

RBI releases Report on Trend and Progress of Banking in India-2002-03

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The Reserve Bank of India today released its *Report on Trend and Progress of Banking in India, 2002-03*. The Report gives a detailed account of the performance of and policy developments relating to commercial banks, co-operative banks, financial institutions and non-banking financial companies during 2002-03. The Report is divided into seven Chapters and contains detailed statistical tables on various parameters for banks and financial institutions.

Overview

The first chapter titled 'Overview' provides a synoptic view of the macroeconomic developments and the performance of various types of financial intermediaries during 2002-03. It is found that the Indian banking system posted a strong performance during 2002-03. The financial performance of the other segments of the financial sector, *viz.*, co-operative banks, financial institutions, and non-banking financial companies (NBFCs), was less satisfactory.

Policy Developments in Commercial Banking

The second chapter on 'Policy Developments in Commercial Banking' provides an overview of the policy initiatives undertaken in the banking sector during 2002-03. Regulatory and supervisory changes including technological developments and legal reforms have been covered in this chapter. The Reserve Bank continued to strengthen the supervisory framework consistent with the increasing market orientation of the economy. Supervisory initiatives included issuance of guidelines for consolidated supervision and gradual implementation of risk-based supervision and prompt corrective action, strengthening risk management, through guidance notes for management of credit and market risks, as well as country risk, and the institution of a fair practices code for lenders. This was buttressed by several initiatives to enhance accounting standards and reinforce corporate governance. The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 is likely to provide banks an avenue for disposing off non-performing assets.

Developments in Commercial Banking

The third chapter on 'Developments in Commercial Banking' provides an analysis of the financial performance of scheduled commercial banks in the aggregate and separately for the major banking groups, *viz.*, public sector banks, new and old private sector banks and foreign banks, in terms of important financial indicators, such as, income, expenditure, profits, spread, non-performing assets and capital to risk-weighted assets ratio. In addition, the chapter details a disaggregated picture of income-expenditure statement of commercial banks. Progress under the SARFAESI Act, 2002 has been presented in this chapter. The role of banks as authorized dealers and the composition of their foreign assets have also been examined.

Developments in Co-operative Banking

Major developments and the regulatory initiatives relating to co-operative credit institutions undertaken during 2002-03, including the role played by the National Bank for Agriculture and Rural Development (NABARD) are discussed in the fourth chapter on 'Developments in Co-operative Banking'. Special discussions in this chapter include issues related to micro-finance. In case of urban co-operative banks, the Reserve Bank initiated prudential measures, including the institution of a system of off-site returns, grading of banks according to their Capital to Risk-Weight Assets Ratio (CRAR) and enhanced transparency through greater balance sheet disclosures.

Financial Institutions

Chapter five on 'Financial Institutions' discusses the constraints being faced by the financial institutions and the structural changes taking place in this segment of the financial sector. Financial institutions shrank further as a sector in terms of their sanctions and disbursements, reflective of growing role of alternative sources of finance for the corporates as well as low pick-up in demand for project finance. The focus of the regulatory and supervisory policy changes relating to select financial institutions during the year under review has been on strengthening of prudential norms.

Non-Banking Financial Companies

The sixth chapter on 'Non-Banking Financial Companies' provides an overview of various components of Non-Banking Financial Companies (NBFCs) and changes in their regulatory framework during the year. In this context, guidelines relating to asset reconstruction companies and balance sheet disclosures for NBFCs have been discussed. The Reserve Bank continued to strengthen the supervisory framework for NBFCs, including the operationalisation of the asset-liability management norms. The details regarding public deposits with respect to various categories of NBFCs, interest rate, maturity pattern and regional distribution and financial performance of NBFCs for the year 2001-02 have been analysed. The policy developments and individual performance of primary dealers during 2002-03 are also discussed in this chapter.

Perspectives

A medium-term forward looking outlook encompassing the strengthening of prudential norms and the structural changes underway in the banking system is provided in the final chapter on 'Perspectives'.

The Report is available on the RBI website (www.rbi.org.in).

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