Performance of Scheduled Commercial Banks in India during Pre-Reforms and Reforms Periods

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Contents

List of Tables

List of Charts

List of Charts

Preface

The present study has made an attempt to capture the overall performance of the Scheduled Commercial Banks (SCBs) in India during the post-nationalization period with a focus on reforms period. In the backdrop of slow growth in credit to agriculture, proliferation of farmers' suicide in some of the states in India including Karnataka and growth of unemployment during the reforms period, an attempt has been made to analyse performance of Commercial Banks in fulfilling `societal goals' and in meeting the target for priority sector lending during the said period. In order to capture the role of commercial banks in major states and states from different levels of development, the study has attempted to construct a composite banking development index for 15 major states. Concomitant to this, the performance of the Commercial Banks in the selected state (Maharashtra, Karnataka and Orissa) especially at the decentralized level has also been analysed so as to throw light on the disparities between the national / state and sub national level.

No doubt, a number of people have contributed a lot to initiate the study and enrich the report but some of them deserve admiration for their assistance and kind co-operation. In this aspect, credit goes to Canara Bank, Bangalore for showing keen interest to promote research work in the centre. In the absence of financial support, it would be somewhat difficult to take up studies on banking and development. My sincere thanks to the Chairman of Canara Bank, senior officers including Mr.P.Krishna Rao (Deputy General Manager, Canara Bank, Bangalore), Sri R.K.Madhukar (General Manager, Canara Bank, Mangalore) and Sri Atanu Das (Manager, Canara Bank, Bangalore) and other officers associated with this research project for their constant support and kind co-operation. In the Centre, Prof.P.R.Panchamukhi, Founder Director and Professor Emeritus, CMDR, remained as constant source of inspiration for his colleagues. In fact, he has to take so much pain to go through the preliminary draft and offer critical observations on various crucial issues. I also place on record the contribution made by the senior bank managers of Hubli-Dharwad who attended the seminar in CMDR in December, 2005. My special thanks to Mr. I D Silva of Canara Bank, Dharwad for his critical observations.

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Executive Summary

The present study has made an attempt to examine the overall performance of the Scheduled Commercial banks in India with focus on 'social aspect' in banking during the post-nationalization period especially during the Reforms period. To capture the level of banking development in various categories of states during the Pre-Reforms and Reforms periods, a composite banking development index has been constructed for the 15 major states of India. In addition, to examine the mismatch between level of banking development at the national/state and district level, the study has focused on three states from different levels of development (Maharashtra, Karnataka and Orissa).

Based on the overall performance, it is noticed that banking sector has undergone noticeable change during different periods since independence till date. In the backdrop of slow progress in mobilization of adequate savings and prevalence of urban bias during the period prior to nationalization of the Commercial Banks, there was an urgent need to ensure expansion of branch network particularly in the rural areas, flow of credit for the priority sector and accumulation of adequate savings to meet the development requirement. To address the said issues, nationalization of major commercial banks was introduced in two phases. It is observed that the major objectives of nationalization of commercial banks were fulfilled to a large extent during one and a half decades since 1969. Nevertheless, the banking industry was not in its pink during the said period, and therefore, viability of the banking sector became one of the major issues for concern. In order to remove the said ailments reforms in the financial sector with focus on prudential norms (income recognition, asset classification and capital adequacy norm) were introduced.

During the Reforms period, the banking industry has succeeded to clean the balance sheet to a large extent. There has been considerable overall growth of deposit and credit during the said period. But it is mostly confined to the metropolitan area, implying emergence of urban centric growth. Concomitant to this, there has been a fall in the growth of office in the economy as a whole especially in the rural area during the 1990s. This is in contrast to improvement in growth of office in the metropolitan area. Again, based on credit sanctioned, erosion in CD ratio is observed in the recent past especially in the rural area. However, this trend has been arrested to a large extent by in-migration of credit to rural areas and thereby improved the CD ratio as per utilization. In the allocation of credit to various sectors, it seems inadequate weight is assigned to the priority sector including agriculture during the Reforms period despite a majority of the total population depend on agriculture in the rural area. Overall, this indicated that performance of the banking sector in achieving societal goals does not seem to be quite promising during the Reforms period.

In order to assess the level of banking development and disparities in growth in banking sector in 15 major states during the pre-Reforms and Reforms periods, a composite banking development index has been constructed. This indicates that there has been a consistent rise in achievement index score during 1981-2001 for the said major states together and the extent of improvement is more during the 1990s as compared to the 1980s. Nevertheless, the level of disparity in improvement index has widened during the 1990s among the major states. Third, the level of improvement is not sufficient enough to lift the states from low level of development to higher level of development. In other words, no noticeable change in the composition of various categories of states, based on the level of banking development, is observed during 1981-2001 barring few states. Fourth, among the states, Goa retained first rank from top while Bihar is at the rock bottom level (15^{th} rank). Some of the middle income and high-income states remained in the developed category while the BIMARU states retained the underdeveloped category. Fifth, there is also positive correlation between level of achievement and improvement but the degree of association is relatively weak in the 1980s as compared to the 1990s. It indicates that level of improvement in 1991 is not strongly associated with the achievement score in 1981 but the extent of improvement in 2001 is positively and highly correlated with the achievement in 1991. This implies that states with higher level of achievement performed better as compared to their counterparts during the1990s.

The performance of the banking sector in selected few states (Maharashtra, Karnataka and Orissa) revealed that Maharashtra consistently outweighed Karnataka and Orissa in the overall banking development index. Contrary to it, in some other banking indicators, namely population served per branch, performance of Karnataka is worth reckoning. In the selected few major indicators, Orissa remained at the bottom, implying positive correlation between level of development and performance of the banking sector. However, one of the disturbing features emerged out of this analysis is persistence of high level of disparity at the decentralized level with no substantial change over the years. This is pronounced in Maharashtra as compared to other selected states. Based on selected few major indicators, it is observed that around 90 percent of total banking activities is concentrated in five districts of Maharashtra while the corresponding figure is about 70 per cent in Karnataka and 50 per cent in Orissa. Similarly, the districts in north Karnataka region is lagging behind their southern counterparts in level of banking development. Therefore, there is an urgent need to take cognizance of the above issues so as to correct the ailments at the earliest.

Chapter I

Introduction

1. 1. The Problem

Sound financial systems with stable macro economic fundamentals are some of the primary requirements need to be ensured so as to lift the economy to a higher growth trajectory and sustain it over time. Destabilization in the financial market can affect the real economy, and this, in turn, has a bearing on overall growth and economic development. In the financial system, banking sector plays a crucial role in mobilizing adequate resources and in ensuring timely disbursement of credit to certain productive units. Allocation of credit for various developmental purposes through priority sector lending can smoothen persisting economic disparities across regions and likely to improve overall growth in employment. But it is during the reforms period when skepticism has arisen about the role played by the banking sector partly because of disquieting trend of some of the macro economic indicators and inadequate priority assigned to social aspect of banking. In other words, the flip-side of the reforms in the banking sector is reflected by growth of branch network in the metropolitan area, erosion in allocation of credit to the priority sector especially to agriculture and decline in Credit-Deposit (CD) ratio in the rural area. Undoubtedly, the emergence of this trend is in violation of basic goals of nationalization of commercial banks.

The progress with achievement of banking sector during the reforms period has become a crucial issue for discussion as some of the macro economic indicators reflect disquieting trends during the said period. For instance, the overall growth in per capita income of the states edged up during the 1990s as compared to the 1980s but persisting disparities among them got aggravated during the previous decade. Similarly, the rate of unemployment measured in Current Daily Status (CDS) also went up (from 6.03 per cent in 1993-94 to 7.32 percent in 1999-2000) during the reforms period.[1] Added to this, farmers' suicide in various states

[1] Growth of employment has also dropped from about 2 per cent per annum in 1983-93 to less than 1 per cent during 1993-94 to 1999-2000.

especially in Andhra Pradesh, Maharashtra and Karnataka might have motivated the Finance Minister to urge the PSBs to double the credit in three years ahead, i.e., by 2007

Against this backdrop, the present exercise makes an attempt to examine the progress and achievement of Scheduled Commercial Banks (SCBs) operating in India during the pre-reforms and reforms periods. The present study also made an attempt to examine the key aspects of financial sector development, namely, deposit mobilization and distribution of bank credit across regions, sectors and functional categories; and geographical spread of branch network during the pre-reforms and reforms periods. An attempt has been made to analyse the performance of banking sector across major states and over time by constructing a composite index of banking development. To capture the role of banking sector in different categories of states especially at the disaggregate level, three states from different levels of development have been taken into account.

1.2. Evolution of Banking Sector in India

The role of credit in the process of economic development is not a recent phenomenon rather it was realized even during the pre-independence era. For instance, in 1793, *taccavi* loan was introduced so as to provide loans at a low interest rate. Similarly, the Land Improvement Act, 1883 facilitated provision of agricultural loans. However, on account of natural calamities leading to decline in production of output accompanied by unethical land revenue system, the said provision failed to become popular. Eventually, landlessness become a wide spread phenomenon.

In 1904, Cooperative Credit Societies Act was introduced so as to meet small credit requirements of poor peasants and other marginalized sections. This aimed at releasing the peasants from the clutches of the money lenders who used to charge high rate of interest for money lending. The Royal Commission on Agriculture (1928) and the Central Banking Enquiry Committee (1931) also took cognizance of the small size and seasonal demand for credit by the peasants and advised to strengthen cooperative credit institutions in the country. In 1935, RBI created a new department called Agricultural Credit Department to supervise agricultural credit operations. Overall, different committees were set up by the RBI to examine certain emerging crucial issues and based on the recommendations of the Committee, steps have been taken to implement the recommendations partially or fully. A list of selected major committees' and their basic objective is shown in table 1.1.

1.3. Progress of Commercial Banks in India: An over view

One of the major objectives of India's development strategy has been wide spread expansion of financial institutions so as to mobilize adequate resources to meet the emerging needs of the economy. In this context, banking sector was expected to play a vital role by ensuring timely and adequate credit disbursements to the productive units.[2] No doubt, during the sixties, the Indian banking system made good progress and expanded quite considerably but it failed to cater to the economic needs of the community. There was absence of banking facilities for the large segment of the population. The money lenders also used to charge exorbitant rates of interest on loans borrowed. This, in turn, motivated the planners to introduce a scheme of social control in early 1968 with the aim of changing the lending pattern by directing increasing volume of credit flow to the desired sectors and making banks an effective instrument of economic development.

Prior to economic reforms introduced in 1991, Indian banking and financial system made commendable progress in extending its geographical spread and functional reach. But this was noticed along with erosion in productivity and efficiency leading to decline in profitability. Taking cognizance of it, Financial Sector reforms were introduced in India based on the Report of the committee on Financial System (1991) and Report of the Committee on Banking Sector Reforms (1998) by M Narasimham.

1.3.1 Contours of Reforms in Banking Sector

The major objective of reforms was to create an enabling environment to overcome the external constraints, namely, high levels of pre-emption in the form of reserve requirements administered interest rates, and credit allocation to certain sectors (Reddy, 2005). On account of higher level of SLR and CRR, a large amount of resources was pre-empted. However, over

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[2] The banking sector comprises public sector banks, foreign banks, urban cooperative banks, private sector banks, regional rural banks and co-operative banks.

the years there has been decline in both the SLR and CRR. Similarly, identifying the need for interest rate deregulation so as to impart greater efficiency in resource allocation, the banking sector has initiated steps to address this issue. The interest rate is largely deregulated except for certain specific classes, i.e., savings deposit accounts, Non-Resident Indian Deposits, small loans up to Rs 2 lakh and export credit.[3] Similarly, in the regulatory framework and supervision practices, introduction of Capital to Risk Assets Ratio (CRAR) and maintenance of separate Investment Fluctuation Reserve (IFR) out of profits so as to meet interest rate risk, are two major steps taken by the banking sector. The CRR is kept at 9 per cent and this is one per cent above the international norm. The fourth crucial issue is the dominance of public sector in financial intermediation. It is during the pre-reforms period, a major share of financial intermediation was accounted for by the public sector and therefore, there was a need for diversification so as to improve efficiency and market accountability. Over the years the public sector dominance has come down. For instance, the share of public sector banks in the aggregate assets of the banking sector has slipped to 75 per cent in 2004 as compared to 90 per cent in 1991. 'The share of wholly government owned public sector banks (i.e., where no diversification of ownership has taken place) sharply declined from about 90 per cent to 10 per cent of aggregate assets of all Scheduled Commercial Banks (Reddy, 2005)'. The fifth major issue confronted by the banking sector was to improve productivity and efficiency. To improve efficiency and productivity in the banking sector the reform process has resorted to injection of competition and challenges. Based on this, twelve new private sector banks have been set up since 1993. Further, there has been a decline in government share holding in public sector banks to 51 per cent, implying improvement in share of private share holding in public sector banks. To improve competition, foreign direct investment in the private sector banks is allowed up to 74 per cent, provided the guidelines issued from time to time are fulfilled.

One of the major issues addressed by financial sector reform is 'consolidation'. This can help banking sector to sustain adverse shock and meet the challenges thrown up by its counterparts. In the present context, it needs to be mentioned that consolidation process also encompasses the Development Financial Institutions (DFIs). There has been also instances of reverse merger of large DFI with the commercial banking subsidiary (IDBI with IDBI Bank).

[3] Administrative interest rates is still in operation for small savings scheme of the Government.

Again, there is provision of mergers between non-banking financial companies and banks and between private sector banks.

The banking sector reforms also addressed institutional and legal reforms. This is reflected by steps taken to set up Board of Financial Supervision (BFS) in 1994 so as to ensure supervision. Further, a Board of Regulation and Supervision of Payment and Settlement System(BPSS) has been constituted to prescribe policies relating to the regulation and supervision of all types of payment and settlement systems, set standards for existing and future systems, authorize the payment and settlement system, and determine criteria for membership to these systems (Reddy, 2005). In order to ensure transparency and disclosure standards, necessary steps have been taken. The last but not the least is focus on good governance through 'fit and proper 'owners, directors and senior managers of the banks. As argued by Reddy (2005), transfer of shareholdings of five per cent and above requires acknowledgement from the RBI and the shareholders need to qualify 'fit and proper' test. Added to this, the nominated and elected directors need to be screened by a nomination committee to satisfy 'fit and proper' criteria and directors are required to enter into an agreement specifying the roles and responsibilities.

No doubt, these are welcome steps taken by the concerned authorities. This is likely to have a positive impact on the banking sector. However, this reflects one side of the story, i.e., the reforms in the banking sector and its outcome. There are certain other disturbing features emerged in the reforms period. It may not necessarily be the outcome of reform but it cannot be ignored. For the present major causes of concern is the decline in rural credit-deposit ratio (C-D ratio), migration of credit, persistence of inter-regional disparities in the distribution of bank credit and fall in the percentage share of bank credit to the priority sectors especially to agriculture and small scale industries. For instance, the C-D ratio which was over 65 per cent for the rural area in the mid-1980s declined to 60 per cent in the early 1990s and steadily slipped to around 42 per cent now. It is in contrast to the fulfillment of C-D ratio norm of 60 per cent prescribed for the rural and semi-urban branches. This is noticed despite a fall in SLR and CRR requirements.

Migration of credit from the place of sanction to place of utilization is the cause for concern. It can also change the C-D ratio of underdeveloped regions. Of late, there has been an improvement in the C-D ratio (as per utilization) of the eastern and central regions while northern and western regions experiencing net outmigration of credit. The persistence of declining trend in C-D ratio (utilization) in rural and semi-urban areas also deserves close examination. Against this backdrop the present study attempts to address few specific issues with the following objectives.

1.4. Objectives of the study

Broadly the major objectives of the study are as follows:

(i) to examine the overall progress and achievement of commercial banks in India during the periods prior to economic reforms and after wards;

(ii) to analyze the progress of commercial banks in achieving ‘societal goals’ during the above said periods;

(iii) to study the role of commercial banks in major states with a focus on high-income, middle-income and low-income states based on the achievement and improvement index score in Banking Development Index during pre-reforms and reforms periods; and

(iv) to assess performance of commercial banks in selected states (Maharashtra, Karnataka and Orissa) chosen from different levels of development.

1.5. Methodology and Data Base

Based on the availability of data the study covers a period of 25 years since 1980 as it coincides with the year of nationalization of 6 more commercial banks. However, in several cases the period has been extended backward.

To examine the performance of banks during the pre-reform and reform periods, the entire time span can be divided into two sub-periods; post-nationalization pre-reforms period

(1980-81 to 1990-91) and 1991-1992 to 2003-04. It needs to be mentioned here that reforms in the banking sector were introduced based on the recommendation of the Narasimham Committee report, submitted in 1991.

For analyzing the role and performance of the commercial banks in various categories of states, the latter have been classified into high-income, middle-income and low-income states based on their rank in per capita income. Further to analyse the performance of commercial banks in major states, a composite banking development index has been constructed. Based on the index score the major states have been classified as developed, moderately developed and under developed.

The present exercise has relied heavily on secondary source of data published by the RBI, EPWRF, CMIE and Registrar General of India. To strengthen the analysis, the findings of primary survey have been taken into account.

1.6. Organization of the study

The outcome of the present exercise can be broadly classified into six chapters/papers. With a brief introduction along with the major objectives and methodology of the study in chapter I, a brief conceptual analysis about the banking indicators and overall performance of the banking sector is captured in chapter II. The overall progress of the commercial banks with a focus on societal goals in India prior to 1991 and afterwards is captured in chapter III. Chapter IV deals with the role of commercial banks in the development of state economies. In this context, banking development index is constructed for the major states and the overall performance of the banking sector in various categories of states and major states during pre-reforms and reforms period have been analysed. To examine the role of commercial banks in different categories of states especially at the disaggregate level three states have been purposefully chosen. Maharshtra represent high income states while Karnataka and Orissa represent middle income and low income states respectively. The performance of commercial banks in the said states has been captured in chapter V. The major findings and conclusion of the study is captured in the following chapter.

Table 1.1: Chronology of Major Reforms

Sl No	***Year***	***Reforms initiated / Committee set up***
1	1954	*All India Rural Credit Survey*
2	1960	Committee on Cooperative Credit
3	*1963*	Agriculture Refinance Corporation set up which was then changed to Agricultural Refinance Development Corporation in 1975 and subsequently to NABARD in 1982
4	*1968*	National credit Council which indicated three sectors - agriculture, small-scale industries and exports – as deserving priority treatment in the matter of bank credit,
5	*1969*	Rural credit Review Committee and nationalization of 14 major commercial banks,
6	*1972*	Banking Commission made the recommendation for the creation of Rural Banks,
7	*1975*	Regional Rural Banks set up following the recommendation of the Working Group on Rural Banks under the chairmanship of M.Narasimhan,
8	*1978*	The Government of India set before the public sector banks the target of providing one third of their credit outstanding to all priority sectors including exports and in March 1980, this target was revised upward to 40% to be attained by 1985,
9	*1980*	Nationalisation of six more commercial banks,
10	*1985*	Chakravarty Committee advocating the necessity of moving away from quantitative controls,
11	*1989*	Service Area Approach under which 20-25 villages assigned to bank branch for meeting credit needs, in the designated area,
12	*November 1991*	Report of the Committee on the Financial System Chairman: M Narasimham
13	*April 1998*	Report of the Committee on Banking Sector Reforms Chairman: M Narasimham
14	*June 2004*	Report of the Advisory Committee on Flow of Credit to Agriculture and Related Activities form The Banking System, Chair person Prof V.S. Vyas
15	*December 2004*	Task Force on Revival of Cooperative Credit Institutions Prof. A Vaidyanathan

Note: This is mostly compiled from Choudhury, Saswati (2004)

Chapter II

Emerging Issues in Banking and Development

2.1. Introduction

In the process of economic development, financial intermediaries play a vital role. Lewis (1969) defined economic development as 'the process by which a community which was previously saving and investing 4 to 5 per cent of its national income or less, converts itself into an economy where voluntary saving is running at about 12 to 15 per cent of national income or more.' In this aspect, a well developed financial market especially the commercial banks play a vital role. Against this backdrop the present chapter makes an attempt to analyse the role of commercial banks in the process of economic development and to what extent the commercial banks have fulfilled the role assigned to it. The chapter is broadly divided into three parts. With a brief analysis about the role of commercial banks in the process of economic development in section i, section ii deals with conceptual analysis of certain indicators and concepts. In section III an attempt is made to present a over view of banking sector during pre-reforms and reforms period.

Section I

2.2. Commercial Banks and Economic Development

The Commercial banks are considered as the dominant financial intermediaries in India as it channelises savings into investment and consumption. It also fulfills investment requirements of savers and credit needs of both the investors and consumers. Overall, the basic functions of bank intermediation include Liability-Asset transformation, Maturity Transformation and Risk Transformation (Jadhav and Ajit, 1996). Liability-Asset transformation indicates acceptance of deposits from the public as liability and converting the same into assets such as loan. Similarly, size-transformation implies providing large loans on the basis of numerous small deposits and maturity-transformation ensures provision of alternative forms of deposits to the savers according to their liquidity preference while at the same time offering the borrowers with loans of desired maturities. At the other end, risk-transformation offers distribution of risks through diversification, which substantially reduces risk for savers (depositors), which would prevail while lending directly in the absence of financial transformation. Apart from the said functions, commercial banks attempt to meet credit requirements of the households by earmarking certain percentage of credit for the priority sector especially for agriculture. To facilitate purpose specific adequate disbursement of credit, acceleration in growth of bank office especially in the backward areas need to be ensured.

Section II

2.3 Commercial Banks: A Conceptual Framework

The Commercial banks are considered as the dominant financial intermediaries in India as it channelises large amount of savings into investment and consumption. In the financial system it occupies the second position as a financial institution next to the Reserve Bank of India. In this contest, it may be essential to tough upon some of the conceptual issues associated with banking, namely commercial bank, Scheduled Commercial Banks (SCBs) and various categories of SCBs.

