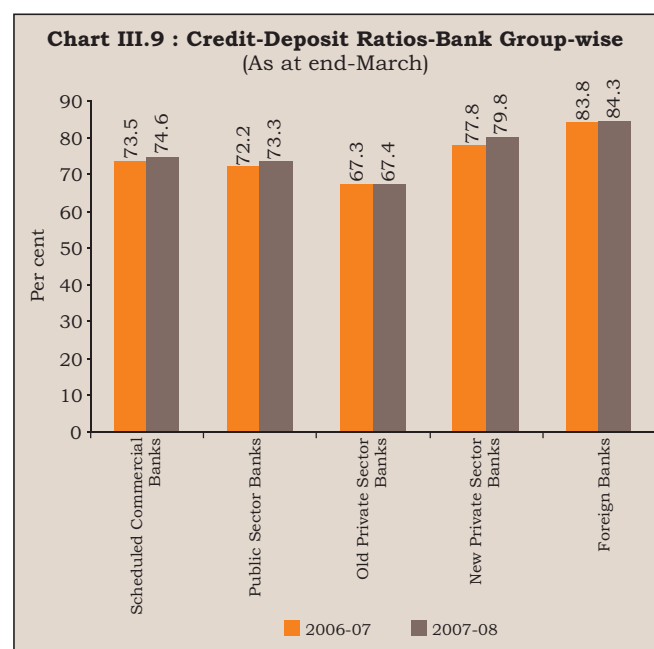
3.51 The CDR and IDR, based on the outstanding amount, which moved more or

less in the same direction between 1999 and the third quarter of 2004-05, tended to move in the opposite directions thereafter. This pattern continued in 2007-08 as the CDR increased further to reach an all-time high level of 74.6 per cent at end-March 2008. The IDR, on the other hand, which had declined to a low of 30.3 per cent as at end-March 2007, increased to 35.4 per cent at end-March 2008 (Chart III.8).

3.52 Among bank-groups, the CDR (in terms of outstanding amount) of foreign banks was the highest at end-March 2008, followed by new private sector banks, public sector banks and old private sector banks (Chart III.9).

3.53 At individual bank level, the CDR at end-March 2008 showed significant variations, particularly in the case of foreign banks. The CDR of public sector banks ranged between 59.3 per cent (United Bank of India) and 71.6 per cent (State Bank of Travancore), barring IDBI Bank Ltd. whose CDR was 112.6 per cent. In the case of old private sector banks, the CDR ranged between 53.2 per cent (Ratnakar Bank) and 75.1 per cent





(Karur Vysya Bank). The CDR of new private sector banks ranged between 62.9 per cent (HDFC Bank) and 94.7 per cent (Kotak Mahindra Bank). In the case of foreign banks, the CDR ranged between a low of 0.8

per cent (Oman International Bank) to a high of 597.8 per cent (Antwerp Diamond Bank). Of the 28 foreign banks, the CDR of as many as 10 banks was over 100 per cent (Appendix Table III.13).

Maturity Profile of Assets and Liabilities of Banks

3.54 The maturity structure of commercial banks' assets and liabilities at end-March 2008 remained broadly the same as in the previous year, barring minor variations (Table III.19). The share of deposits of up to one year maturity of all bank groups (barring new private sector banks) increased moderately, while that of other maturity buckets (1-3 years and 3-5 years) declined (except foreign banks whose share of deposits maturing between 3-5 years remained unchanged). The share of borrowings up to one year maturity increased across all bank groups (barring

Table III.19: Bank Group-wise Maturity Profile of Select Liabilities / Assets
(As at end -March)

(Per cent to Total)

Assets/Liabilities	Public Sector Banks		Old Private Sector Banks		New Private Sector Banks		Foreign Banks	
	2007	2008	2007	2008	2007	2008	2007	2008
1	2	3	4	5	6	7	8	9
I. Deposits								
a) Up to 1 year	42.4	44.1	47.0	50.9	60.4	57.1	64.0	64.7
b) Over 1 year and up to 3 years	29.0	26.5	39.0	35.5	35.5	34.3	35.6	33.3
c) Over 3 years and up to 5 years	11.2	10.3	7.8	7.7	2.6	2.5	0.4	0.4
d) Over 5 years	17.5	19.1	6.1	6.0	1.5	6.0	0.0	1.6
II. Borrowings								
a) Up to 1 year	52.7	69.6	76.3	79.1	50.4	48.9	88.7	90.9
b) Over 1 year and up to 3 years	19.3	16.5	8.3	5.4	26.7	25.6	11.2	8.4
c) Over 3 years and up to 5 years	13.5	6.0	1.7	3.0	19.9	22.0	0.1	0.3
d) Over 5 years	14.5	7.9	13.7	12.5	3.0	3.5	0.0	0.3
III. Loans and Advances								
a) Up to 1 year	36.8	38.0	40.0	40.4	30.4	33.6	52.2	49.6
b) Over 1 year and up to 3 years	33.1	33.3	37.2	36.1	39.9	34.3	31.2	34.4
c) Over 3 years and up to 5 years	12.6	11.2	11.0	11.5	12.0	12.2	6.1	6.6
d) Over 5 years	17.5	17.6	11.9	12.0	17.6	20.0	10.5	9.4
IV. Investment								
a) Up to 1 year	13.6	19.0	20.4	21.3	51.1	55.8	52.2	62.2
b) Over 1 year and up to 3 years	14.6	19.0	11.5	16.5	25.0	21.1	29.7	25.9
c) Over 3 years and up to 5 years	15.1	13.8	9.9	12.2	7.6	5.4	11.2	4.1
d) Over 5 years	56.6	48.2	58.2	50.0	16.3	17.6	6.9	7.8