A bank is an institution that accepts deposits of money from the public withdrawable by cheque and used for lending.[4] In other words, the two essential functions which make a financial institution a bank is acceptance of chequable deposits (of money) from public and lending to others (but not for financing its own business of any kind, say manufacturing or trade). [5]

In defining Commercial banks the business of commercial firms that provide various types of services to its customers (provision of different types of deposits, purpose specific loans, safety lockers to store valuable assets of the customers and so on) can be taken into account. Further, commercial banks can be broadly classified into Scheduled Commercial

[4] In exploring the origin of the word 'bank', one may go back to the days of Lombard money –changers who used to keep overseas travellers' money in safe custody. They conducted their business from a bench (*banc* in French). Therefore, the word 'bank' is used to specify a place where money is handled (Dhingra, I. C, 2000).
[5] Acceptance of chequable deposits is a necessary but not a sufficient function to consider a financial institutions as a bank. In other words, it has to fulfill others' lending requirement. Therefore, Post Office Savings Bank are not technically considered as bank though some of them accept chequable deposits. Similarly, lending alone does not make a financial institution a bank as it has to accept chequable deposits (Gupta, Suraj: 1999).

Banks (SCBs) and non-Scheduled Commercial Banks; with proportionately larger share contributed by the former. In March 2003, out of total 292 commercial banks 288 are Scheduled Commercial Banks and the remaining 4 are non-scheduled Commercial Banks. Of the total 288 SCBs, a majority (196) are Regional Rural Banks.

A 'scheduled bank' is a bank, which is included in the second schedule to the Reserve Bank of India Act 1934. These banks enjoy certain privileges such as free confessional remittances facilities and financial accommodation from the RBI. They also have certain obligations like minimum cash reserve ratio (CRR) to be kept with the RBI. All Scheduled Banks comprise Schedule Commercial and Scheduled Co-operative banks.

The Commercial Banks which conduct the business of banking in India and which (a) have paid up capital and reserves of an aggregate real and exchangeable value of not less than Rs. 5 lakhs and (b) satisfy the Reserve Bank of India that their affairs are not being conducted in a manner detrimental to the interest of their depositors, are eligible for inclusion in the Second schedule to the Reserve Bank of India Act, 1934, and when included are known as 'Scheduled Commercial Banks'.

The Scheduled Commercial Banks in India can be broadly classified into five different groups according to their ownership and / or nature of operation. These bank groups are (i) State Bank of India and its associates, (ii) Nationalized Banks, (iii) Regional Rural Banks, (iv) Foreign Banks and (v) Other Indian Scheduled Commercial Banks (in the private sector)[6]. Among the various groups of banks the Public Sector banks (19 nationalized banks and SBI with Associates) occupy the dominant position. At the other end Scheduled Co-operative banks can be classified as Scheduled State Co-operative banks and Scheduled Urban Co-operative banks (chart 2.1).[7]

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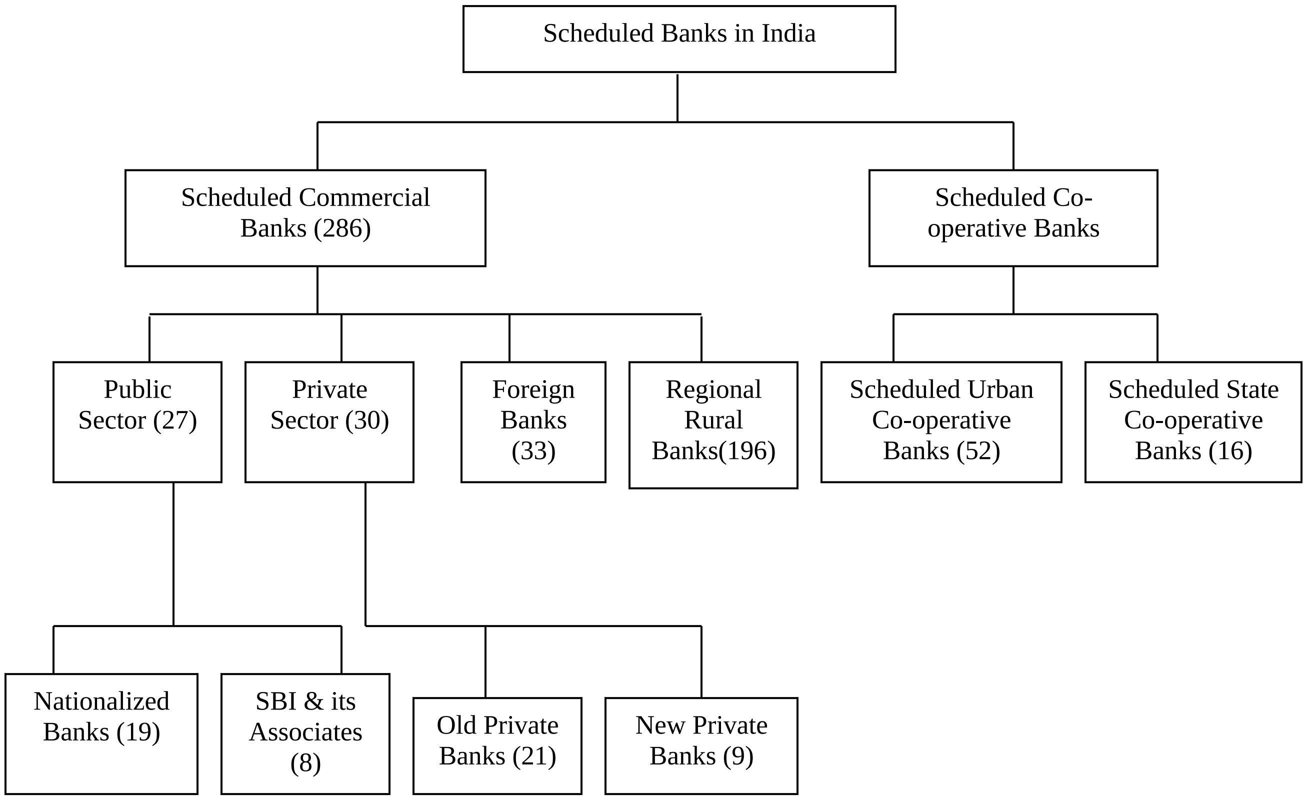
[6] The Regional Rural Banks have been set up since 1975 onwards under the Regional Rural Banks Act 1975 while Co-operative Banks' existence can be traced back to the period prior to independence.

[7] Under the Banking Regulation (B.R.) Act, 1949 only Urban Co-operative Banks (UCBs), State Co-operative Banks (St CBs) and District Central Co-operative Banks (CCBs) are qualified to be called as banks in the Co-operative sector.

Chart-2.1 Scheduled Banking Structure in India



Section III

2. 4. Progress of Commercial Banks: An over view

The banking sector is considered as one of the major organs of the financial system. It acts as a catalyst to economic growth by mobilizing adequate savings which in turn is allocated into productive channels. It also plays a crucial role in the socio-economic transformation of an economy by discharging the social responsibilities, namely, eradication of poverty, reducing regional disparity, ensuring high growth of employment and so on.

Over the years the banking industry in India has passed through various distinct phases and its overall performance varies widely across time and space. The entire period since independence till date can be broadly classified into four periods, i.e., Foundation, Expansion, Consolidation and Reform phase. The first period covered a decade or so during the fifties and sixties when development of necessary legislative framework for facilitating the re-organization and consolidation of the banking system was noticed so as to fulfill certain requirements of the economy. The expansion phase covers the period since the nationalization of commercial banks (1969) to mid-1980s. It is during this period when banking sector gained momentum.

The beginning of consolidation phase can be traced back to 1985 when improvement in house-keeping, customer service, credit management, improvement in productivity of staff and profitability of the banks were emphasized. Since the introduction of reforms in the financial sector till date can be considered as reforms period. It needs to be specified that reforms in the banking sector was introduced based on the recommendation of the M Narasimham Committee (1991). During the said phase there has been introduction of new accounting and prudential norms relating to income recognition, provisioning and capital adequacy. However, in the present paper we have classified the entire period since nationalization of commercial banks till date into two phases: Pre-Reforms Period and Reforms Period.

As mentioned, one of the major objectives of India's development strategy has been wide spread expansion of financial institutions so as to mobilize adequate resources to meet the emerging needs of the economy. In this context, banking sector was expected to play a vital role by ensuring timely and adequate credit disbursements to the productive units.[8] No doubt, during the sixties, the Indian banking system made good progress and expanded quite considerably but it failed to cater to the economic needs of the community. There was absence of banking facilities for the large segment of the population as major part of the rural and semi-urban areas was either sparsely banked or not at all banked (Ojha, 1987). In addition, the money lenders used to charge exorbitant rates of interest on loans borrowed (Rangarajan, 1989) and there was prevalence of urban bias as evident from easy availability of bank credit for the large industries and trading houses. At the other end certain productive units were deprived of having access to banking funds. Therefore, a scheme of social control was

[8] The banking sector comprises public sector banks, foreign banks, urban cooperative banks, private sector banks, regional rural banks and co-operative banks.

introduced in early 1968 with the aim of changing the lending pattern by directing increasing volume of credit flow to the desired sectors and making banks an effective instrument of economic development.[9] Identifying slow progress of the banking system in achieving societal goals through the scheme of 'social control', nationalization of 20 major banks was initiated to hasten the pace of branch banking and to smoothen regional disparities.

In addressing the nationalization of commercial banks it may be mentioned that the Imperial Bank, treated as the largest bank in India in those days, was nationalized in 1955 and merged with the government owned banks of some of the princely states to become the State Bank of India (Agarwal, 1996). The first phase of major bank nationalisation was introduced in July 1969 when 14 largest privately owned commercial banks, each having a deposit liability of Rs 50 crores and above were nationalized. It followed nationalization of 6 more commercial banks in 1980, each having a deposit liability of Rs 200 crores and above.[10]

Nationalization of banks was effected for speedy achievement of social purposes such as meeting the legitimate requirements of the weaker sections of the society. This can be facilitated by reducing both concentration of banks in a specific region and their influence on industrial and business monopolies as reflected by allocation of more resources for this sector. In other words, the savings mobilized cab be utilized for productive purposes based on plans and priorities. To be specific, it needs to be ensured that credit needs of the productive sectors and weaker sections of the economy especially farmers, SSI and self-employed have been fulfilled. The distribution of institutional credit in favour of the farmers and informal sector production units, viz., small scale industries, village artisans and household enterprises, could serve the purpose of expanding production base along with rise in employment opportunities. This, in turn, could reduce the extent of poverty and improve the standard of living of the households. Further, efforts have to be made to kick start growth in some of the hitherto neglected backward regions.

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[9]The scheme of social control over banking was introduced in 1968 with the major objectives of achieving a wider spread of bank credit, preventing its misuse, directing large volume of credit flow to the priority sectors and making it a more effective instrument of economic development.

[10] Later on New Bank of India got merged with Punjab National Bank

2.4.1 Banking Sector during Pre-Reforms Period

Prior to economic reforms introduced in 1991, the Indian banking and financial system made commendable progress in extending its functional spread and expanding branch network.[11] This is reflected by the growth of financial savings and fulfillment of the credit requirements of the borrowers especially in agriculture and small scale industry (Narasimham, 1991). In contrast, there has been a decline in productivity and efficiency, and erosion of profitability of the banking sector. This is partly on account of lower interest rate charged by the commercial banks for directed investments and directed credit programmes, rise in expenditure on account of fast and massive expansion of branches, inadequate progress in updating work technology and weaknesses in the internal structure of the banks.[12] There was prevalence of complex structure of administered interest rates which was guided by social concerns (Reddy, 2005). This was resulted in cross-subsidization and therefore, distorted interest rate mechanism and affected viability and profitability of the banks. No doubt, various factors are held accountable for this yet, the crucial one is the policy induced rigidities such as excessive degree of central direction of their operations in terms of investments, credit allocations, branch expansion and even internal management aspects of the business. The operation of the banking system in the rigidly controlled system especially maintenance of high reserve requirements, interest rate controls and allocation of financial resources to priority sectors made them neither competitive nor innovative.

It needs to be mentioned that prior to financial sector reforms, the banking sector was essentially trying to fulfill the plan development requirements. Huge developmental expenditure was fulfilled through various methods, namely, government's dominance of ownership of banks, automatic monetization of fiscal deficit which in turn is associated with large pre-emption on account of Statutory Liquidity Ratio and Cash Reserve Ratio (Reddy, 2005).

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[11] Functional spread encompasses mobilization of deposit and deployment of credit for productive investment. There is a need to mobilize untapped savings in the form of deposit and channelise the resources for developmental purposes.

[12] In other words, the interest rate was lower than the prevalent market rates or what the banks could have earned from alternate deployment of funds.

Shetty (1996) argues that poor performance of the banking sector during the early 1990s can be on account of poor loan portfolio, sizeable non-performing assets, declining productivity and operational efficiency, low capital base which deteriorated due to sharp erosion in profitability, poor housekeeping and deterioration in customer service. But erosion in profitability of banks is not due to directed investment or directed credit as it is generally believed to be. Therefore, there was an urgent need for the banks to get involved in priority sector lending else the state had to intervene. Similarly, to tackle the management related weakness, public sector banks need to be freed from the clutches of bureaucrats. No doubt, different committees set up over time examined some of the issues discussed above and recommended policy measures. But either non-implementation or adoption of piece meal approach in implementing the recommendations culminated the problem further.

2.4.2 Reforms and Challenges in the Banking Sector

Introduction of reforms in the Banking sector seems to have been initiated during the 1980s based on the recommendation of the Chakravarty Committee Report (Report of the Committee to Review the Working of the Monetary System). The committee justified the necessity to move away from quantitative controls so as to remove distortion in the credit market in achieving higher growth of the economy. Similarly it is also specified that administered interest rate system has become unduly complex and therefore, it has reduced the ability of the system to ensure effective use of credit. The persistence of administered interest rates failed to make sure necessary flexibility to mobilize adequate financial savings by introducing suitable changes in the deposit rates. This, in turn, affected average cost of deposit and therefore, a decline in profitability can not be ruled out.

In the backdrop of erosion in productivity and efficiency, reforms in the banking sector were introduced based on the recommendations of the Committee on the Financial System (1991) and the Report of the Committee on Banking Sector Reforms (1998) headed by M Narasimham.

Undoubtedly, reforms in the financial sector received a major thrust with the identification of various factors accountable for decline in productivity, profitability and erosion in efficiency during the two decades since nationalization of commercial banks. Overall, the major reforms in the banking sector introduced in Indian economy can be grouped into six categories: prudential measures, reforms in institutional and legal set-up, changes in supervisory aspects, adoption of various methods to enhance competition, issues related to improvement in the role of market forces and technology related aspects. Broadly, the recommendations of the committee include liberalization of entry norms for domestic and foreign banks, reduction in the levels of statutory pre-emption, to dismantle the complex structure of interest rates, lay down capital adequacy requirements, introduce income recognition and provisioning for bad debts. To ensure safety and soundness of the financial system and at the same time to encourage market forces to play a crucial role, prudential norms and regulations need to be introduced (Jadav and Ajit, 1996).[13] There are two primary purposes to introduce prudential norms, i.e., to reveal the true picture of the banks' loan portfolio and to help arrest its deterioration (Rangarajan, 1994). Based on this, Prudential norms for classification of assets and provisioning for bad debts have been introduced. The capital adequacy norm can be considered as incentive based regulation whereby well capitalized and efficient banks can compete and impose cost on under capitalized and poorly managed banks (Jadav and Ajit, 1996). It allows the efficient banks that can control its risk can hold less capital as compared to the inefficient banks. The Capital-to-risk weighted assets ratio of 8 per cent have been introduced with further rise to 9 per cent since 1999-2000.

As part of statutory pre-emption, the Committee argued that it can be used as a prudential requirement but not as an instrument for financing public sector requirement. Further, the SLR needs to be brought down to 25 per cent over a period of five years and Cash Reserve Ratio to be gradually reduced though interest on these instruments to be raised. Also Debt Recovery Tribunals have been set up to assist the banks in the recovery of loans. The scheme of Ombudsman introduced in 1995 can look into and resolve customer grievances.

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[13] Reforms in the prudential norm include income recognition, asset classification, provisioning for bad and doubtful debts and capital adequacy.

Based on the recommendations, noticeable change in various norms has been observed over time. For instance, during the early 1990s through the use of Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR) as much as 63.5 per cent of the bank resources were pre-empted (Rakesh Mohan, 2004). But these rates have been cut considerably in a sequenced manner as SLR declined from 38.5 per cent in 1991-92 to the statutory minimum of 25 per cent now while CRR dropped from 15 per cent to 4.5 per cent during the said period. The level and structure of interest rates have been rationalized in a phased manner. There has been abolition of minimum lending rates and the banks have been allowed to determine their prime lending rates. The Prime Lending Rates (PLRs) declined from 19 per cent in 1991-92 and the benchmark PLR in respect of 5 major banks remained in the range of 10.5-11 per cent. The interest rates on loans above Rs 2 lakh have been fully deregulated. Similarly, interest rates on domestic term deposits have also been deregulated. In 1995, all controls on deposit rates above one year maturity were removed. To strengthen supervisory system of banks and financial institutions Board of Financial Supervision (BFS) has been set up. Further, less strong banks that suffered capital erosion due to rising levels of NPA have been recapitalized.

It is during the 1990s when the commercial banks particularly the public sector banks have faced new challenges, namely, improving bottomline, reducing non-performing assets and to observe the discipline of regulatory and prudential norms for capital adequacy. The persistence of soft interest rate regime across the globe also motivated the banks to diversify their activities form purely traditional banking to providing various financial and other services to its customers. Of late, banks have preferred non-interest income deployment of funds for their survival.

To sum up, the commercial banks have passed through various phases of development over time. In the pre-reforms period, achievement in fulfilling societal goals seems to be quite promising but in certain other aspects, namely, improvement in bottomline and customer care services the progress was not commendable. However, with the initiation of reforms, improvement in certain banking indicators was noticed especially in cleaning the balance sheet. There has been allocation of credit for certain other purposes including education, housing loans and for purchase of consumer items. With the provision of ATMs, the work load per employee has been reduced considerably and the customers feel privileged to have their account in the wallet. Of late, there has been emergence of stiff competition among the categories of banks to attract more customers by providing better service and incentives. In this aspect, the private sector banks have an edge over the nationalized banks as those banks operate mostly in the urban and metropolitan area and have been equipped with modern technology.

Chapter III

Growth with Distributive Equity in Banking Sector

3.1. Introduction

The banking industry, an integral part of the financial system, plays a crucial role in the process of development. It mobilizes adequate savings so as to increase the rate of savings in an economy and acts as a conduit to channel the resources for productive purposes especially for the priority sector. However, the performance of the banking industry has undergone a drastic change during the last few decades. It is during the pre-reforms period when Indian banking and financial system made commendable progress in extending its geographical spread and functional reach. This is reflected by growth of financial savings and fulfillment of the credit requirements of the borrowers especially in agriculture and small scale industry (Narasimham:1991). In contrast, there has been a decline in productivity and efficiency, and erosion in profitability of the banking sector during the said period. It is during the 1990s when the commercial banks particularly the public sector banks have faced new challenges, namely, improving bottomline, reducing non-performing assets and to observe the discipline of regulatory and prudential norms for capital adequacy. There has been noticeable change in the expansion of branch network across regions, states and areas classified based on population groups, i.e., rural, semi-urban, urban and metropolitan. Similarly, a remarkable change in the allocation of resources in various regions has also been observed during the reforms period. Undoubtedly, some of the prevailing trend may contradict rational of major banks nationalization introduced in 1969 and 1980, i.e., achievement of societal goals. Against this backdrop, the present chapter makes an attempt to examine the performance of the banking sector during the pre-reforms (prior to 1992) and reforms periods (1992 onwards).[14] The weight assigned to distributive justice by the commercial banks became a moot point for debate and discussion as improvement in performance indicators may not necessarily reflect their achievement in addressing ‘societal goals’.

[14] Here we are referring to Financial Sector Reform introduced after submission of M. Narasimham Committee Report in 1991.

The chapter is organized as follows. In section I overall progress of Commercial Banks in India has been analysed with focus on expansion of branch network/office across states/ regions and bank groups. The pattern of deposit, allocation of credit and CD ratio over the years have also been captured in this section. In section II, issues like migration of credit and allocation of credit for various purposes with focus on priority sector have been captured. Section III deals with pattern and trend in Credit-Deposit ratio followed by summary and concluding observation.

Section I

3.2 Progress in Social Aspect of Banking

The commercial banks can play a vital role in the process of economic development and achievement of social justice. This can be facilitated through extension and expansion of banking facilities in unbanked and under-banked areas, mobilization of savings to meet investment requirement of an economy, allocation of credit for developmental purposes with focus on priority sector lending so as to relieve the farmers from clutches of money lenders and to improve growth of employment, diversification of banking activities based on the changing needs of the customers, and improvement in productivity, profitability and quality of customer care to grow and face the challenges over time. However, mere growth in the banking sector may not necessarily alleviate poverty and reduce disparities in per capita income across regions and various groups of people. Therefore, one of the major issues that needs to be assigned priority is the concept of 'social banking', i.e., a shift from urban centric growth to adoption of rural –oriented growth strategy. The shift from 'class banking' to 'mass banking' was one of the crucial issues that motivated nationalization of commercial banks.

'In social banking, not only fresh procedures are to be evolved to suit the needs of new class of borrowers, but the whole philosophy of lending has also to undergone a radical change, and is an entirely new and unconventional approach to bank lending (Garg, 1994).' Social banking aim at participation of the bankers in the process of economic development to achieve developmental goals without jeopardizing or even diluting the professional standards of banking. In other words, social banking refers to the policy induced bank assistance to the designated priority sectors of the economy and weaker sections of the community (Garg, 1994). However, the present paper may not necessarily capture the said issues in detail. But an attempt has been made to infer the progress and achievement of commercial banks in fulfilling the societal goals in both pre-reforms and reforms period. To analyse the achievement during different periods, growth of office, mobilization of deposit and CD ratio in both rural and urban area has been examined along with pattern of priority sector lending.

3.2.1 Growth of Bank Office

Prior to economic reforms Indian banking and financial system made commendable progress in extending its geographical spread and functional reach. **For instance, number of Scheduled commercial banks increased about two times in about a decade during the 1970s and the trend almost continued during the 1980s with slowdown in the 1990s (table 1).**[15] Similarly, massive growth of commercial bank office was noticed during the 1970s (from marginally higher than 8,000 in 1969 to close to 32,500 in 1980) and to a large extent in the early 1980s (a rise of about 19,000 during 1980-1985). An unprecedented growth of office since nationalization of major commercial banks implies adequate availability of banking facilities at large. In contrast, during the initial period of economic reforms when the growth of bank office witnessed slow growth though it picked up during the second half of the 1990s. The number of offices went up by about 2000 during 1990-1995 while it increased by about 5,500 during 1995-2000 (table 3.1). A comparative analysis of annual average growth of SCBs office during the pre-reforms and reforms periods reveals a sharp erosion during the latter period (from 5.1 per cent in1980-91 to 0.8 per cent during1992-2003).

A mere slow down in growth of office would not be a major source of concern provided the commercial banks sustained rising trend in the rural area. In this context, it can be mentioned that one of the major objectives of bank nationalization is to shift from '*elite banking'* to '*mass banking*' by expanding banking facilities in the rural, semi-urban areas especially in unbanked and under-banked areas. **In other words, persistence of 'urban-centric' nature of banking at the cost of rural areas can affect allocation of credit for developmental purposes especially for the priority sector and therefore, it can be a cause for serious concern**.

[15] The number of commercial banks in India went up from 73 in June 1969 to 154 in June 1980.

Decline in growth of offices in the rural and semi-urban areas is noticed during the reforms period despite the fact that a large chunk of total population live in rural areas (Chart 1). In rural area it declined from 6.7 per cent in 1980-91 to 0.8 per cen in 1992-2003. Growth in semi-urban area also witnessed a fall during the said period but the extent of decline is not so pronounced as compared to the rural area. At other end there has been improvement in growth of offices in the metropolitan area during the reforms period.

Table 3.1: Key Indicators of Commercial Banks in India

	Number of Commercial Banks				Number Of Bank Offices					
Year	Sch.Com Banks	of which RRBs	Non Sch Commercial Banks	Total	Rural	Semi - urban	Urban	Metropolitan	Total	Population per office ('000)
1	**2**	**3**	**4**	**5(=2+4)**	**6**	**7**	**8**	**9**	**10(=6 to9)**	**11**
1969	73	-	16	89	1833	3342	1584	1503	8262	64
					22.2	*40.5*	*19.2*	*18.2*	*100*	
1980	148	73	5	153	15105	8122	5178	4014	32419	21
					46.6	*25.1*	*16.0*	*12.4*	*100.0*	
1985	264	183	4	268	30185	9816	6578	4806	51385	15
					58.7	*19.1*	*12.8*	*9.4*	*100.0*	
1990	270	196	4	274	34791	11324	8042	5595	59752	14
					58.2	*19.0*	*13.5*	*9.4*	*100.0*	
1992	272	196	4	276	35269	11356	8279	5666	60570	14
					58.2	*18.7*	*13.7*	*9.4*	*100.0*	
1995	281	196	3	284	33004	13341	8868	7154	62367	15
					52.9	*21.4*	*14.2*	*11.5*	*100.0*	
2000	297	196	1	298	32852	14841	10994	9181	67868	15
					48.4	*21.9*	*16.2*	*13.5*	*100.0*	
2003	289	196	5	294	32303	14859	10693	8680	66535	16
					48.6	*22.3*	*16.1*	*13.0*	*100.0*	
*2004**	286	196	5	291	31999	15113	11113	8996	67221	16
					47.6	*22.5*	*16.5*	*13.4*	*100*	

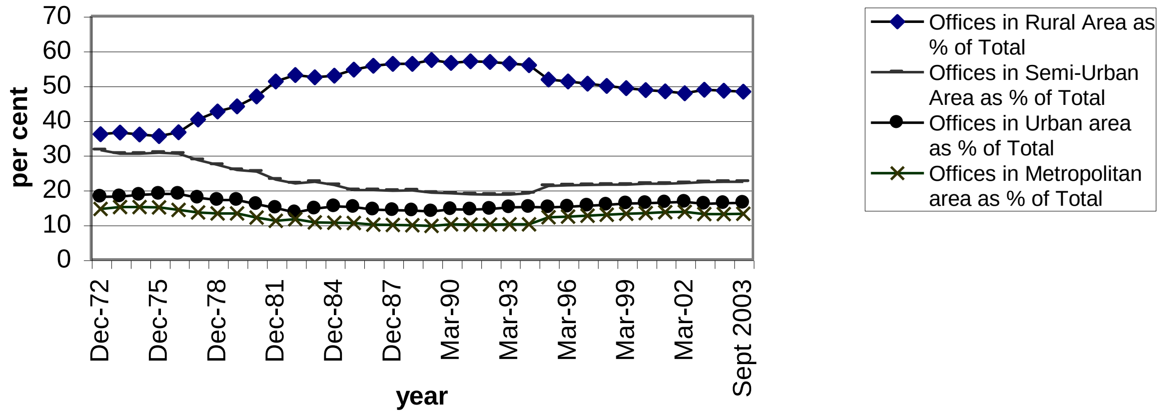
* September

Notes: (i) Sch.com: Scheduled Commercial Banks, Non-Sch: Non-Scheduled Commercial Banks, RRBs: Regional Rural Banks

(ii) Figures in *Italic* are percentages to total

Source: Compiled from RBI's Banking Statistics: 1972-95 and Basic Statistical Returns of Scheduled Commercial Banks in India, March 2003, Vol.32.

Chart 3.1: Proportion of SCBs Office Across Population Group
(in per cent)



The disparity in growth of office (as noticed during the 1990s) can change the share of office across population groups. For instance, close to 60 per cent of total offices were in the rural area during the mid-80s and early 1990s (table 3.1). It declined sharply to about 47 per cent during the closing years of the 1990s and also in recent years. At the other end, there has been growth of office in the urban and metropolitan area during the reforms period (tables 3.1 and 3.2). The share of metropolitan area in total office of the commercial banks which was less than 10 per cent during the mid-1980s and early 1990s, went up to 14 per cent in the recent past (table 3.1). The number of rural office decline by close to 2,500 during 1992 – 2000. In contrast number of office in urban and metros went up by around 2,200 and 3,500 during the above said period. **It reflects emergence of a tendency to exit from rural areas in the recent past.** This is noticed despite the fact that cost of deposit is relatively low in rural areas as compared to urban and metros. Normally people in the rural areas prefer savings account deposit and withdraw money less frequently while bulk of the deposits in urban and metros comes from the people working in the organized sector (salaried class) who used to withdraw money more frequently. No doubt, proliferation of ATM facilities is likely to reduce cost of serving a customer in the urban areas provided customers would feel comfortable to withdraw cash from ATM.

Table 3.2: Growth of Office, Deposit and Credit of SCBs Across Population Groups

	1980-1991			1992-2003			1980-2003		
Population Group	No. of offices	Deposits	Credit	No. of offices	Deposits	Credit	No. of offices	Deposits	Credit
Rural Area	6.7	10.6	6.0	0.8	9.8	6.4	2.0	8.4	6.0
Semi-Urban Area	2.7	7.8	7.5	2.3	10.3	7.3	2.3	7.3	4.9
Urban Area	4.6	8.9	8.1	1.9	10.3	8.0	2.9	7.5	5.6
Metropolitan Area	3.4	9.2	7.0	3.8	10.6	13.0	3.6	9.0	8.8
India	**5.1**	**8.9**	**7.9**	**0.8**	**10.3**	**10.5**	**2.4**	**8.1**	**7.3**

Note: Real compound growth has been estimated for deposit and credit by using semi-log model.

While examining the fall in growth of office during the reforms period, the role of RBI can not be ignored. The RBI gave up its bank expansion programme in April 1995 and therefore, the number of SCBs rural offices steadily declined from 32,981 in March 1996 to 31, 999 in September 2004 (EPWRF, 2005). It can be mentioned that since 1996, banks having three year profitability record and non-performing assets below 15 per cent can be allowed to open new branches. The banks will have to fulfill certain other requirements such as maintaining capital adequacy norm of 9 per cent and minimum owned fund requirement of Rs 100 crore. This seems to be difficult to achieve for a number of Public Sector Banks.

Apart from the policy reforms, the growth of branch expansion can be determined by performance of various sectors. A substantial growth in service sector during the reforms period might have motivated the bankers to accelerate growth of branch expansion in the Metropolitan area. Added to this, the growth of private sector and foreign banks threw a challenge to their public sector counterparts in the recent past.

3.2.2 Distribution of Bank office across Regions/States

The presence of bank office in a region is determined by a number of factors including density of population, level of development, availability of adequate infrastructure and so on. With the rise in per capita income on account of growth of business activity/ agriculture, a substantial amount of resource mobilization seems to be feasible and therefore, there is scope for expansion of credit. **Taking into account population as the sole determinant it is noticed that concentration of banks is more in southern and northern regions as on an average 12,000 people are served by each office in those regions** (table 3.5). Of late, around 28 per cent of the total bank office is confined to the southern region followed by central (20 per cent), northern region (16 per cent) and western (close to 16 per cent). In contrast, close to 3 per cent of bank offices is confined to North-Eastern region (table 3.3, chart 3.2). **Among the states, concentration of office is noticed in few states, namely, Uttar Pradesh (14 per cent) followed by Maharashtra (close to 10 per cent) and some of the middle income states in the southern region (Tamil Nadu, Karnataka and Andhra Pradesh) each having about 7 per cent share in total.** It is only during the early 1980s when substantial improvement in share of office was observed in some of the relatively backward regions including Eastern and Central Regions. In contrast, no noticeable change in share of office is noticed in the said region during the first half of the 1990s.

Chart 3.2: Distribution of SCBs Office Across Regions

(in per cent)

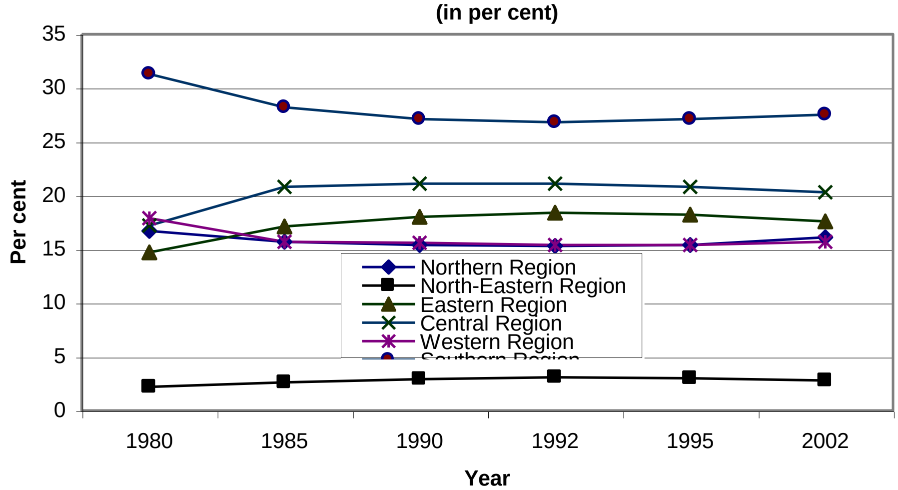


Table 3.3: Distribution of SCBs' Office Across Regions/States (per cent)

Region/state/union territory	1980	1985	1990	1992	1995	2002	2003
Northern Region	**16.7**	**15.7**	**15.4**	**15.3**	**15.4**	**16.1**	**16.3**
Haryana	2.3	2.1	2.1	2.1	2.1	2.3	2.4
Himachal Pradesh	1.0	1.0	1.2	1.2	1.2	1.2	1.2
Jammu & Kashmir	1.2	1.4	1.3	1.3	1.3	1.2	1.2
Punjab	4.8	3.8	3.6	3.5	3.6	3.8	3.9
Rajasthan	4.6	5.0	5.1	5.0	5.0	5.0	5.0
Chandigarh	0.2	0.2	0.2	0.2	0.2	0.3	0.3
Delhi	2.6	2.1	2.0	1.9	2.0	2.3	2.3
North-Eastern Region	**2.2**	**2.6**	**2.9**	**3.1**	**3.0**	**2.8**	**2.8**
Arunachal Pradesh	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Assam	1.4	1.7	1.9	2.0	2.0	1.8	1.8
Manipur	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Meghalaya	0.2	0.2	0.2	0.3	0.3	0.3	0.3
Mizoram	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Nagaland	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Tripura	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Eastern Region	**14.7**	**17.1**	**18.0**	**18.4**	**18.2**	**17.6**	**17.6**
Bihar	5.9	7.6	7.8	7.9	7.8	5.3	5.3
Jharkhand						2.2	2.2
Orissa	2.5	3.2	3.4	3.4	3.4	3.2	3.3
Sikkim	-	-	-	-	0.1	0.1	0.1
West Bengal	6.3	6.2	6.7	7.0	6.9	6.7	6.7
Andaman & Nicobar Islands	-	-	-	-	-	-	-
Central Region	**17.2**	**20.8**	**21.1**	**21.1**	**20.8**	**20.3**	**20.2**
Chattisgarh						1.6	1.5
Madhya Pradesh	5.7	7.0	7.2	7.2	7.0	5.2	5.2
Uttar Pradesh	11.5	13.8	13.9	13.9	13.8	12.3	12.2
Uttaranchal						1.3	1.3
Western Region	**17.9**	**15.7**	**15.6**	**15.4**	**15.4**	**15.7**	**15.6**
Goa*	0.7	0.5	0.4	0.4	0.4	0.5	0.5
Gujarat	6.9	5.8	5.7	5.6	5.6	5.5	5.5
Maharashtra	10.2	9.3	9.4	9.3	9.3	9.7	9.6
Dadra & Nagar Haveli	-	-	-	-	-	-	-
Daman & Diu*	-	-	-	-	-	-	-
Southern Region	**31.3**	**28.2**	**27.1**	**26.8**	**27.1**	**27.5**	**27.6**
Andhra Pradesh	7.7	7.9	7.7	7.6	7.7	7.5	7.9
Karnataka	8.1	7.4	7.2	7.1	7.1	7.2	7.3
Kerala	6.6	5.2	4.8	4.7	4.9	5.0	5.1
Tamil Nadu	8.7	7.6	7.3	7.2	7.3	7.2	7.2
Lakshadweep	-	-	-	-	-	-	-
Pondicherry	0.1	0.1	0.1	0.1	0.1	0.1	0.1
All India	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

-: Negligible/Not available. Note: On account of bifurcation of the states the figures for U.P, M.P, Bihar and Goa can not be strictly comparable. Source: RBI (1998) Banking Statistics: 1972-75 and various issues of RBI's Basic Statistical Returns of Scheduled Commercial Banks.

3.2.3 Growth of Major Scheduled Commercial Banks

The dominance of various groups of banks has undergone a change over the years (chart 3.3). It is found that the share of nationalized banks, which constitute close to 50 per cent of total banks has declined form about 55 per cent during the initial year of the 1980s to about 48 per cent during the latter part of the same decade with marginal improvement in recent years (table 3.4). This can be partly the outcome of reforms in the banking sector, i.e., allowing new private banks to enter the market and decision taken by RBI to give up bank expansion programme in April 1995. Growth of New Private Sector Banks and Foreign Banks may not necessarily pose a threat for the economy provided they expand their network in rural area and provide adequate credit to priority sector. There is apprehension that the said objective may not be fulfilled as these groups of banks are mostly confined to Metropolitan area and Urban area. In June 2003, there was 32, 303 rural bank branches, but not a single foreign bank had an office in rural areas.

Table 3.4: Scheduled Commercial Banks' Office in India (in percentage)

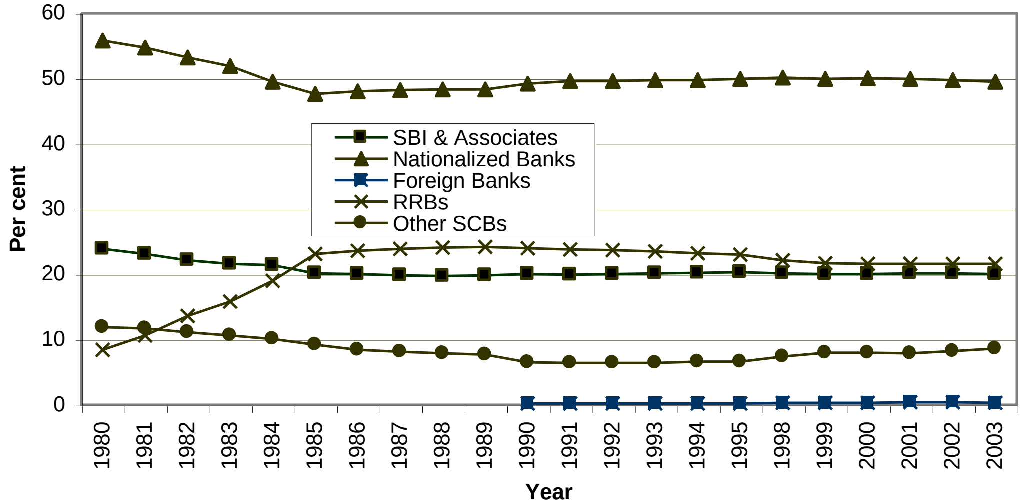
Year	SBI & Associates	Nationalized Banks	Foreign Banks	Regional Rural Banks	Other Scheduled Commercial Banks	All Scheduled Commercial Banks
1	2	3	4	5	6	7
1980	23.9	55.8	-	8.4	11.9	100
1985	20.1	47.6	-	23.1	9.2	100
1986	20.0	48.0	-	23.6	8.4	100
1990	20.0	49.2	0.2	24.0	6.5	100
1991	19.9	49.6	0.2	23.8	6.4	100
1992	20.0	49.6	0.2	23.7	6.4	100
1993	20.1	49.7	0.2	23.5	6.4	100
1994	20.2	49.7	0.2	23.2	6.6	100
1995	20.3	49.9	0.2	23.0	6.6	100
1998	20.1	50.1	0.3	22.1	7.4	100
1999	20.0	49.9	0.3	21.7	8.0	100
2000	20.0	50.0	0.3	21.6	8.0	100
2001	20.1	49.9	0.4	21.6	7.9	100
2002	20.1	49.7	0.4	21.6	8.2	100
2003	20.0	49.5	0.3	21.6	8.6	100

-Nil/Not available

Sources (i) RBI (2003): Statistical Tables Relating to Banks in India 2002-03

(ii) RBI (1998): Banking Statistics: 1972-95

Chart 3.3: Share of Different Groups of Commercial Banks in India



The Regional Rural Banks (RRBs), which could serve the unbanked areas, failed to do so during the reforms period. The share of RRBs in SCBs declined from around 24 per cent in 1990 to less than 22 per cent in recent years. The decline is more pronounced in rural branches. Around 91 per cent of all RRBs were confined to rural areas during early 1990s but it declined to 81.7 per cent in March 2003.[16]

Table 3.5: Populations per Bank Office Across Regions/States

(in '000s)

Region	Mar-03	Mar-91	Dec-81	Dec-72
Northern	12	11	13	26
North-Eastern	21	17	30	97
Eastern	19	16	24	76
(I) Bihar	24	18	26	98
Central	20	16	24	60
(I) U.P	22	16	25	61
Western	14	13	15	24
Southern	12	12	14	27
All-India	16	14	18	37

Source: EPWRF (2005): Metamorphic changes in the Financial System, Special Statistics, 38, *Economic & Political Weekly*, March.

[16] Classification based on 1981 census was done up to March 1994 while in the subsequent period classification is based on 1991 census (EPW, March 19, 2005 Table 2 (b) P.1270).

Despite slow down in growth of offices, people served by a bank office does not seem to have undergone drastic change during the reforms period (table 3.1). This has declined from as high as 64,000 in 1969 to 21, 000 in 1980. But during 1985-2003, the population served per bank office did not vary to a large extent as it remained between 14,000-16,000. The population served per bank office did not come down drastically partly because of slow down in growth of office. However, this reflects only overall scenario in the economy not across regions. A wide spread disparity across regions and states is evident from table 3.5. In southern and northern regions an office used to serve 12,000 people while it is as high as 21,000 in North-Eastern Region in 2003. Similarly, in Bihar and Uttar Pradesh 24,000 and 22,000 people are served per office respectively. Nevertheless, the number of customers served per bank branch that turns out to be 16,000 and this is very high as compared to some of the developed countries (Mohan, 2004).

3.2.4 Pattern and Trends in Deposit, Credit and CD Ratio

Indian economy witnessed a relatively weak economic base and financial infrastructure during the initial years of independence. The performance of the economy in mobilizing adequate saving and allocating it for productive channels was not quite promising. This trend seems to have been arrested to a large extent since nationalization of commercial banks. The per capita deposit of SCBs went up almost five times in about a decade between first and second phase of bank nationalization (from less than Rs 100 in 1969 to close to Rs 500 in 1980). During the 1980s and 1990s it went up about four times and it hovers around Rs 12,000 in recent years (table 3.6).

Table 3.6: Major Performance Indicators of Scheduled Commercial Banks in India

Year	Credit per Office (Rs lakh)	Per Capita Credit (Rs)	Share of Priority Sector Advances in Total Credit (per cent)	Deposit Per Office (Rs)	Per Capita Deposit (Rs)	Deposit to National Income (per cent)
1969	44	68	14	56	88	15.5
1975	48	148	25	67	208	19.9
1980	68	327	33	103	494	35.8
1985	107	747	41	150	1026	39.4
1990	176	1275	40.7	290	2098	48.6
1992	217	1516	37.1	392	2738	49.5
1995	339	2320	33.7	620	4242	51.7
2000	669	4555	35.4	1255	8542	53.5
2001	779	5228	31	1456	9770	56
2002	893	5927	33.7	1659	11008	49.3
2003	1143	7275	Na	1925	12253	51.8

Note: National Income at current prices.
Sources: (i) RBI (1998): Banking Statistics:1972-95
(ii) RBI (2003): Statistical Tables Relating to Banks in India 2002-03

3.2.5 Mobilization of Deposit Across Regions

In the mobilization of deposits, western region occupied first position during the last three decades partly because of some of the commercial centres, namely, Mumbai, Pune and Ahmedabad (table 3.7). It is surprising to learn that of the total deposits, around 72 per cent is generated in three regions together (western, southern and northern regions) and the remaining is the contribution of other three regions (central, eastern and north-eastern region) in 2003. There has been no improvement in the share of bank deposit in three underdeveloped regions (North-Eastern, Eastern and Central region) while the share of Eastern Region in total deposits has steadily declined during the last three decades.

The extent of deposit mobilized is determined by various factors including the levels of development, concentration of office and RBI’s policy prescription. Taking into account the concentration of office alone it is learnt that there is a mismatch between the extent of resource mobilized in a region and share of total office in the same region (table 3.8, chart 3.4). In 2002 the share of Northern and Western Region in total office turns out to be 16 per cent but in the resource mobilization it is much higher, i.e., 23 and 26 per cent respectively. In contrast, the resource mobilized in Central, Southern and Eastern Region is much less as compared to share of total office in those regions. No doubt it can be partly on account of level of development, per capita income and growth of urban centres. In the Southern region it is surprising to learn that most of the states are in the middle income category and people are relatively more mobile, especially in Kerala and parts of Karnataka. The population served per bank office is also very low (12, 000) as compared to some other regions. Despite this the extent of resource mobilized is lagging behind the level of concentration of office in this region.

Table 3.7: Regional Share in Bank Deposits in India

(per cent to all India)

Regions/Year	Mar-03	Mar-02	Mar-96	Mar-92	Dec-82	Dec-72
Northern	23.0	22.9	22.2	20.7	21.3	18.3
North-eastern	1.6	1.6	1.6	1.6	1.5	1.2
Eastern	12.4	12.9	13.0	14.5	16.7	19.1
Central	13.6	13.6	13.5	13.4	13.7	11.5
Western	26.2	26.4	27.2	28.9	25.4	31.9
Southern	23.2	22.6	22.4	20.9	21.4	18.1
All - India	100.0	100.0	100.0	100.0	100.0	100.0

Note: Number of offices includes Administrative offices. Population group (Rural/Semi-Urban etc.) Classification is based on 1991 census.

Source: EPWRF (2005): Metamorphic changes in the Financial System, Special Statistics, 38, Economic & Political Weekly March, 19 and RBI's Basis Statistical Returns

Table 3.8: Regional Share of Bank Office vis-à-vis Bank Deposit in Total

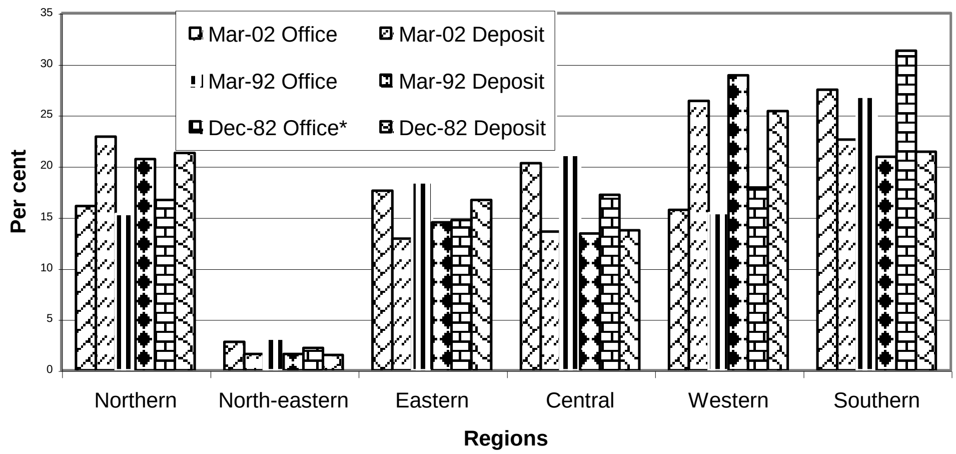
(per cent to All India)

Year	Mar-03		Mar-96		Mar-92		Dec-82	
Region	Office	Deposit	Office**	Deposit	Office	Deposit	Office*	Deposit
Northern	16.3	23.0	15.4	22.2	15.3	20.7	16.7	21.3
North-eastern	2.8	1.6	3.0	1.6	3.1	1.6	2.2	1.5
Eastern	17.6	12.4	18.2	13.0	18.4	14.5	14.7	16.7
Central	20.2	13.6	20.8	13.5	21.1	13.4	17.2	13.7
Western	15.6	26.2	15.4	27.2	15.4	28.9	17.9	25.4
Southern	27.6	23.2	27.1	22.4	26.8	20.9	31.3	21.4
All – India	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

* Refers to 1980 **Refers to 1995

Source: Compiled from RBI's Basic Statistical Returns and EPWRF (2005).

Chart 3.4: Regionwise Share of Office & Deposit of Commercial Banks in India



3.2.6 Growth of Deposit vis-à-vis National Income

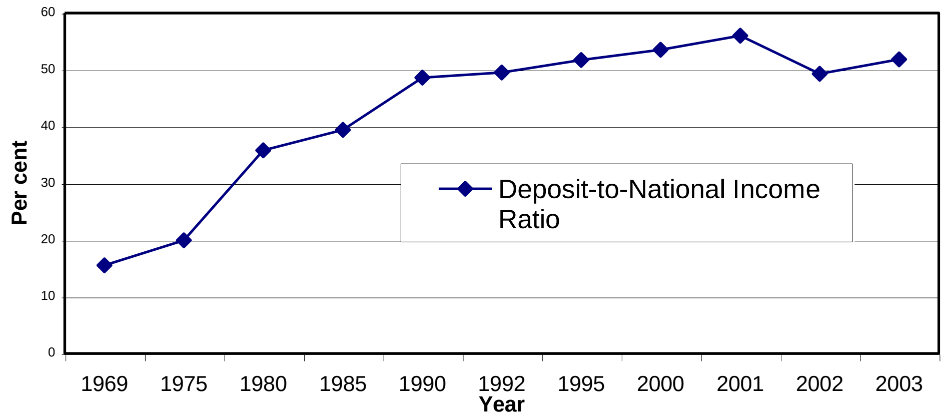
An analysis of deposit as percentage of National Income reveals a substantial improvement during the 1970s (an increase by about 20 percentage points) and 1980s (13 percentage points rise) but the trend was not sustained during the 1990s. This implies that bank deposit had grown faster than national income during pre-reforms period as compared to reforms period. The deposit as percentage of National Income that was close to 49 per cent in 1990 went up to 53.5 per cent in 2000 with further decline in recent years (table 3.5).

The slow growth in deposit-to-national income ratio during the reforms period can be partly due to low level of inflation during the 1990s as compared to 1980s. Further, a fall in interest rate on deposits and slow growth in office might have affected its growth in the recent past. With the emergence of declining trend in rate of interest on demand and term deposits (from the closing years of the previous decade) the people in general might have diversified the pattern of saving and investment. The interest rate on National Savings Certificate declined from 12 per cent in 1996 to 8 per cent in 2003. For instance, interest rate for one-year bank deposit fell from 11 per cent in 1996 to 5 per cent in 2004 with marginal improvement in the current year (5.5 to 6 per cent).[17] The risk lovers may opt for mutual fund and investment in

[17] The interest rate on National Savings Certificate declined from 12 per cent in 1996 to 8 per cent in 2003. The interest rate on Public Provident fund also steadily fell from 12 per cent in 1999 to 8 per cent in 2003. Interest rate on post office saving deposit also declined from 5.5 during the second half of the 1990s to 3.5 per cent in recent years.

various shares while the risk averse may go for post office savings as the latter offers relatively high interest rate to along with income tax benefit. Besides, people in the unbanked areas and rural area may opt for savings in post office.

Chart 3.5: Deposit of SCBs as Percentage of National Income (current price)

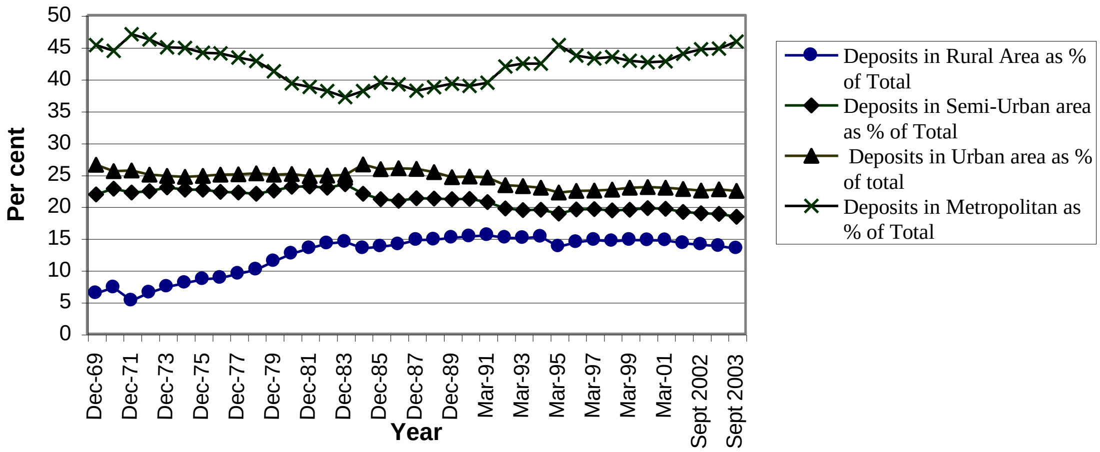


3.2.7 Urban Centric Banking and Mobilization of Deposit

The tempo of deposit growth has been improved during the reforms period despite fall in interest rate on term deposits from 11.1 per cent in 1998 to 8 per cent in March 2003. 'The public sector image of the banking system, combined with the absence of effective social security system for the populace, and fluctuating nature of investment opportunities in the capital market, has retained the attractive nature of bank deposits even at longer maturity levels (EPWRF, 2005)'. Nevertheless, the growth of deposit in reforms period is not quite encouraging in the rural area (table 3.2). Banking statistics reveal that annual average compound growth of deposit for the economy as a whole was close to 8 per cent during the pre-reforms period, it went up to marginally higher than 10 per cent during reforms period. An improvement in growth is noticed across population groups barring Rural area where the growth rate declined by 0.8 percentage points during the said period.

A considerable increase in per capita deposit and credit as noticed over the years suggest an improvement in average business per bank branch and likely to have improved the viability of individual bank branches including those in rural and semi-urban branches (Mohan, 2004). But one should not be carried away with this observation as it is partly on account of growth of deposits and offices in the metropolitan area; not in the rural area (chart 3.1). The pattern of deposit of SCBs also reflect a similar trend as percentage share of metropolitan area in total deposits of all the SCBs taken together went up since mid-80s and especially during the early 1990s (chart 3.6). Contrary to it, share of semi-urban, urban area followed by rural area suffered a setback during the above said period.

Chart 3.6: Pattern of Aggregate Deposits of Scheduled Commercial Banks

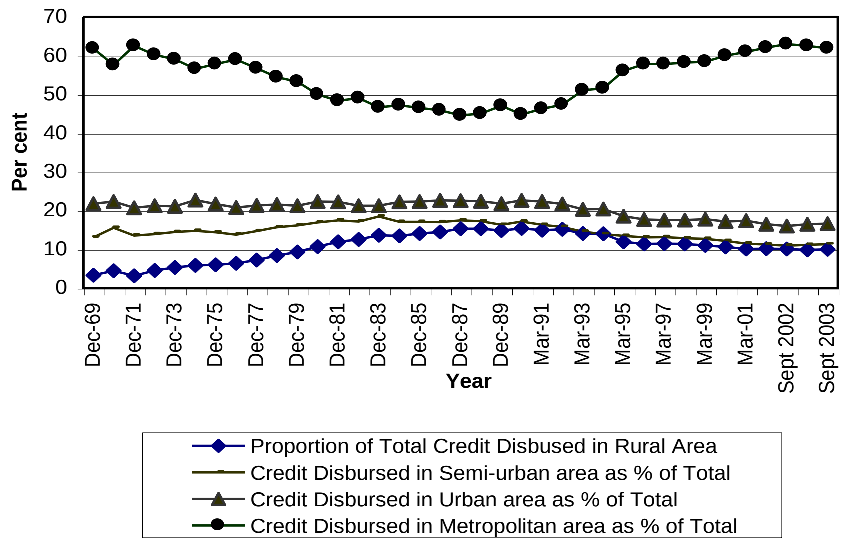


3.2.8 Status of Rural Credit in Aggregate Disbursement

The growth and development of an economy is determined by the availability of credit from institutional sources. But mere growth in allocation of credit can not necessarily offset the persisting regional disparities in levels of development. In the allocation of credit there is a need to identify credit needs of backward regions and various employment generating sectors especially agriculture.

An improvement in growth of credit from close to 8 per cent in the pre-reforms period to 10.5 per cent in the reforms period has been noticed for the economy as a whole (table 2). This phenomenon can be partly attributed to substantial growth of credit in the Metropolitan area as annual average compound growth of credit in Metropolitan areas went up by 6 percentage points during the reforms period as compared to pre-reforms period. At the other end, there has been a decline in growth of credit for other population groups barring Rural area which witnessed a marginal growth of 0.4 per cent during the said period (chart 3.7). A higher growth in credit for metropolitan area during 1992-2003 is noticed despite a general decline in the share of loans and advances in total credit.

Chart 3.7: Disbursement of Credit by Scheduled Commercial Banks Across Population Group (in per cent)



The allocation of credit to various regions (developed vis-à-vis underdeveloped) and for different sectors has also undergone a change during the last few decades (tables 3.9). Of late, around 82 per cent of total credit is disbursed in three relatively developed regions, namely, Western (36 per cent), Southern (26 per cent) and Northern (22 per cent) regions and the remaining 18 per cent is sanctioned in other three relatively backward regions (Eastern, Central and North-Eastern). The persistence of disparities is evident from the fact that less than 1 per cent of total credit is disbursed in North-Eastern region while it is as high as 36 per cent in the Western region. Second, the share of above said developed regions (Western, Southern and Northern regions) together also witnessed a rising trend as it went up from about 75 per cent during the early 1970s and 1980s to 82 per cent in recent years implying positive correlation between level of development and disbursement of credit. Third, share of credit sanctioned across regions also witnessed a change during reforms period. To be specific share of credit disbursed in western region alone witnessed a steady rise from 29 per cent in 1992 to about 36 per cent in recent years. While it has declined in three backward regions during the reforms period.

Section II

3.3 Migration of Credit

Credit sanctioned in a region may not necessarily reflect that the same amount has been utilized in that region as emergence of mismatch between credit sanctioned and utilization can not be ruled out partly because of credit migration. In this aspect the backward regions relatively enjoyed improvement as compared to other regions. In contrast, the extent of credit utilized in Western region is much less than that of credit sanctioned, implying out-migration of credit to other regions (table 3.9). But it is surprising to learn that credit utilized in southern region is higher than credit sanctioned in this region.

Table 3.9: Regional Share of Credit (As per Sanction & Utilization)

(in per cent)

	Credit (As Per Sanction)					
	Mar-03	Mar-02	Mar-96	Mar-92	Dec-82	Dec-72
Northern	21.8	22.0	19.1	18.4	22.2	13.1
North-eastern	0.7	0.8	1.0	1.3	0.9	0.6
Eastern	8.5	8.3	10.2	12.4	14.0	18.1
Central	7.7	7.9	9.0	11.1	9.8	6.8
Western	35.5	36.0	32.8	29.1	27.9	36.6
Southern	25.8	25.0	27.8	27.7	25.3	24.8
All - India	100.0	100.0	100.0	100.0	100.0	100.0
	Credit (As per Utilization)					
Northern	21.6	21.5	18.7	17.7	21.5	12.8
North-eastern	1.3	1.5	1.1	1.9	1.3	1.2
Eastern	9.2	9.2	10.1	12.3	13.7	18.0
Central	8.9	8.9	9.5	11.7	10.3	7.7
Western	31.4	32.2	32.5	28.3	27.6	34.4
Southern	27.7	26.6	28.1	28.1	25.6	25.8
All - India	100.0	100.0	100.0	100.0	100.0	100.0

Source: EPWRF(2005): Metamorphic changes in the Financial System, Special Statistics, 38, *Economic & Political Weekly*, March, 19

As regards migration of credit across population groups, it is noticed that rural sector enjoyed migration of credit from other areas. Normally it is of the order of above 30 per cent (EPWRF, 2005). But it is interesting to note that average level of in-migration of loans to rural area which hovered around Rs 5 lakh till March 1998 went up around Rs 30 lakh in the recent past. Therefore, it needs close scrutiny.

3.4 Pattern of Priority Sector Lending

A substantial improvement in growth of credit does not necessarily ensure achievement of higher growth with equity. The pattern of allocation of credit especially for priority sector can to some extent determine the level of growth and development of an economy. In this context, it needs to be specified that Scheduled Commercial Banks excluding the Regional Rural Banks are supposed to earmark 40 per cent of net bank credit for priority sector. Out of the 40 per cent net bank credit, allocation for agriculture sector alone, under direct and indirect lending, has to be 18 per cent. To avoid dilution of direct credit to agriculture, indirect credit cannot exceed one-fourth of the 18 per cent target, i.e., 4.5 per cent.

The growth of financial savings and fulfillment of the credit requirements of the borrowers especially in agriculture and small-scale industry were fulfilled to a large extent during the pre-reforms period. This is reflected by share of priority sector lending in non-food credit which went up by 22 percentage points (from 15 per cent to 37 per cent) in about a decade (1969-1980) with further marginal rise to 39 per cent in 1991. The priority sector advances in total non-food credit has declined from 39 per cent in 1990 to 33.7 per cent in 2003.

In the allocation of credit, both agriculture and SSI suffered a setback during the reforms period. The share of agriculture in total credit has been declining and it dropped from about 16 per cent of total in 1980 to close to 10 per cent in 2002 (table 3.10). In fact, the target for agriculture was introduced in 1989 and was supposed to be met by March 1990 but later on it got extended to March 2003. Despite abnormal delay in meeting the target, few commercial banks have been able to fulfill it. Undoubtedly, commercial banks agricultural advances outstanding grew nearly four fold (Rs 22,000 crore to Rs 85,000 crore) over the last decade but only 5 Public Sector Banks (PSBs) and 2 private sector banks met the target of extending 18 per cent of net credit outstanding to agriculture in March 2003 while the remaining 22 PSBs and 27 private sector banks remained off the target (Vyas, 2004).

The high risk of NPA in agriculture can be one of the factors that discourage lending to farm sector (table 3.11). For instance, NPAs of PSBs emerged from priority sector (14.2 per cent) is much higher than that of non-priority sector (9.4) in 2001-03. In priority sector, the risk of NPA is relatively high in SSI followed by Agriculture and other sectors. In contrast, for the private sector banks, NPAs generated in non-priority sector outweighs the priority sector in 2001-03. Overall, the performance of the private sector is relatively better as compared to the PSBs in Non-Performing Assets. But the performance of the private sector banks needs to be examined in the light of resources allocated for this sector.

Table 3.10: Distribution of SCB's Credit (Amount Outstanding) according to Occupation

(per cent)

Sl.No.	Occupation	1980	1990	1996	2001	2002	2003
I	Agriculture (Direct and Indirect)	15.7	15.9	11.3	9.6	9.8	10.0
II	Industry	48.8	48.7	48.0	43.9	41.4	41.0
III	Transport Operations	4.6	3.2	1.8	1.6	1.4	1.2
IV	Professional and Other Services	2.2	9.4	12.8	3.6	4.2	4.5
V	Personal Loans	NA	6.4	9.3	12.2	12.6	15.1
(a)	Lonas for purchase of consumer durables	NA	0.4	0.3	0.6	0.5	0.4
(b)	Loans for Housing	NA	2.4	2.8	4.7	5.0	6.5
(.C)	Rest of persnal loans	NA	3.6	6.1	6.9	7.1	8.2
VI	Trade	19.7	13.9	13.9	16.6	15.4	13.8
VII	Financial Institutions	3.4	2.1	3.5	4.9	5.7	6.7
VIII	Miscellaneous	5.6	6.8	8.6	7.5	9.5	7.7
IX	**Total Bank Credit**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
	of which:						
(i)	Artisans and Village Industries	NA	0.9	0.6	0.4	0.9	0.7
(ii)	Other Small Scale Industries	1.2	11.5	10.1	6.9	4.9	5.0

Na: Not available.

Notes (i): The amount outstanding figurers shown against each year represent the month March.

(ii) Figures for professional services and other services include personal loan for 1990 and 1996. Therefore the aggregate figures do not match with the sum of all the constituents.

Source: EPWRF (2004)

A sharp decline in disbursement of credit to agriculture can be on account of acceleration in growth of service sector during the reforms period. As such, the commercial banks have been diversifying their activities from traditional banking to retail banking so as to improve the profit margin. In recent years, a relatively large share of credit has been allocated in favor of personal loans. At the other end, low interest earnings from small loan accounts and farm loans, combined with relatively high servicing cost, have left no incentives for banks to prefer such lending in an environment of business freedom and competition (EPWRF, 2004).

Overall, to compete with the private sector and foreign banks PSBs have to explore the avenues to park the fund so as to improve the bottom line.

Table 3.11 : Non-Performing Assets Across Bank Groups and Sectors, 2001-03

(Amount in Rupees crore)

Sectors / Bank Groups	Agriculture	SSIs	Others	Total Priority Sector	Non-Priority Sector
Public Sector Banks	7,635	10,362	6,748	24,745	28,764
Avg.Non-Performing Assets					
Avg. NPA to Avg. outstanding					
Advances (in per cent)	**12.0**	**20.6**	**12.2**	**14.2**	**9.4**
Private Sector Banks	433	1,249	593	2,275	9,271
Avg. Non-Performing Assets					
Avg. NPA to Avg. outstanding					
Advances (in per cent)	**5.1**	**15.9**	**5.3**	**8.1**	**10.2**

Source: Mohan (2004b): RBI Bulletin, November.
Note: NPAs and outstanding advances as on March 31, Avg.: Average

In this contest, it can be argued that an economy can not afford to ignore priority sector especially agriculture which remained the major source of income for a large chunk of population? The RBI and government of India need to find out ways out to reduce the level of NPAs in agriculture.

To sustain higher growth in credit to farm sector there is also a need to improve demand for it. The demand for credit is determined by several factors. In this context, it is difficult to rule out that decline in share of agriculture in GDP along with persistence of unstable and slow growth in agriculture during the 1990s is partly on account of erosion in capital formation in agriculture. Unless improvement in allocation of resources for infrastructure development in agriculture especially for irrigation system and development of connecting roads is ensured it can be difficult to improve the demand for credit. Assured irrigation system can motivate the farmers to shift from traditional to commercial agriculture, introduce changes in cropping pattern and rotation of crops. This, in turn, can ensure improvement in demand for credit. No doubt, in the present contest the role of output market cannot be ignored as price of output and extent of procurement by the government decide the level of production else distress sale can be a normal phenomenon.

At the other end mere supply of credit does not necessarily ensure improvement in demand by the borrowers as timeliness and adequacy of credit, cost of availing the credit, prevailing rate of interest and cost effective lending procedures are some of the issues need to be emphasized. The attitude of the bankers towards priority sector lending especially to agriculture needs to be changed. The SCBs should realize that there is hardly any better avenue of retail banking than agriculture in India (Vyas, 2004). There is tremendous scope for credit expansion in the productive sector and it needs the adoption of risk management policy rather than risk aversion.

As agriculture is still considered as gamble in monsoon, introduction of crop insurance scheme can to some extent address this problem. Concomitantly, by providing more teeth to the legal system so as to ensure easy recovery of loans by the bankers; an improvement in allocation of credit for agriculture cannot be ruled out.

To reduce level of NPAs, integration of credit and output market may be a feasible option. The provision of credit along with introduction of government purchase of horticulture product from the farmers need to be explored and it is likely to reduce the debt burden of the latter. Overall, it is high time for the RBI and policy makers to address the issues discussed above and credit needs to be integrated with production and marketing.

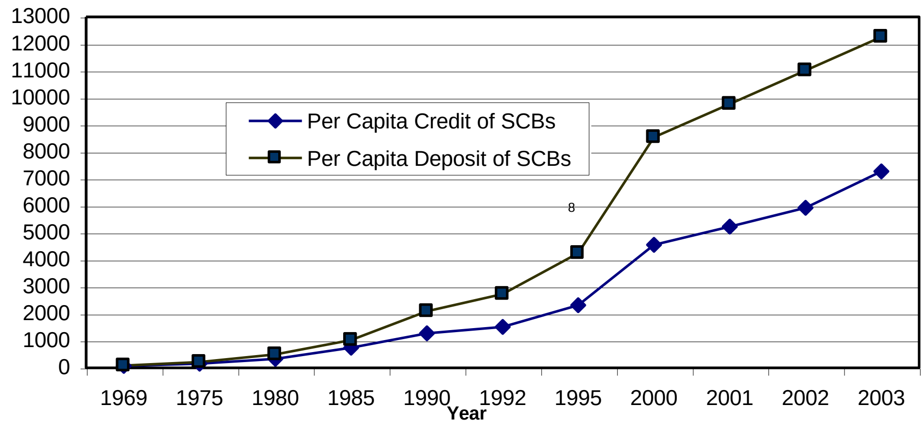
Section III

3.5 Credit-Deposit Ratio of Commercial Banks

The aggregate credit orientation of the commercial banks gets reflected by Credit-Deposit (CD) ratio. It captures the extent of resources allocated in the form of credit as proportion of total deposit in a specific region. To ensure development of rural areas, the bankers have to stick to the norm specified by the RBI, i.e., CD ratio of 60 per cent needs to be maintained in the rural and semi-urban area.

Over the years a consistent rise in nominal per capita deposit and credit has been noticed (chart 3.8). The growth of the said indicators seems to have been accelerated since the second half of the 1990s. But it is surprising to note that the gap between per capita deposit and credit got widened over the said period, implying a decline in CD ratio during the reforms period.

Chart 3.8: Per Capita Deposit & Credit of SCBs



From table 13 it is evident that CD ratio dropped from 78 per cent in 1970 to 67 percent in 1980 with further decline to about 61 per cent in 1990. There has been a decline in CD ratio during the reforms period as it remained in the range of 55-59 per cent, but the extent of decline is not so pronounced as compared to the pre-reforms period (chart 8).

3.6 Regional Variation in Credit-Deposit Relationship

To ensure steady growth in income and achieve overall development, a proportionately higher CD ratio needs to be maintained in the backward regions. Banking statistics reveal that CD ratio in the country has been declining since 1980 (from 67 per cent in 1982 to 58 per cent in 1992 and remained almost the same in recent years). Across the regions, CD ratio as per sanction is very high in the Western Region (81 per cent) while it is as low as 27 per cent in the North-Eastern Region in 2003. In other words, around 81 per cent of the deposit is provided in the form of credit in the Western region while it is about one –fourth in the North-Eastern region.

It is mentioned that CD ratio as per utilization can be a better indicator in comparison to CD ratio as per sanction. The difference between the two can track the direction and extent of migration over time. In this aspect the underdeveloped regions have enjoyed considerable improvement since the nationalization of commercial banks. From table 3.12 it is evident that relatively more resources have been flowing to some of the backward regions especially to the North-Eastern region where the extent of difference between sanction and utilization is very high (28 percentage points) in 2003. The flow of resource is from some of the developed regions especially from the Western region. But it is surprising to learn that utilization outweighed sanction with a high margin in the moderately developed southern region and the extent of difference is very high in recent years. This calls for close scrutiny.

Table 3.12: Credit Deposit Ratio of Commercial Banks Across Regions in India

(In per cent)

	Dec-72		Dec-82		March-92		March-96		March-02		March-03	
Regions	Sanction	Utilization	Sanction	Utilization	Sanction	Utilization	Sanction	Utilization	Sanction	Utilization	Sanction	Utilization
Northern	47.6	46.6	70.0	67.7	51.1	49.3	51.4	50.4	56.2	55.0	56.0	55.5
North-eastern	36.3	71.4	41.2	57.5	46.7	66.3	35.5	41.1	27.2	53.2	27.4	48.2
Eastern	62.9	62.6	56.1	55.2	49.5	49.1	47.0	46.4	37.6	41.4	39.6	42.8
Central	39.1	44.4	47.8	50.6	47.6	50.2	40.0	42.0	33.9	38.4	33.3	38.6
Western	76.2	71.8	73.7	73.0	58.2	56.5	72.2	71.4	79.7	71.3	81.0	71.5
Southern	91.1	94.7	79.2	80.2	76.5	77.7	74.2	74.8	64.6	68.9	66.3	71.2
All –India	66.4	66.4	67.1	67.1	57.7	57.7	59.8	59.8	58.4	58.4	59.2	59.2

Source: EPWRF(2005): Metamorphic changes in the Financial System, Special Statistics, 38, *Economic & Political Weekly,* March, 19.

3.7 Credit- Deposit Ratio Across Population Groups

The credit-output relationship across population groups indicates distinct changes over the years. From table 3.13 it is discernable that CD ratio declined for all population groups barring Metropolitan area during the reforms period.

The extent of decline is distinct in rural area- showing a fall by 18 percentage points (from 60 per cent in 1991 to 42 per cent in 2003) during the reforms period. This is in contrast to the RBI norm of maintaining 60 per cent CD ratio in the Rural areas. Even in semi-urban and urban areas the extent of fall is around 14 percentage points during the reforms period though the ratio went up by about 10 percentage points during the said period for metropolitan area (from 73 per cent in 1991 to as high as 83 per cent in March 2003).

Despite an erosion in CD ratio in the rural area net migration of credit to this area is much higher (around 30 per cent) as compared to other population groups (semi-urban and urban area). In contrast, there has been net out-migration of credit from the metropolitan area during the said period. Nevertheless, CD ratio as per utilization is still higher in Metropolitan area as compared to the rural, semi-urban and urban area. For instance, in recent years CD ratio as per utilization (amount outstanding) remained between 70-75 per cent in Metropolitan area while it is lying between 50-60 per cent for rural area, hovers around 40 per cent for semi-urban area and confined within the range of 40-50 per cent for the urban area. The persistence of CD ratio in rural areas indicate that rural areas provide resources more than what it receives in the form of credit. It implies net siphoning of savings from the countryside to other developed centres (urban and metros).

The persistence of branch expansion in the metropolitan area along with higher growth in deposit, credit and CD ratio in the said population group can be explained by considering some of the issues discussed below. As mentioned since 1995, expansion of branch network became the responsibility of the bank board and therefore, growth of branch expansion in the metropolitan area can not be an abnormal phenomenon. The bankers might not be keen to allocate more resources for agriculture partly because of high level of NPA in agricultural lending as compared to lending for other sectors. Added to this, a majority of the farmers and small account holders became defaulters due to genuine or political reason and this, in turn, deprived them to have access to fresh loans. The persistence of slow and unstable growth in agriculture and decline in its share to 23 per cent of GDP can be some of the issues that might have motivated the PSBs not to allocate more funds for agriculture.

Table 3.13: Credit-Deposit Ratio of All Scheduled Commercial Banks

(in per cent)

Year	Credit-Deposit Ratio of All Scheduled Commercial Banks (per cent)				
	Rural	Semi-Urban	Urban	Metropolitan	Total
Dec-69	37.6	43.0	59.1	98.2	71.9
Dec-70	48.3	53.3	68.3	101.4	78.1
Dec-75	51.9	46.7	64.4	96.4	73.5
Dec-79	56.3	49.6	58.8	89.1	68.9
Dec-80	56.9	49.2	59.7	85.2	66.9
Dec-81	60.6	51.4	61.3	85.1	68.1
Dec-84	68.6	53.1	57.2	84.6	68.3
Dec-85	63.9	50.0	53.4	73.1	61.9
Dec-86	65.3	51.3	54.9	73.8	63.0
Dec-89	63.8	50.0	57.4	77.6	64.7
Mar-90	61.2	49.2	55.6	69.9	60.7
Mar-91	60.0	49.0	56.5	72.8	61.9
Mar-92	57.9	46.4	53.6	65.1	57.7
Mar-95	48.6	39.7	46.5	68.8	55.6
March 1996*	47.3	40.0	47.2	79.2	59.8
March 1997*	44.1	38.1	44.4	76.1	56.8
March 1998*	43.4	36.6	43.0	74.1	55.3
March 1999*	41.0	35.7	42.6	74.7	54.8
March 2000*	40.4	34.7	41.9	78.9	56.0
March 2001*	39.0	33.2	43.0	80.9	56.7
March 2002*	41.8	34.3	42.4	82.5	58.4
Sept 2002*	41.2	32.8	40.5	80.3	56.9
March 2003*	42.4	35.2	43.2	83.0	59.4
Sept 2003*	42.6	35.0	42.1	76.6	56.7
March 2004	43.7	37.9	47.3	75.7	58.7
Sept 2004	46.5	39.7	46.3	76.9	59.9

Source: EPWRF (2005): Metamorphic Changes in the Financial Systems, Economic and Political Weekly, March 19,2005.

The growth of branch network in the metropolitan area can be on account of high demand for credit in this area partly due to buoyant service sector. To improve the bottom line the bankers have diversified their activities from traditional lending to retail lending. To achieve this goal urban and metros can be prioritized. There has been persistence of soft interest rate regime especially for housing loans leading to growth of real estate. This is mostly confined to urban and metropolitan area. The proliferation of credit card business is somewhat an urban phenomenon. The consumers in the urban and metropolitan area are relatively more aware of the new products and willingness to spend as compared to the rural area.

3.8 Summary and Concluding Observations

The performance of the banking sector has undergone noticeable change during different periods since independence till date. No doubt there has been improvement in growth of deposit and credit during the reforms period as compared to pre-reforms period but this is associated with emergence of urban centric growth in banking. There has slow growth in deposit during the reforms period and CD ratio witnessed erosion especially in the rural area. However, on account of immigration of credit the CD ratio has been improved based on credit utilized.

As regards priority sector lending, it does not seem to have received enough support from the banking sector. Therefore, skepticism has arisen about sustaining higher growth in agriculture and improvement in employment growth.

Chapter IV

Development of Banking Sector Across Major States in India

4.1 Introduction

One of the major objectives of bank nationalization is to smoothen regional disparity by allocating resources for developmental purposes with focus on priority sector. Over the years, there has been a considerable rise in per capita income of various categories of states. But this is noticed along with growth of unemployment, persistence of poverty and disparity in levels of development across regions. The prevailing trend might have been aggravated during reforms period as compared to the pre-reforms period. In this backdrop, the present chapter makes an attempt to analyse role of commercial banks in various categories of major states. To capture the role of banking sector in various categories of states, major states in India have been broadly classified into three groups: High Income, Middle Income and Low Income states. Besides, to estimate level of banking development in each of the 15 major states, banking development index has been constructed. This can reflect the level of disparity in the level of banking development across states and over time. The chapter is broadly classified into three parts. Section I captures performance of various banking indicators across states during the last 25 years (1980-2004). In section II, an attempt has been made to construct a composite banking development index so as to examine the role of commercial banks in various categories of states during pre-reforms and reforms periods. This follows summary and conclusions.

Section I

4.2 Overview of Banking Development Across States

The development of an economy is determined not by physical infrastructure alone as financial infrastructure plays a crucial role to mobilize enough resources so as to fulfill the requirements of various sectors. To facilitate process of resource mobilization, expansion of branch network especially in the rural area need to assigned prime importance.

4.2.1 Growth of Branch Network

The growth of Scheduled Commercial Banks' office in India has undergone noticeable change during the reforms period as compared to the pre-reforms period. There has been relatively high growth in number of office (an increase by about 28,000) during the 1980s as compared to the 1990s (an increase by 6, 000). The slow growth in number of office is also evident from table 4.1. The number of office per 1000 sq km went up from 11 to 17 during 1981-91 while it increased from 17 to 19 during 1991-2001.

The slow growth in office during the reforms period is noticed along with persistence of wide disparity in concentration of office across major states and various categories of states. For instance, the extent of disparity in concentration of office measured by Coefficient of variation (CV) declined by 21 percentage points (from 83 per cent to 63 per cent) in a decade during 1981-91 while it dropped by 3 percentage points during 1991-2001. Across various categories of states, the number of office per 1000 sq km also differ widely. Of late, about 32 office is located per 1000 sq km in middle income states while it is 25 and 17 in high income and low income states respectively (chart 4.1). A relatively higher number of office in middle income states is primarily due to higher number of office in Kerala (91) and Tamil Nadu (52). However, it is interesting to learn that the level of disparity is relatively low in low income states as compared to its developed counter parts.

A close look at the number of office across 18 major states reveals that number of office per 1000 square kilometer remained the highest (65-92) in Goa in 1981, 1991 and 2004 though Kerala outweighed Goa during mid-1980s and mid-1990s. The persistence of higher number of office in Goa can be due to higher per capita income and relatively low geographical area (around 3700 sq km) as compared to other states. Normally, higher level of per capita income can lead to increase in saving, *ceteris paribus*. This is corroborated by the fact that in per capita deposit, Goa occupied almost second position from top after Maharahstra. As such cost of living in Goa is relatively high, so deposit of higher amount may be required to meet unforeseen expenditure. Given the per capita income and higher cost of living, the propensity to save can be relatively high in the state.

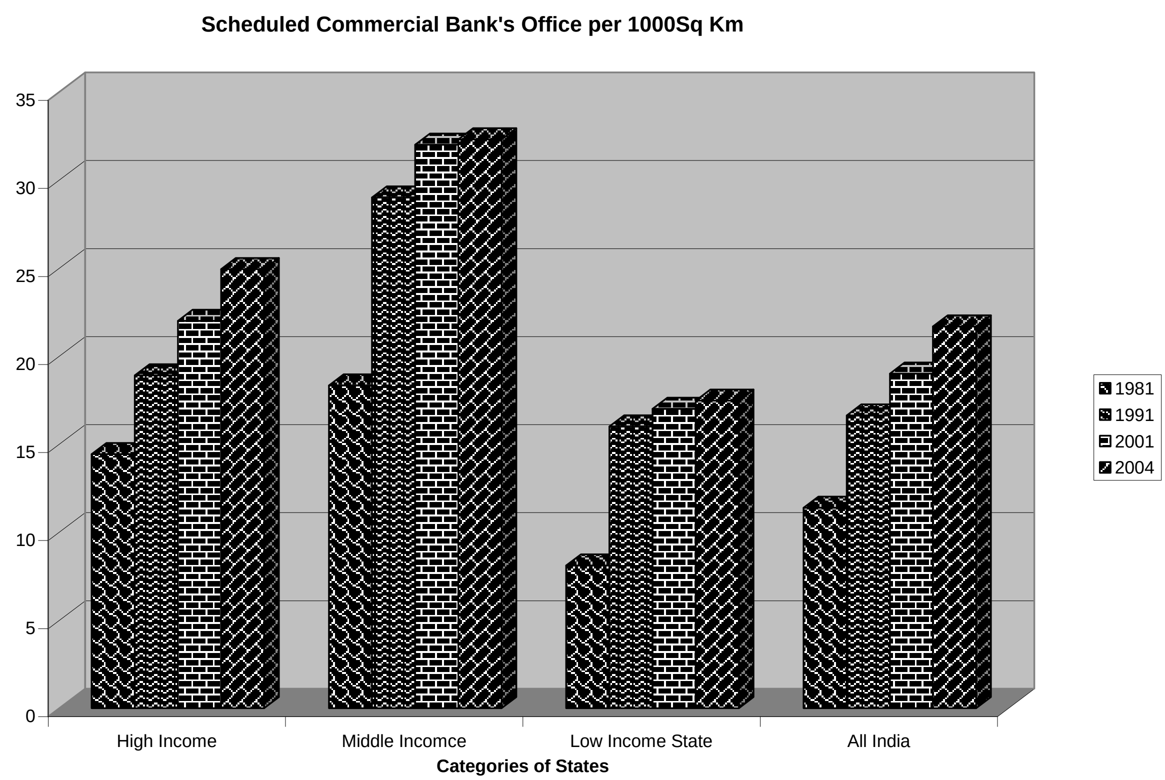
No doubt, it can be argued that growth of branch network in a state can be due to high density of population. In this aspect Goa does not satisfy the criteria. Density of population in Goa is 363 in 2001 while it is 904, 880, 819, 689 and 482 in West Bengal, Bihar, Kerala, U.P and Punjab respectively. On account of concentration of office in Goa population served per office in the state is one of the lowest, i.e., 4000. This is lower than that of national average (15,000). Besides, the growth of tourists' arrival can have a positive impact on growth of deposit.

Table 4.1: Scheduled Commercial Bank Office per 1000 Square Kilometer

Sl No.	States	1981	1991	2001	2004
1	Haryana	19	25	35	37
2	Goa	65	71	71	92
3	Gujrat	12	18	19	19
4	Maharashtra	12	19	20	21
5	Punjab	32	43	51	53
	High Income	*14*	*19*	*22*	*25*
	C.V. (per cent)	138	92	106	107
6	Andhra Pradesh	10	17	17	20
7	Karnataka	15	23	23	26
8	Kerala	61	75	75	91
9	Tamil Nadu	23	34	34	38
10	West Bengal	26	48	46	52
	Middle Incomce	*18*	*29*	*32*	*32*
	C.V. (per cent)	97	72	75	78
11	Bihar	14	28	38	38
12	Chattisgarh			8	8
13	Jharkhand			18	19
14	Madhya Pradesh	5	10	11	11
15	Orissa	6	14	14	15
16	Rajasthan	5	9	10	10
17	Uttranchal			16	16
18	Uttar Pradesh	14	29	34	35
	Low Income State	*8*	*16*	*17*	*17*
	C.V. (per cent)	47	49	51	51
	All India	*11*	*17*	*19*	*22*

Note: Goa includes Daman and Diu for 1981. – Not available
Source: Estimated from RBI's Basic Statistical Returns and Registrar General's Census of India (various issues).

Chart 4.1



It is interesting to learn that relatively high growth in branch network is also noticed in a middle income state, Kerala. The growth of banking sector in the state can be partly due to high remittances earned by the outmigrants and to some extent due to low geographical area (close to 39,000 sq km) in the state as compared to other states. However, the concentration of office is relatively very low in low income states, namely, Rajasthan followed by M P and Orissa. This can be due to low level of per capita income, inadequate infrastructure if not the density of population.

The slow growth in office during the reforms period has affected population served per SCB's office (table 4.2 and chart 4.2). In the national level there has been an absolute decline in population served per SCB's by 5,000 (from 19,000 to 14,000) during 1981-91 while it went up by 1,000 during the 1990s instead of declining further. This trend is noticed in both high income and low income states but it is pronounced in low income states (chart 4.2). In other words, there has been fall in population served per office by 9,000 and 3,000 in low income and high income states respectively during 1981-91 while it went up by 3,000 and 1,000 for the respective said categories of states during 1991-2001 (table 4.2).

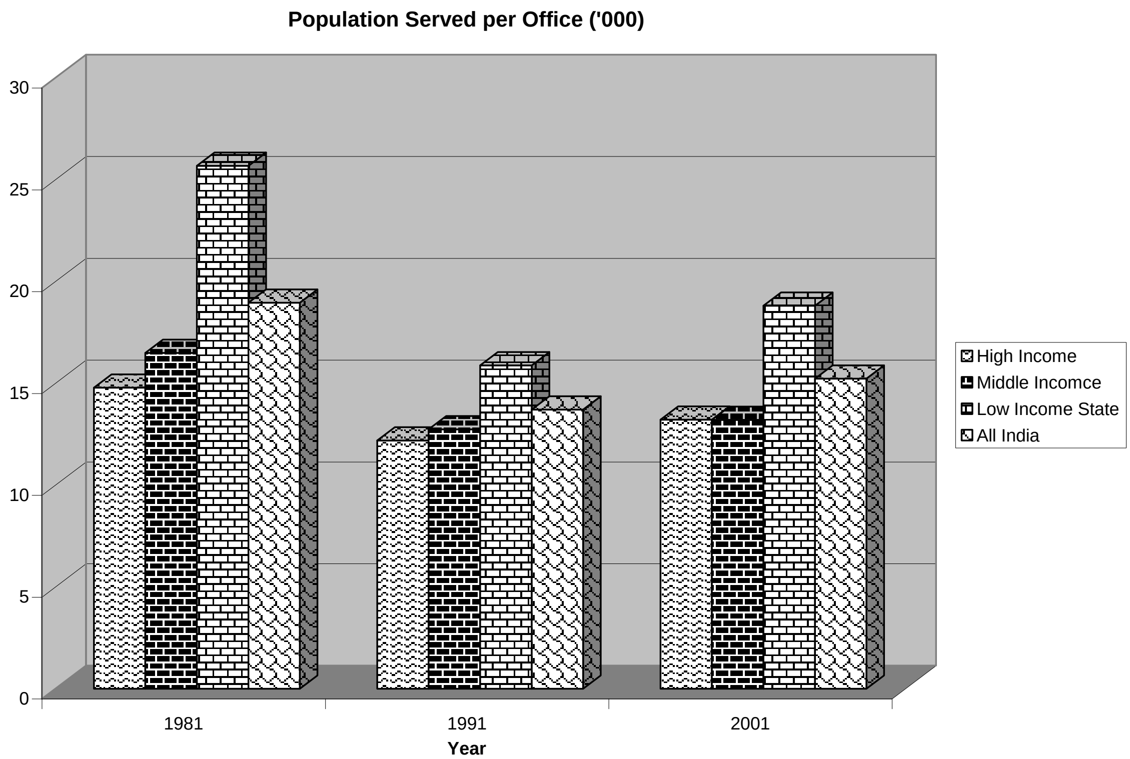
On an average relatively higher number of people are served by each office in low income states. Of late, population served per SCB office in both the high and middle income states turns out to be 13,000 while it as high as 19,000 in low income states. The disparity among the major states is evident from the fact that SCB's office in Goa used to serve around 4,000 people in 2004 while the corresponding figure is 23, 000 for Bihar.

Table 4.2: Population Served Per SCB Office (in 000s)

Sl No.	States	1981	1985	1991	1995	2001
1	Haryana	16	13	13	13	14
2	Goa	4	4	4	5	4
3	Gujrat	15	12	12	12	13
4	Maharashtra	17	14	14	15	15
5	Punjab	11	9	9	10	9
	High Income	**15**	**12**	**12**	**13**	**13**
	C.V. (%)	*31*	*28*	*27*	*28*	*30*
6	Andhra Pradesh	19	14	14	15	14
7	Karnataka	13	10	10	11	11
8	Kerala	11	10	10	10	9
9	Tamil Nadu	16	13	13	13	13
10	West Bengal	24	18	16	17	18
	Middle Income	**16**	**13**	**13**	**13**	**13**
	C.V. (%)	*28*	*23*	*18*	*19*	*22*
11	Bihar	28	19	18	19	23
12	Chattisgarh					20
13	Jharkhand					18
14	Madhya Pradesh	24	16	15	15	17
15	Orissa	27	17	15	16	16
16	Rajasthan	21	15	14	15	17
17	Uttranchal					10
18	Uttar Pradesh	27	17	16	17	20
	Low Income	**26**	**17**	**16**	**17**	**19**
	C.V. (%)	*10*	*6*	*5*	*6*	*18*
	All India	**19**		**14**		**15**

Source (i) RBI's Basic Statistical Returns and Registrar General's Census of India, various issues.

Chart 4.2



Given the fall in growth of population during the 1990s as compared to the 1980s, an increase in population served per office can be due to slow growth in branch expansion during the 1990s. As regards Goa, it has experienced population transition. With the growth of branch expansion, population served per office may not go up substantially as growth of population has slowed down in recent years.

4.2.2 Mobilization of Deposit

The pattern and trend of deposit mobilization is determined by the reforms in the banking sector, growth of GDP and growth of branch network. From table 3 it is evident that aggregate deposit amount in the country went up from about Rs 33, 000 crore in 1980 to Rs 1. 72 lakh crore in 1990 with further rise to Rs 15.2 lakh crore in 2004. **A major part of the deposit is mobilized in the Western Region followed by Southern Region, Central region, Eastern region and Northern region (table 4.3).**

Table 4.3: Statewise Deposit (Amount) of Scheduled Commercial Banks in India

Rs Crore

Sl No.	Region/state/Union Territory	1980	1985	1990	1992	1995	2000	2002	2004
1	*Northern Region*	*7137*	*16871*	*37838*	*49199*	*84960*	*190414*	*256705*	*351500*
2	Haryana	577	1431	3433	4494	7479	17053	23426	30940
3	Himachal Pradesh	190	478	1210	1617	2744	6221	8668	11146
4	Jammu & Kashmir	328	750	1548	2092	3630	8616	11621	14879
5	Punjab	1754	4117	8668	11341	17885	38715	51235	61975
6	Rajasthan	747	1976	4647	6359	10620	23839	31593	38936
7	Chandigarh	269	615	1313	1636	3213	6294	8804	10544
8	Delhi	3272	7503	17019	21660	39389	89677	121358	183080
10	*North-Eastern Region*	*477*	*1284*	*2845*	*3826*	*6085*	*13209*	*18312*	*23666*
11	Arunachal Pradesh	9	32	105	177	323	537	757	980
12	Assam	338	913	1900	2477	3956	8444	11515	14970
13	Manipur	21	31	84	120	183	459	634	820
14	Meghalaya	50	127	279	398	654	1403	1952	2676
15	Mizoram	9	32	65	107	180	321	493	676
16	Nagaland	18	66	181	232	300	770	1050	1222
17	Tripura	31	83	231	316	489	1274	1911	2322
19	*Eastern Region*	*5545*	*12159*	*26348*	*34373*	*48879*	*110722*	*145426*	*181791*
20	Bihar	1385	3528	8317	10161	15274	37403	29833	36130
21	Jharkhand							19084	23854
22	Orissa	358	915	2365	3161	5275	12744	18337	22753
23	Sikkim	4	48	106	103	147	463	811	1104
24	West Bengal	3789	7651	15510	20881	28062	59776	76897	97325
25	Andaman & Nicobar Islands	8	17	50	66	121	336	465	624
27	*Central Region*	*4201*	*10543*	*24495*	*31771*	*49447*	*113563*	*152715*	*195521*
28	Chattisgarh							9490	14628
29	Madhya Pradesh	1073	2689	6633	8683	13387	30888	33162	44327
30	Uttar Pradesh	3128	7854	17862	23088	36061	82675	98520	119332
31	Uttaranchal							11543	17231
33	*Western Region*	*8946*	*20093*	*44439*	*68456*	*106236*	*205562*	*296616*	*418713*
34	Goa	292	657	1329	1697	2750	6518	8032	10482
35	Gujarat	2397	5058	10234	13905	23446	48327	65284	84682
36	Maharashtra	6256	14374	32812	52771	79842	150185	222546	322551
37	Dadra & Nagar Haveli	1	5	14	19	61	167	271	331
38	Daman & Diu			50	64	138	365	483	670
40	*Southern Region*	*7015*	*16818*	*35946*	*49482*	*83566*	*187950*	*253620*	*346009*
41	Andhra Pradesh	1697	4525	9374	12462	20178	46359	63789	84796
42	Karnataka	1683	3883	8394	11207	19699	45911	62953	93046
43	Kerala	1288	3132	6555	9608	17250	39045	51667	66695
44	Tamil Nadu	2298	5169	11340	15812	25807	55175	73289	98873
45	Lakshadweep	1	3	8	12	21	63	73	95
46	Pondicherry	48	106	275	381	612	1397	1849	2501
48	*All - India*	*33320*	*77767*	*171911*	*237107*	*379174*	*821420*	*1123393*	*1517200*

Source: RBI's Basic Statistical Returns, various issues

Table 4.4 : Scheduled Commercial Banks Deposit per Office in Major States

(Rs lakh)

Sl No	States	1980	1985	1990	1995	2001	2002	2004
1	2	3	4	5	6	7	8	9
1	Haryana	77	130	270	548	1301	1487	1887
2	Goa	126	250	507	989	2151	2369	3074
3	Gujarat	107	164	297	654	1457	1730	2248
4	Maharashtra	189	293	577	1342	2654	3381	4913
5	Punjab	114	204	399	783	1723	1953	2301
	High Income	**140**	**225**	**440**	**976**	**2032**	**2488**	**3403**
	CV (per cent)	26	26	27	29	24	27	32
6	Andhra Pradesh	68	109	202	410	1034	1192	1570
7	Karnataka	64	99	193	436	1122	1276	1864
8	Kerala	60	114	226	553	1314	1506	1894
9	Tamil Nadu	82	130	257	555	1279	1492	2011
10	West Bengal	185	234	381	639	1498	1680	2125
	Middle Income	**89**	**135**	**251**	**514**	**1238**	**1416**	**2335**
	CV (per cent)	53	37	27	16	13	12	10
11	Bihar	73	88	177	306	740	825	999
12	Chattisgarh					712	896	1392
13	Jharkhand					1053	1287	1598
14	Madhya Pradesh	58	73	152	298	825	937	1259
15	Orissa	43	54	116	242	670	808	1002
16	Rajasthan	51	75	151	330	815	933	1138
17	Uttaranchal					1105	1341	1963
18	Uttar Pradesh	84	108	213	410	1034	1179	1426
	Low Income State	**68**	**88**	**176**	**341**	**886**	**1024**	**1288**
	CV (per cent)	22	20	20	18	16	19	24
	All - India	**103**	**148**	**284**	**594**	**1406**	**1647**	**2210**

Source: RBI's Basic Statistical Returns, various issues.

The massive growth in deposit has increased the mobilization of resources by each SCB's office. For instance, the aggregate deposit mobilized by an office at the national level went up from Rs 1 crore in 1980 to close to Rs 3 crore in 1990 with further rise to Rs 14 crore and Rs 22 crore in 2001 and 2004 respectively. In other words, the growth of deposit per office went up by about 400 per cent during 1991-2001 while it witnessed close to 180 per cent rise during 1981-91 (table 4.5). The deposit mobilized per office differs across categories of states. For instance in 2004 an office in the high income category can mobilize about Rs 34 crore which is higher by about Rs 12 crore of the national average. At the other end, the middle income states can accumulate marginally higher than the national level (Rs 23 crore). In contrast, this is much lower in the low income sates, i.e., Rs 12 crore in 2004.

Table 4.5 Growth of Deposit Per Office of SCBs (per cent)

Sl No.		1980-90	1990-2001	1990-2004
1	States			
2	Haryana	250	382	600
3	Goa	303	324	506
4	Gujarat	178	391	658
5	Maharashtra	205	360	752
6	Punjab	251	331	476
	High Income	***215***	***362***	***674***
7	Andhra Pradesh	196	413	679
8	Karnataka	202	481	866
9	Kerala	277	483	740
10	Tamil Nadu	215	397	681
11	West Bengal	105	294	458
	Middle Income	*183*	*393*	*830*
12	Bihar	142	319	465
13	Madhya Pradesh	164	442	726
14	Orissa	166	480	767
15	Rajasthan	199	439	652
16	Uttar Pradesh	154	386	570
	Low Income State	***158***	***402***	***630***
	All - India	176	395	678

Source: RBI's Basic Statistical Returns, various issues.

Acceleration in growth of deposit per office during the reforms period can be partly due to high growth in deposit and to some extent due to slow growth in office as reflected by increase in population served per office during the said period. Therefore, it may be essential to capture per capita deposit. From table 4.6 it is evident that per capita deposit of commercial banks went up by about 4 times (Rs 591 to Rs 2370) during 1981-91 and marginally higher than 3 times (Rs 2370 to Rs 9230) during 1991-2001. The slow growth in per capita deposit is also evident from table 4.7. The growth of per capita deposit of SCBs in India witnessed relatively higher growth (301 per cent) during 1981-91 as compared to 1991-2001 (290 per cent). However, the difference in growth of per capita deposit in India during pre-reforms and reforms periods is not very high.

There has been glaring disparity in accumulation of resources across states (table 4.6). Of late, per capita deposit of commercial banks is close to Rs 4,700 in low income states while this is around Rs 9,400 and Rs15,400 in for middle income and high income states respectively. The extent of disparity in mobilization of deposit is very high in high income states as compared to other categories of states.

Table 4.6: Per Capita Deposit of Scheduled Commercial Banks (in Rs.)

Sl No	States	1981	1985	1991	1995	2001
1	Haryana	552	990	2430	4118	9405
2	Goa	3222	6015	12766	21501	52995
3	Gujarat	846	1346	2854	5233	10864
4	Maharashtra	1209	2078	4855	9250	17805
5	Punjab	1287	2258	4930	8086	18186
6	*High Income*	*1073*	*1824*	*4148*	*7610*	*15374*
8	CV	87	99	90	82	104
9	Andhra Pradesh	396	765	1663	2802	7144
10	Karnataka	550	948	2174	4085	10358
11	Kerala	616	1155	2676	5565	13874
12	Tamil Nadu	544	990	2435	4417	10106
13	West Bengal	836	1271	2767	3815	8473
14	*Middle Income*	*590*	*1017*	*2309*	*3919*	*9370*
16	CV	24	17	17	23	24
17	Bihar	249	457	1089	1601	3229
18	Chattisgarh	-	-	-	-	3609
19	Jharkhand	-	-	-	-	5739
20	Madhya Pradesh	246	464	1172	2023	4819
21	Orissa	178	320	875	1533	4095
22	Rajasthan	267	510	1267	2192	4874
23	Uttaranchal					11020
24	Uttar Pradesh	354	636	1475	2392	5137
25	*Low Income State*	*284*	*520*	*1253*	*2040*	*4709*
27	CV	20	20	16	16	49
28	**All - India**	**591**		**2370**		**9230**

-Not available

Source: Registrar General's Census of India and RBI's Basic Statistical Returns.

Table 4.7: Growth of Per Capita Deposit of SCBs During Different Periods (per cent)

Sl No.	States	1981-1991	1991-2001	1981-2001
1	Haryana	340	287	1603
2	Goa	296	315	1545
3	Gujarat	237	281	1184
4	Maharashtra	302	267	1373
5	Punjab	283	269	1313
	High Income	*287*	*271*	*1333*
6	Andhra Pradesh	320	329	1703
7	Karnataka	295	376	1784
8	Kerala	335	419	2153
9	Tamil Nadu	348	315	1758
10	West Bengal	231	206	913
	Middle Income	*291*	*306*	*1488*
11	Bihar	337	196	1196
12	Chattisgarh			
13	Jharkhand			
14	Madhya Pradesh	376	311	1858
15	Orissa	392	368	2204
16	Rajasthan	375	285	1728
17	Uttaranchal			
18	Uttar Pradesh	316	248	1339
	Low Income State	*341*	*276*	*1558*
	All - India	*301*	*290*	*1461*

Source: Registrar General's Census of India and RBI's Basic Statistical Returns.

4.2.3 Credit Deployment

To sustain growth momentum and ensure improvement in employment growth, higher allocation of credit for various purposes needs to be undertaken. From table 8 it is evident that credit amount outstanding per office went up by about Rs 1 crore (from Rs 69 lakh in 1980 to Rs 1.72 crore) during the 1980s and close to Rs 7 crore during 1991-2001 (Rs 201 crore to Rs 797 crore). The amount of loans and advances disbursed by different categories of states differ widely. On account of higher level of deposit, high income states can disburse relatively larger amount of credit. The credit amount outstanding in high income states hover around Rs 23 crore while is it much lower for middle income (Rs 15 crore) and low income states (close to Rs 5 crore) in 2004 (table 4.8). In other words, per capita credit disbursed in the economy as a whole is about Rs 5, 200 in 2004 and this is significantly lower than that of high income states (about Rs10, 500) and middle income state (Rs 6,000).

Table 4.8: Credit Amount Outstanding per Office of SCBs (Rs in lakh)

Sl No.	States	1980	1990	1995	2001	2002	2004
1	Haryana	51	163	250	533	651	889
2	Goa	47	160	244	562	599	669
3	Gujrat	55	168	305	707	764	948
4	Maharashtra	150	400	933	2293	3120	3965
5	Punjab	44	176	324	707	816	986
	High Income	*91*	*272*	*579*	*1386*	*1799*	*2262*
6	Andhra Pradesh	49	162	299	667	738	1034
7	Karnataka	50	159	286	684	786	1185
8	Kerala	40	142	248	568	652	879
9	Tamil Nadu	72	248	480	1158	1274	1844
10	West Bengal	113	216	344	667	769	1039
	Middle Income	*64*	*188*	*337*	*762*	*855*	*1505*
11	Bihar	31	65	100	153	176	248
12	Chattisgarh				274	394	556
13	Jharkhand				295	323	422
14	Madhya Pradesh	30	101	148	393	437	587
15	Orissa	27	104	132	270	360	536
16	Rajasthan	33	87	157	380	452	633
17	Uttranchal				239	318	429
18	Uttar Pradesh	37	85	144	292	352	474
	Low Income State	*33*	*86*	*136*	*294*	*352*	*483*
	All India	*69*	*172*	*331*	*797*	*962*	*1282*

Source: RBI's Basic Statistical Returns, various issues.

Table 4.9: Per Capita Credit (Amount Outstanding) (In Rupees**)**

Sl No	States	1981	1985	1991	1995	2001
1	Haryana	384	814	1463	1876	3857
2	Goa*	1346	1910	3681	5310	13836
3	Gujarat	459	710	1648	2439	5270
4	Maharashtra	945	1949	3511	6431	15379
5	Punjab	556	1584	2224	3346	7466
	High Income	*711*	*1454*	*2647*	*4513*	*10488*
6	Andhra Pradesh	281	576	1328	2045	4609
7	Karnataka	410	754	1719	2687	6314
8	Kerala	458	773	1581	2494	6001
9	Tamil Nadu	534	846	2360	3826	9153
10	West Bengal	471	735	1466	2055	3774
	Middle Income	*427*	*727*	*1676*	*2573*	*5766*
11	Bihar	104	168	417	520	668
12	Chattisgarh					1390
13	Jharkhand					1609
14	Madhya Pradesh	149	279	758	1002	2294
15	Orissa	123	274	605	836	1648
16	Rajasthan	190	363	717	1045	2272
17	Uttaranchal					2387
18	Uttar Pradesh	168	284	661	840	1451
	Low Income State	*148*	*264*	*623*	*815*	*1561*
	All - India	*393*	-	*1467*	-	*5235*

\- not available

Source: RBI's Basic Statistical Returns, various issues.

In contrast, low income states disburse around Rs1600 in 2004(table 4.9). Therefore, it indicates that per capita credit disbursed is positively associated with level of income *ceteris paribus*.

The credit amount outstanding not only depends on deposit mobilized but also by the per capita elasticity of demand for credit and the latter is determined by growth of various sectors. On account of buoyant service sector and concentration of industry, relatively higher demand for credit can be a normal phenomenon in the high income states.

As regards growth of credit during pre-reforms and reforms periods, there has been decline during the 1990s (257 per cent) as compared to the 1980s (273 per cent). This trend is noticed across the states barring high income states where an improvement in growth of credit is noticed. At the other end, the extent of decline in growth of credit during the reforms period is pronounced in low income states and therefore, it is the cause for serious concern (table 4.10).

Table 4.10: Growth of Per Capita Credit Amount Outstanding

	States	1981-91	1991-2001	1981-2001
1	Haryana	281	164	904
2	Goa*	173	276	928
3	Gujarat	259	220	1049
4	Maharashtra	272	338	1528
5	Punjab	300	236	1242
	High Income	*273*	*296*	1376
6	Andhra Pradesh	372	247	1539
7	Karnataka	319	267	1439
8	Kerala	245	280	1210
9	Tamil Nadu	342	288	1614
10	West Bengal	211	157	702
	Middle Income	*293*	*244*	1251
11	Bihar	301	60	542
12	Chattisgarh			
13	Jharkhand			
14	Madhya Pradesh	407	203	1436
15	Orissa	394	172	1245
16	Rajasthan	277	217	1093
17	Uttaranchal			
18	Uttar Pradesh	294	120	766
	Low Income State	*321*	*151*	956
	All – India	*273*	*257*	1232

Source: RBI’s Basic Statistical Returns, various issues.

No doubt, the fall in growth of per capita credit can be due to slow growth of per capita deposit during the reforms period. But extent of fall in growth of credit is more than that of decline in growth of deposit. In other words, growth of per capita deposit declined by 11 percentage points (from 301 to 290 per cent) during the reforms periods as compared to pre-reforms periods while growth of per capita credit witnessed a fall by 16 percentage points (257 per cent to 273 per cent) during the said period. However, slow growth in credit disbursement can be due to some other factors excluding the above mentioned slow growth in deposit during the reforms period.

In fact, there has been co-existence of high liquidity among banks, particularly the Public Sector Banks(PSBs) with large unsatisfied demand for credit. The PSBs become dysfunctional partly due to lending fatigue and flawed public debt policy, i.e., 'play safe mind of the public sector banks (Mujumdar, 1998). The PSBs prefer to opt for investment in government securities -having high yield, zero –risk and zero- transaction cost, than that of bankable projects which requires processing and evaluation of large number of applications along with the assurance of repayments. Therefore, sub-optimal use of banking sector resources along with crowding-out of productive sectors became the outcome of the above policy and it has tended to promote fiscal profligacy (Mujumdar, 1998). The persistence of very low credit-deposit ratio of commercial banks of some 50 per cent can be due to excess liquidity available with the banks.

In order to examine the role of credit in the growth of state economies, credit amount outstanding (utilized) to GSDP ratio has been estimated. From table 4.11 it is evident that credit to GDP ratio for the national economy witnessed a consistent rise over the years. This is also true for a majority of the states. Second, credit to GSDP ratio is relatively higher in southern states as compared to other categories of states. However, a low credit to GSDP ratio may not necessarily reflect the role played by credit in the process of development as it fails to capture allocation of resources for various purposes. For example, credit to GSDP ratio may not be very high in Maharashtra partly because a large amount of resources is given in the form of housing loans and therefore, it may not necessarily reflect the growth in output.

Table 4.11: Bank Credit Outstanding (Utilized) to GSDP (Originating in the state at current prices)

(In per cent)

Sl No	States/Region	Credit to GSDP Ratio									
		1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03
I	**Northern Region**	**26.9**	**25.5**	**25.0**	**24.2**	**25.0**	**26.8**	**29.6**	**33.5**	**37.4**	**42.1**
1	Haryana	16.1	14.7	15.2	14.7	16.1	16.7	17.3	18.0	19.6	21.8
2	Himachal Pradesh	13.7	12.5	12.9	12.1	11.8	11.6	12.4	13.2	15.8	20.7
3	Jammu and Kashmir	17.2	15.2	13.0	12.4	15.9	20.4	18.8	20.2	25.4	28.7
4	Punjab	19.7	20.4	21.4	20.8	21.0	21.8	23.9	26.1	29.5	32.3
5	Rajasthan	13.7	12.1	11.6	11.1	12.6	13.0	14.0	16.1	17.6	21.6
6	Chandigarh	7.9	13.4	14.8	11.8	11.7	14.4	18.1	25.4	28.0	31.9
7	Delhi	88.4	77.5	75.0	74.0	69.3	74.6	82.9	87.6	99.5	104.8
II	***North-Eastern Region***	***11.1***	***10.1***	***9.6***	***9.0***	***8.6***	***8.7***	***8.6***	***8.9***	***13.6***	***16.6***
1	Arunachal Pradesh	7.6	6.7	6.5	6.6	5.3	5.3	6.4	7.2	9.3	9.9
2	Assam	12.5	10.3	9.9	9.8	9.7	9.9	9.8	10.7	18.0	22.6
3	Manipur	6.7	7.0	7.1	7.3	7.4	7.3	6.5	6.0	5.4	5.1
4	Meghalaya	6.8	12.5	12.1	6.9	5.8	6.5	6.8	6.9	9.6	13.3
5	Mizoram	6.5	7.6	6.0	4.2	4.3	5.1	5.5	5.6	7.6	9.0
6	Nagaland	8.1	7.7	7.6	7.2	5.8	5.3	5.0	3.3	3.8	3.8
7	Tripura	12.3	12.2	10.8	9.7	8.8	8.2	7.2	6.3	6.2	6.5
III	***Eastern Region***	***17.8***	***16.5***	***16.6***	***16.3***	***15.4***	***15.2***	***16.0***	***16.1***	***18.8***	***21.3***
1	Bihar	20.5	19.1	22.0	18.4	20.5	20.4	20.3	14.7	11.9	12.7
2	Jharkhand									17.4	19.0
3	Orissa	13.7	12.4	11.9	13.2	12.1	12.5	13.0	15.1	18.5	23.3
4	Sikkim	8.5	8.2	8.1	7.6	7.2	7.3	8.0	8.1	11.9	15.1
5	West Bengal	23.6	21.9	21.1	20.8	19.2	18.4	19.4	20.1	21.5	24.2
6	A and N Islands	4.1	3.3	3.6	3.8	3.9	6.0	8.2	10.3	18.0	23.5
IV	***Central Region***	***14.4***	***13.4***	***13.6***	***13.4***	***14.3***	***14.3***	***15.0***	***16.0***	***18.4***	***20.6***
1	Madhya Pradesh	16.5	15.8	17.3	18.3	19.3	19.0	19.2	21.3	19.0	21.8
2	Chhattisgarh									92.6	95.8
3	Uttar Pradesh	14.7	13.5	13.2	12.4	13.3	13.5	14.3	15.2	16.2	18.0
4	Uttaranchal									20.1	22.7
5	***Western Region***	***29.2***	***29.3***	***32.0***	***32.1***	***33.2***	***34.4***	***38.0***	***46.0***	***48.4***	***50.8***
6	Goa	19.7	20.3	23.2	22.9	22.1	21.9	23.0	23.9	27.1	29.8
7	Gujarat	19.3	16.6	18.1	17.5	18.8	19.4	21.8	24.8	25.6	27.5
8	Maharashtra	33.6	35.6	38.4	39.2	40.1	41.9	45.5	56.4	59.6	62.0
V	***Southern Region***	***24.6***	***24.2***	***25.5***	***26.6***	***27.6***	***26.7***	***28.3***	***29.5***	***33.6***	***37.4***
1	Andhra Pradesh	20.3	19.7	20.6	21.3	22.8	21.6	22.7	23.4	25.9	29.2
2	Karnataka	24.1	24.3	26.3	27.7	28.6	27.3	29.3	30.6	36.5	42.5
3	Kerala	23.2	22.5	21.7	22.0	23.2	23.3	24.1	25.1	28.5	30.0
4	Tamil Nadu	29.8	29.3	31.9	33.5	33.5	33.2	35.4	37.3	42.5	46.4
5	Pondicherry	24.7	25.4	25.8	21.4	17.4	15.8	16.3	14.8	16.2	18.4
VI	***All – India***	***22.8***	***22.2***	***23.2***	***23.3***	***23.9***	***24.2***	***26.2***	***29.0***	***32.3***	***35.6***

Notes: 1) GSDP figures for some of the states in 2002-03 is estimated from the latest trend.

2) Bank credit data used are averages for two succeeding years.

Source: EPW Research Foundation March 19, 2005.

4.2.4 Credit-Deposit Ratio

Credit-Deposit (CD) ratio reflects the share of deposit utilized in the form of credit in a specific region, state or the economy as a whole. It is often treated as one of the crucial indicators to analyse the role of banking sector in a specific state as allocation of credit for various developmental purposes can have a positive impact on growth of employment and output.

There has been considerable erosion in Credit-Deposit ratio during the reforms period as compared to the pre-reforms period (table 4.12). At the national level CD ratio as per sanction declined from 66.5 per cent in 1981 to close to 62 per cent in 1991 with further decline to about 57 per cent in 2001 with marginal improvement in recent years barring 2004. Of late, CD ratio as per sanction is very high in Tamil Nadu (93 per cent) followed by Maharshtra (82 per cent) while it is very low in some of the low income states like Bihar, Uttaranchal and Jharkhand (about 25 per cent). It is surprising to learn that in CD ratio, Goa occupied one of the rock bottom level despite its splendid performance in deposit mobilization and expansion of branch network.

Table 4.12: Credit-Deposit Ratio (Amount Outstanding) as per Sanction

Sl No	States	1981	1985	1991	1995	2001	2002	2004
1	Haryana	69.6	82.2	60.2	45.5	41.0	43.7	47.6
2	Goa	41.8	34.4	28.8	24.7	26.1	25.3	21.7
3	Gujarat	54.2	52.7	57.7	46.6	48.5	44.1	42.2
4	Maharashtra	78.1	93.8	72.3	69.5	86.4	92.3	81.8
5	Punjab	43.2	70.2	45.1	41.4	41.1	41.8	43.1
6	Andhra Pradesh	71.0	75.3	79.8	73.0	64.5	61.9	65.9
7	Karnataka	74.6	79.5	79.1	65.8	61.0	61.6	63.1
8	Kerala	74.4	66.9	59.1	44.8	43.3	43.3	45.5
9	Tamil Nadu	98.2	85.4	96.9	86.6	90.6	85.4	93.1
10	West Bengal	56.3	57.8	53.0	53.9	44.5	45.8	49.5
11	Bihar	41.8	36.8	38.3	32.5	20.7	21.3	24.9
12	Chhattisgarh	-	-	-	-	38.5	44.0	40.0
13	Jharkhand	-	-	-	-	28.0	25.1	26.3
14	Madhya Pradesh	60.7	60.1	64.7	49.6	47.6	46.6	46.9
15	Orissa	68.9	85.6	69.2	54.5	40.2	44.5	53.7
16	Rajasthan	71.4	71.2	56.6	47.7	46.6	48.4	55.7
17	Uttaranchal	-	-	-	-	21.7	23.7	21.1
18	Uttar Pradesh	47.3	44.6	44.8	35.1	28.3	29.9	33.1
	All India	66.5	67.9	61.9	55.6	56.7	58.4	58.2

Source: Estimated from RBI's Basic Statistical Returns, various issues

This can be partly due to inelastic demand for credit. For instance, concentration of industry in the state could have improved demand for credit but it is not materialized due to several socio-economic and geographical factors. It needs to be mentioned that low CD ratio as per sanction may not necessarily reflect the extent of utilization. **The difference in credit sanctioned and utilized leads to migration of credit.** In other to identify total credit utilized in the state total credit sanctioned in the state, credit utilized in the state, credit sanctioned in the state but utilized in other state, credit utilized in the state but sanctioned in other state, need to be taken into account.

The pattern of net migration of credit is evident from table 11. **From this table it is evident that there has been net migration of credit to north-eastern region, central region and southern region. In contrast, credit outmigrating from western region, northern region and to a large extent in eastern region barring last few years. The concentration of various industries in southern region might have attracted lot of resources from other regions.**

The pattern of migration of credit to various categories of states reflects a distinct picture (table 4.13). A majority of the high income and low income states witnessed net migration of credit barring Maharshtra. The extent of migration is very low in middle income states and even some of them witnessed net outmigration of credit. This reflects a disturbing picture. In both per capita deposit and per capita credit high income states outweighs other categories of states. But CD ratio of some of the high income states, namely, Goa, Gujarat and Punjab remained very low. Then again, there has been net migration of credit to the high income states barring Maharashtra till 2002. It indicates higher credit flow to high income states. This can be partly due to high elasticity of demand for credit in those states. However, **it is interesting to note that there has been improvement in migration of credit to low income states in recent years.**

Table 4.13: Difference in CD Ratio (as per Sanction and Utilization) Across Regions and Major States in India

(per cent)

		Net Migration as percentage of Sanction							
Sl No	Regions	1980	1985	1990	1992	1995	2001	2002	2003
1	Northern Region	-1.0	-0.5	-2.7	-3.4	-2.3	-4.0	-2.1	-0.9
2	North-Eastern Region	38.4	55.4	27.6	41.9	29.0	15.9	95.6	75.9
3	Eastern Region	-1.1	-2.0	-1.3	-0.9	-1.1	-0.3	10.1	8.1
4	Central Region	7.7	0.5	5.9	5.6	5.6	12.8	13.3	15.9
5	Western Region	-3.0	-1.5	-2.4	-3.0	-1.2	-0.9	-10.5	-11.7
6	Southern Region	1.2	0.8	0.9	1.6	0.6	0.3	6.7	7.4
		Major States							
	States	**High Income**							
1	Haryana	48.7	31.3	24.0	25.0	22.9	31.7	25.9	32.5
2	Goa	21.9	3.3	4.1	3.6	3.3	4.6	11.5	14.9
3	Gujarat	6.8	6.9	11.4	9.4	6.4	10.5	24.0	25.0
4	Maharashtra	-6.1	-3.2	-6.2	-6.1	-3.0	-3.4	-16.0	-17.4
5	Punjab	70.1	14.2	4.8	8.6	4.7	2.9	5.0	4.6
	States	**Middle Income**							
6	Andhra Pradesh	2.0	1.1	2.0	1.2	2.2	0.6	9.4	11.1
7	Karnataka	1.9	1.7	2.9	4.8	-1.0	1.3	11.9	14.1
8	Kerala	2.1	2.1	-0.1	0.9	0.9	-2.3	0.9	1.9
9	Tamil Nadu	-0.3	-0.8	-0.8	0.0	0.2	0.0	3.6	2.6
10	West Bengal	-5.7	-6.0	-5.1	-3.4	-3.5	-2.5	7.4	4.4
	States	**Low Income**							
11	Bihar	13.0	7.3	6.2	4.2	4.1	0.0	2.8	2.6
12	Chattisgarh						29.6	23.2	24.8
13	Jharkhand						9.3	23.5	23.1
14	Madhya Pradesh	5.3	2.8	3.0	3.6	4.5	10.3	7.9	10.9
15	Orissa	10.1	3.7	3.2	3.1	2.6	3.5	15.5	18.0
16	Rajasthan	7.7	3.3	7.4	6.6	7.1	6.4	14.5	8.9
17	Uttaranchal						12.7	14.7	17.6
18	Uttar Pradesh	8.7	-0.6	7.6	6.7	6.2	10.1	9.7	10.3

Notes (i): Sikkim was part of North Eastern Region during 1980 - 1988. From 1989 onwards Sikkim was part of Eastern Region. To make the figures comparable Sikkim is kept under Eastern Region.

(ii) The figures shown against Goa represent Goa, Daman and Diu up to 1986. Later on figures for Goa, Daman & Diu have been provided separately

Source: RBI's Basic Statistical Returns, various issues

Section II
4.3 Level of Banking Development

In order to find out the level of banking development in a particular state, a development index has been constructed by taking into account seven indicators. To construct the composite development index, various methods have been suggested which are inconclusive in nature and none of the methods seems to be superior to other methods (Seetha Prabhu et.al.:1992). Besides, it also involves a system of weightage for which there is hardly any objective method. With this above limitations, UNDP's development index method has been used in the present context for aggregating the chosen indicators.

The level of Banking Development Index (BDI) is constructed in three stages. First, the extent of deprivation a state suffers with respect to each of the indicator has been estimated. To get an index of deprivation, the level of deprivation of each state with respect to a specific indicator is divided by the difference between the maximum and minimum values of the same indicator.

If 'I ij' is the deprivation indicator for the 'jth' region with respect to 'ith' functioning then it can be defined as

$$I_{ij} = (Max_i - X_{ij}) / (Max_i - Min_i)$$

The second step is to construct average deprivation index which needs simple average of all the indicators.

$$I_j = \sum_{i=1}^{n} I_{ij} / n$$

where 'n' is the indicators (variables) chosen to construct the index

Then Banking Development Index is defined as absence of deprivation. In other words

$$(BDI)_j = (1 - \sum_{i=1}^{n} I_{ij} / n)$$

In this framework, inter-temporal comparison is not feasible as the maximum and minimum values are defined at a point of time, which gets changed over time (Datta B et.al.: 1997). In order to correct the deficiency, Human Development Report suggest to use global maximum and global minimum which are defined over a period of time instead of at a point of time.

To analyse levels of development achieved by different states, changes in the status of the states and extent of improvement over time, the states have been classified into three categories, namely, developed, moderately developed and underdeveloped. It is based on the assumption that the index value follows a normal distribution with mean μ and standard deviation δ. This normal distribution (Zd) is divided into three fractile groups, each having the same weight of 33.33 per cent in the distribution. The groups are categorized by using the following cut-off points.

Developed	$Zd > \mu + .44 (\delta)$
Moderately Developed	$\mu - .44 (\delta) \leq Zd < \mu + .44 (\delta)$
Underdeveloped	$Zd < \mu - .44 (\delta)$

As mentioned, seven development indicators have been taken into account to construct the composite Banking Development Index. To make the figures comparable across states, suitable deflators have been used. The indicators chosen for the study are as follows:

- (i) population served per office;
- (ii) Number of office per 1000 sq km;.
- (iii) Per capita deposit ;
- (iv) Deposit per office;
- (v) Credit amount outstanding per office;
- (vi) Per capita credit amount outstanding; and
- (vii) Credit-Deposit ratio

It needs to be mentioned that except the first indicator, an increase in value of other indicators reflect improvement or better performance of the commercial banks. To ensure homogeneity in data, the reciprocal value of the first indicator has been taken into account. The level of achievement and extent of improvement in the banking development index is shown in table 4.14

Table 4.14: Level of Banking Development Across Major States

Sl No.	States	Achievement Index Score			Improvement Index Score	
		1981	1991	2001	1981-91	1991-2001
1	Haryana	0.127	0.169	0.249	0.041	0.081
2	Goa	0.273	0.331	0.571	0.059	0.239
3	Gujarat	0.089	0.153	0.278	0.064	0.125
4	Maharashtra	0.150	0.238	0.525	0.088	0.287
5	Punjab	0.118	0.203	0.391	0.085	0.189
6	Andhra Pradesh	0.105	0.179	0.268	0.074	0.088
7	Karnataka	0.139	0.210	0.317	0.071	0.107
8	Kerala	0.227	0.256	0.399	0.029	0.143
9	Tamil Nadu	0.190	0.274	0.458	0.083	0.184
10	West Bengal	0.105	0.186	0.290	0.081	0.104
11	Bihar	0.032	0.078	0.087	0.045	0.010
12	Madhya Pradesh	0.064	0.117	0.143	0.053	0.026
13	Orissa	0.079	0.126	0.120	0.048	-0.007
14	Rajasthan	0.091	0.099	0.148	0.008	0.049
15	Uttar Pradesh	0.049	0.105	0.139	0.056	0.034
	Mean	*0.122*	*0.182*	*0.29*	*0.059*	*0.111*
	CV (%)	*51.92*	*38.31*	*50.12*	*36.87*	*74.72*

Note: The figures for Goa, Bihar, U.P and M.P may not be strictly comparable due to bifurcation of state. We have smoothen the data to a large extent by deflating it with certain indicators, namely, population, area and office. The population figures for UP , Bihar and MP for 2001 exclude Uttaranchal, Jharkhand and Chattisgarh. Figures of some of the banking indicators are not available for undivided said states in recent years.

From table 4.14 it is evident that **there has been overall improvement in the level of banking development of major states during the two decades since 1981. The extent of improvement is relatively high during the 1990s as compared to 1980s. But surprisingly this is noticed along with higher level of disparity among the 15 major states during the 1990s.** For instance, the extent of variation in the achievement index score measured by CV declined by 14 percentage points in 1991 as compared to 1981 while it went up by 12 percentage points in 2001 as compared to 1991.

The level of disparity among the states is also evident from table 4.15. **In the achievement index score, Goa maintained first position during 1981-2001 followed by Kerala, Tamil Nadu or Maharashtra. At the other end, Bihar retained the lowest position during the said period. As such low income states remained at the bottom level during the period under consideration.**

As regards Kerala, Per capita deposit in the state is higher than that of all India level yet, it is lagging behind a number of states, implying geographical area, growth of various sectors do play a role in this direction. In this context, one of the crucial issues that needs elaboration is the banking sector reforms introduced in Kerala (Pillai and Shanta: 2005). The banking sector in Kerala has focused on housing finance, consumer loans for vehicles and durable assets, and so on. On account of high literary rate and may be to some extent the ability of the people to repay loans through remittance, the economy has responded quickly and positively to such banking reforms and opt for various openings for credit. The share of personal loans in total credit went up from about 5 per cent in 1985 to about 11 per cent and 24 per cent in 1990 and 2001 respectively in Kerala. This is much higher as compared to all India figure as there has been a rise from about 3 per cent in1985 to 6 per cent 1990 and 12 per cent in 2001. In the personal loan category a major part of total resource is disbursed for housing sector as it has linkage with construction and trading sector (including transport of building material from other states).

The state specific level of improvement reflects relatively higher improvement in the index score during the 1990s as compared to the1980s barring few low income states. In other words, this is mostly noticed in the high income states (table 4.15). For instance, in the improvement index ladder, Goa moved to 2^{nd} rank in the 1990s from 8^{th} rank attained during the 1980s. In contrast, **there has been deterioration in the rank of low income states in the improvement index ladder barring Rajasthan**. **The extent of decline in improvement score in pronounced in Orissa.** Overall it suggests that high income states performed better in the banking development index as compared to their middle income and low income counter parts during the reforms period.

Table 4.15: Rank of States in Level of Banking Development

Sl No	States	Rank in Achievement Index Score			Improvement Index Score Rank	
		1981	1991	2001	1981-1991	1991-2001
1	Haryana	6	9	10	13	10
2	Goa	1	1	1	8	2
3	Gujarat	11	10	8	7	6
4	Maharashtra	4	4	2	1	1
5	Punjab	7	6	5	2	3
6	Andhra Pradesh	8.5	8	9	5	9
7	Karnataka	5	5	6	6	7
8	Kerala	2	3	4	14	5
9	Tamil Nadu	3	2	3	3	4
10	West Bengal	8.5	7	7	4	8
11	Bihar	15	15	15	12	14
12	Madhya Pradesh	13	12	12	10	13
13	Orissa	12	11	14	11	15
14	Rajasthan	10	14	11	15	11
15	Uttar Pradesh	14	13	13	9	12

Note: Ranking is in the descending order.
Source: Table 4.14

Table 4.16: Rank Correlation Coefficient Between Achievement and Improvement Index of Level of Banking Development in 15 Major States

	Achievement Index			Improvement Index	
Year	*1981*	*1991*	*2001*	*1981-1991*	*1991-2001*
Achievement (1981)	1.00				
Achievement (1991)	0.94	1.00			
Achievement (2001)	0.92	0.94	1.00		
Improvement (1981-1991)	0.30	0.52	0.56	1.00	
Improvement (1991-2001)	0.83	0.86	0.97	0.61	1.00

Source: Table 4.15

In order to assess the degree of association between level of achievement and extent of improvement, correlation coefficient between achievement and improvement index score has been estimated for the 15 major states together (table 4.16). From table 4.16 it is discernible that level of achievement index score in 1981 is positively linked and highly correlated with the achievement index score of major states together in 1991 and 2001 (r=0.94 or 0.92). But the extent of improvement in 1991 is not highly correlated with the level of achievement in 1981 (r=.30) while the level of improvement in 2001 is strongly associated with the level of achievement in 1991 (r=0.83). **This suggests that all the states have achieved higher improvement in 1991 despite their initial level of achievement in 1981. In contrast, the states performed well in 1991 have done well in 2001 and vice-versa.**

The classification of major states into three categories based on their achievement index score reveals that Goa, Maharashtra, Kerala and Tamil Nadu remain in the developed category during 1981-2001 (tables 4.17 & 4.18). Similarly, Haryana, Andhra Pradesh, West Bengal and Karnataka remained in the moderately developed category. And all the low income states have experienced low level of banking development. **It indicates that per capita income of state and level of banking development are positively correlated**.

Table 4.17: Inter-State Level of Banking Development: 1981-2001

Category/ Year	1981	1991	2001	1981-2001
Developed	Goa, Kerala, Tamil Nadu and Maharashtra	Goa, Tamil Nadu, Kerala, Maharashtra, and Karnataka	Goa, Maharashtra, Tamil Nadu, Kerala and Punjab	Goa, Tamil Nadu, Kerala, Maharashtra
Moderately Developed	Karnataka, Haryana, Punjab, Andhra Pradesh, West Bengal	Punjab, West Bengal, Andhra Pradesh, Haryana and Gujarat	Karnataka, West Bengal, Gujarat, Andhra Pradesh and Haryana	Haryana, West Bengal and Andhra Pradesh
Under Developed	Rajasthan, Gujrat, Orissa, Madhya Pradesh, Uttar Pradesh and Bihar	Orissa, Madhya Pradesh, Uttar Pradesh, Rajasthan and Bihar	Rajasthan, Madhya Pradesh, Uttar Pradesh, Orissa, and Bihar	Bihar, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh

Note: The states have been classified based on their achievement score. Source: Table 4.14

In order to assess the changes in the status of the states in the level of banking development, a transition matrix has been constructed. From tables 4.17 and 4.18, it is noticed that the status of Karnataka, Gujarat and Punjab has undergone change during the period under consideration. For instance, Gujarat which remained in the under developed category in 1981 moved to moderately developed category in 1991 and retained the status in 2001. Similarly, Karnataka moved from moderately developed category in 1981 to developed category in 1991 but failed to retain that status in 2001. At the other end, Punjab jumped to developed category in 2001 though it was in the moderately developed category in 1981 and 1991. **Overall, no noticeable change in improvement or deterioration in the status of the states is noticed during 1981-2001 barring the said three states. This is noticed despite improvement in the level of banking development over the years.**

Table 4.18: Inter-State Level of Banking Development: A Transition Matrix

	Category/ Year	1981			1991			2001		
		Develd	Moderately Develd	Under Develd	Develd.	Moderately Develd	Under Develd	Develd.	Moderately Develd.	Under Develd
1981	Developed	Goa, Maharashtra, Kerala, Tamil Nadu								
	Moderately Developed		Haryana, Punjab, Andhra Pradesh, Karnataka, West Bengal		Karnataka	Punjab				
	Under Developed			Gujrat, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh, Bihar		Gujarat			Gujarat	
1991	Developed				Goa, Maharashtra, Karnataka, Kerala, Tamil Nadu				Karnataka	
	Moderately Developed					Haryana, Gujarat, Punjab, Andhra Pradesh, West Bengal		Punjab		
	Under Developed						Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh, Bihar			
2001	Developed							Goa, Maharashtra, Punjab, Kerala, Tamil Nadu		
	Moderately Developed								Haryana, Gujrat, Andhra Pradesh, Karnataka, West Bengal	
	Under Developed									Uttar Pradesh, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh, Bihar

Source: Table 4.17

4.4 Association between Banking Development Index and Human Development Index

To examine the degree of association between level of banking development and human development the correlation coefficient between HDI and BDI has been estimated (tables 4.19 and 4.20). There has been positive association between HDI and BDI and the degree of association is very strong. It needs to be mentioned that the methodology adopted for construction of HDI and BDI is almost the same barring the number of indicators chosen and weight assigned to each indicator. Overall, it suggests that improvement in banking infrastructure can have a positive impact on level of development across states in India.

Table 4.19: Index score of States in Level of Human Development and Banking Development

		Human Development Index Value	Level of HDI score		Banking Development Index Value		
	States	1981	1991	2001	1981	1991	2001
1	Andhra	0.298	0.377	0.416	0.105	0.179	0.268
2	Bihar	0.237	0.308	0.367	0.032	0.078	0.087
3	Gujarat	0.360	0.431	0.479	0.089	0.153	0.278
4	Haryana	0.360	0.443	0.509	0.127	0.169	0.249
5	Karnataka	0.346	0.412	0.478	0.139	0.210	0.317
6	Kerala	0.500	0.591	0.638	0.227	0.256	0.399
7	Madhya.Pradesh	0.245	0.328	0.394	0.064	0.117	0.143
8	Maharashtra	0.363	0.452	0.523	0.150	0.238	0.525
9	Orissa	0.267	0.345	0.404	0.079	0.126	0.120
10	Punjab	0.411	0.475	0.537	0.118	0.203	0.391
11	Rajasthan	0.256	0.347	0.424	0.091	0.099	0.148
12	Tamil Nadu	0.343	0.466	0.531	0.190	0.274	0.458
13	U.P	0.255	0.314	0.388	0.049	0.105	0.139
14	W.B	0.305	0.404	0.472	0.105	0.186	0.290

Source: GOI (2002*): India Human Development Report*, Planning Commission.

Table 4.20: Association between Human Development Index and Banking Development Index: 1981-2001

	Correlation Coefficient Between HDI and BDI for Major States:1981-2001						
		HDI	HDI	HDI	BDI	BDI	BDI
	Year	1981	1991	2001	1981	1991	2001
HDI	1981	1.00					
HDI	1991	0.98	1.00				
HDI	2001	0.96	0.99	1.00			
BDI	1981	0.84	0.91	0.92	1.00		
BDI	1991	0.79	0.86	0.86	0.93	1.00	
BDI	2001	0.76	0.81	0.83	0.82	0.94	1.00

HDI: Human Development Index, BDI: Banking Development Index
Note: Correlation is significant at 0.01 level (2-tailed) for all the years. Source: Table 4.19

Section III

4.5 Summary and Conclusions

There has been wide variation in the banking performance indicators across the states and various categories of states during the last two and a half decades. On account of slow growth in expansion in branch network, population served per office went up during the reforms period as compared to pre-reforms period. The extent of disparity in concentration of office declined sharply during the 1980s but remained almost constant during the 1990s and afterwards. Across the categories of states, the concentration of office is relatively high in the middle income states as compared to its other state counterparts. Therefore, the number of people served per office in the middle income states is much lower as compared to other categories of states.

The credit-deposit ratio witnessed a fall during the reforms period partly due to slow growth in per capita credit as compared to per capita deposit. The extent of decline is pronounced in some of the backward states like Orissa , U.P, Bihar and therefore, it is the cause for serious concern. However, on account of in-migration of credit to some of the low-income states, there has been improvement in the CD ratio based on utilization to some extent.

In order to capture the level of banking development across states and various categories of states, level of banking development index is constructed and the states have been classified into highly developed, moderately developed and under developed categories. No doubt, there has been consistent rise in achievement index score during 1981-2001 for the 15 major states together. The extent of improvement is more during the 1990s as compared to the 1980s. This is noticed along with higher level of disparity among the states in improvement index. Among the states, no noticeable change in the composition of various categories of states is observed barring few states. For instance, all the states except Gujarat remained in the underdeveloped category over the years. Almost a similar trend is noticed in other categories of states. Among the states, Goa retained first rank from top while Bihar is at the rock bottom level (15th rank). Some of the middle income and high income states remained in the developed category while the BIMARU states retained the underdeveloped category. There is also positive correlation between level of achievement and improvement but the degree of association is relatively weak in the 1980s (r= 0.30) as compared to the 1990s (r=0.83). It indicates that level of improvement in 1991 is not strongly associated with the achievement score in 1981 but the extent of improvement in 2001 is positively and highly correlated with the achievement in 1991. This implies that states with higher level of achievement performed better as compared to their counterparts during the1990s. However, it is noticed that there has been a strong positive correlation between level of development in banking and level of human development, indicating a positive role played by banking indicators in the process of development.

Chapter V

Commercial Banks and Economic Development: A state specific Analysis

5.1 Introduction

Commercial banks are expected to play a vital role in the process of economic development so that disparity across the states can be smoothened over time. But to improve the bottomline and meet the challenges thrown up by their counter parts, it may overlook social aspect in banking and expand its activities in the developed states and regions. Further, performance of banking sector in a state may not necessarily capture its progress at the district level. Therefore, it may be essential to analyse the role played by the commercial banks especially in the reforms period across various categories of states by focusing on few states from different levels of development. In the present context, three states (Maharashtra, Karanataka and Orissa) have been considered based on the level of development reflected by HDI score. In 2001, Maharashtra, Karnataka, Orissa occupied 4th, 7th and 11th rank from top in HDI score respectively.[18] It justifies that the above said states are from various levels of human development. The second crucial issue that motivated to chose the said states is the level of per capita income. In other words, Maharashtra is considered as one of the high income states while Karnataka and Orissa are treated as middle and low income states respectively.

To examine performance of commercial banks at the district level, a comparative analysis of various districts in banking development indicators has been undertaken. On account of bifurcation of districts in the above said states in the 1990s, the analysis is mostly confined to the period after bifurcation. This facilitates performance analysis of new districts.

Broadly, the chapter is divided into three sections**.** In section I, overall performance of banking sector in the said three states during the last two and a half decades has been analysed. In section II, attempt has been made to capture performance of commercial banks in Maharashtra while sections III and IV deal with Karnataka and Orissa respectively. This follows summary and conclusion.

[18] The index score of Maharashtra, Karnataka and Orissa in HDI is 0.523, 0.478 and 0.404.

Section I

5.2 Commercial Banks in Maharashtra, Karnataka and Orissa: An overview

The present section provides a comparative picture of commercial banks in Maharashtra, Karnataka and Orissa. About one-tenth of the total office (6,500) in India is located in Maharashtra. The state accounts for one-fifth of total deposit and close to one-third of total credit (table 5.1). Among the states in India, it ranks first in deposit mobilization and credit disbursement while in number of office it occupies second rank (Bhole et.al.: 2000). This is much higher as compared to Karnataka and Orissa. For instance, Karnataka is having about 7 per cent of total office in India but the amount of total deposit mobilized is close to 6 per cent of total deposit in the country. As regards Orissa, around 3 per cent of total office is located in the state and the resource mobilized is almost half of the share in office (1.6 per cent) in 2001.

The level of regional disparity among the three states is also evident from table 2. There has been higher level of disparity in banking indicators across the said states over the years. In number of office per 1000sq km., Maharshtra is lagging behind Karnataka and therefore population served per office is higher in the former as compared to the latter. Contrary to it, in both per capita deposit and deposit per office, Maharashtra outweighed other selected states. **As regards Orissa, it remained at the rock bottom level in the chosen banking indicators** as evident from tables 5.1 & 5.2. Of late, per capita deposit of SCBs in Maharashtra (Rs 17800) is marginally higher than four times than that of Orissa (Rs 4100) and therefore, deposit mobilized per office in the former is about 5 times of the latter. A proportionately higher growth in deposit in Maharashtra is partly due to higher level of per capita income. It is interesting to learn that per capita credit in Maharashtra is higher by about 3 times of the national average and close to 10 times of Orissa in 2004. No doubt, higher per capita income leads to higher level of saving and relatively higher per capita credit but not necessarily higher CD ratio. In other words, CD ratio in Karnataka for selected years is higher than that of Maharshtra (table 5.1).

Table 5.1 Key Indicators of SCBs in Selected States and India (Deposit and Credit in Rs crore)

Year	Maharashtra				Karnataka				Orissa				India			
	No of Office	Total Deposit	Total Credit (Amt Outst.)	CD Ratio	No of Office	Total Deposit	Total Credit (Amt Outst.)	CD Ratio	No of Office	Total Deposit	Total Credit (Amt Outst.)	CD Ratio	No of Office	Total Deposit	Total Credit (Amt Outst.)	CD Ratio
Dec-72	1795	1931	1617	74.8	1422	403	353	92.3	217	63	277	68.9	14650	8360	5553	66.4
	12.3	*23.1*	*29.1*		*9.7*	*4.8*	*6.4*		*1.5*	*0.8*	*5*					
Jun-75	2181	2730	2189	73.1	1748	618	591	101.1	300	110	64	69.6	18575	12637	9119	72.2
	11.7	*21.6*	*24*		*9.4*	*4.9*	*6.5*		*1.6*	*0.9*	*0.7*					
Jun-80	3309	6256	4956	74.4	2635	1683	1310	79.3	824	358	219	67.3	32412	33321	22381	67.2
	10.2	*18.8*	*22.1*		*8.1*	*5.1*	*5.9*		*2.5*	*1.1*	*1*					
Jun-85	4914	14374	13483	90.8	3918	3883	3088	80.9	1701	915	783	88.7	52638	77767	52838	67.9
	9.3	*18.5*	*25.5*		*7.4*	*5*	*5.8*		*3.2*	*1.2*	*1.5*					
Mar-90	5689	32812	22764	65.1	4349	8394	6902	84.6	2046	2365	2121	92	60515	171911	104312	60.7
	9.4	*19.1*	*21.8*		*7.2*	*4.9*	*6.6*		*3.4*	*1.4*	*2*					
Mar-95	5951	79842	55600	67.4	4523	19699	12956	65.1	2179	5275	1876	55.9	63817	379174	210939	55.6
	9.3	*21.1*	*26.4*		*7.1*	*5.2*	*6.1*		*3.4*	*1.4*	*0.9*					
Mar-00	6434	150185	129749	83.4	4840	45919	29079	65.5	2247	12744	5293	42.8	67061	821420	460081	56
	9.6	*18.3*	*28.2*		*7.2*	*5.6*	*6.3*		*3.4*	*1.6*	*1.2*					
Mar-'01	6498	172489	148989	83.5	4881	54742	33369	61.8	2249	15072	6065	41.6	67525	949433	538434	56.7
	9.6	*18.2*	*27.7*		*7.2*	*5.8*	*6.2*		*3.3*	*1.6*	*1.1*					
Mar-02	6531	222546	205381	77.5	4907	62953	38793	68.9	2262	18337	8163	51.4	67897	1123393	655993	58.4
	9.6	*19.8*	*31.3*		*7.2*	*5.6*	*5.9*		*3.3*	*1.6*	*1.2*					
March'-04	6565	318335	260323	67	4992	93652	59139	69	2270	22653	12160	58.6	68645	1511273	880312	58.2
		21.3	*29.2*		*7.5*	*6.2*	*6.6*		*3.4*	*1.5*	*1.4*					

Note (i) Figures in Italic represent share of each state in India

(ii) Credit amount outstanding as per sanction and CD ratio as per utilization

(iii) Deposit and Credit amount in Rs crore

Source: RBI's Banking Statistics: 1972-95 and various issues of Basic Statistical Returns

Table 5.2: Key Banking Performance Indicators in Selected States: 1981-2001

State	Com.Bank Office per 1000 sq km			Population served per office of Sch.Com. Banks ('000)			Per Cap Deposit of Sch Com Banks (Amount in Rs)			Deposit per Office of Sch.Com Banks (Rs lakh)				Per Cap Credit (in Rs)		
	1981	**1991**	**2004**	**1981**	**1991**	**2004**	**1981**	**1991**	**2004**	**1980**	**1990**	**2001**	**2004**	**1981**	**1991**	**2004**
Maharashtra	12	16	21	17	14	15	1209	4855	17805	189	577	2654	4913	945	3511	15379
Karnataka	15	20	26	13	10	11	550	2174	10358	64	193	1122	1864	410	1719	6314
Orissa	6	11	15	27	15	16	178	875	4095	43	116	670	1002	123	605	1648
India	11	19	22	19	14	15	891	2370	9230	103	284	1406	2210	393	1467	5235

Note: For 2004 estimated population figure has been used.

Source: Registrar General's Census of India and RBI's Basic Statistical Returns.

In examining the performance of the banking sector especially in mobilization of resources and credit disbursement in the state, certain economic factors need to be taken into account. For instance, Maharashtra, located on the west coast adjoining the Arabian Sea is considered as one of richest states in India. The per capita NSDP in Maharashtra is Rs. 22763 in 1998-99 at current price. This is about 40 per cent higher than all India average (Rs 15562). Apart from higher level of per capita income, a major part of total income in the state is generated from secondary and tertiary sectors. In addition, the state has relatively higher urban population as compared to the some other major states in India. Around 43 persons live in town and cities per 1000 population. All the said factors can play a role in determining the level of deposit and disbursement of credit in the state.

5.2.1 Allocation of Credit for Different Occupations:

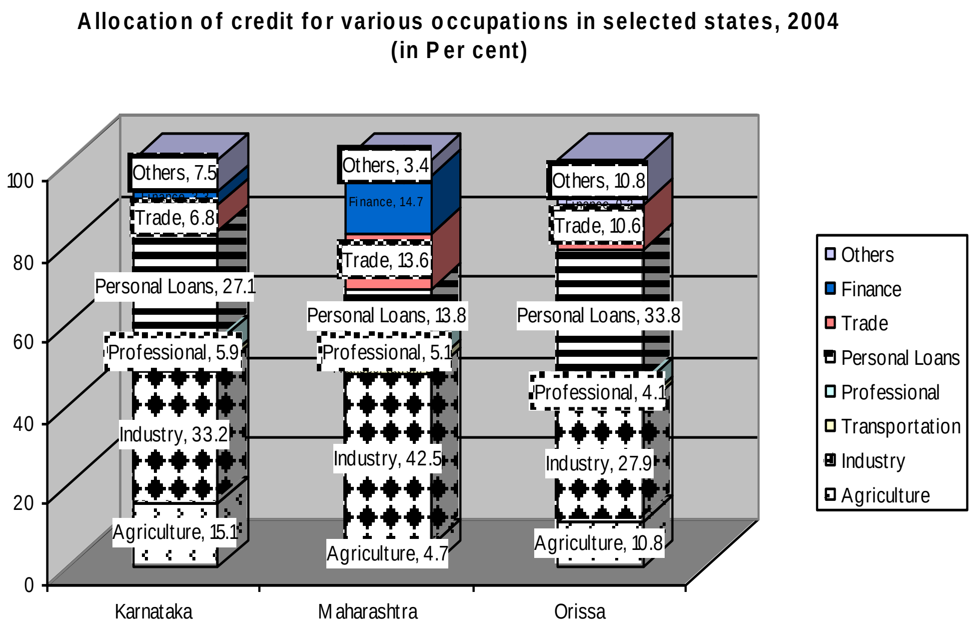
As regards allocation of credit, a large chunk of total credit (43 per cent) is disbursed for industrial sector followed by personal loans (14 per cent) and Trade (14 per cent) in Maharashtra in 2004 (table: 5.3 chart 5.1). At the other end, agriculture accounts for close to 5 per cent of total credit in the state. The growth of credit to industry is primarily due to growth of industrial sector in some of the cities like Mumbai and Pune. No doubt, in Karnataka, a relatively higher share (33 per cent) of total credit is earmarked for industry but share of agriculture in total is not very low (15 per cent) as compared to Maharshtra. In a backward economy like Orissa where industrial growth is not picking up, share of credit disbursed to industry is relatively low, i.e., 28 per cent of total and this is lower than that of personal loans (34 per cent). It is surprising to note that share of agriculture in total credit is also not quite promising (close to 11 per cent) in Orissa. This suggests that agriculture is neglected in all the said states in recent years and it is pronounced in a developed state like Maharashtra. Second, quite a substantial amount of total credit is allocated for personal loans in all the said states and this is very high in a backward state like Orissa.

Table 5.3: Allocation of Credit (utilized) for Various Occupations in Selected States, 2004 (In per cent)

	Karnataka	Maharashtra	Orissa
Agriculture	15.1	4.7	10.8
Industry	33.2	42.5	27.9
Transportation	1.1	2.1	1.8
Professional	5.9	5.1	4.1
Personal Loans	27.1	13.8	33.8
Trade	6.8	13.6	10.6
Finance	3.3	14.7	0.2
Others	7.5	3.4	10.8

Source: RBI's Basic Statistical Returns, various issues

Chart 5.1



Section II

5.3 Performance of Commercial Banks in Maharashtra

To examine the performance of Commercial banks in various districts of Maharashtra, the extent of deposit mobilised and credit disbursed in each district have been taken into account. From tables 5.4, 5.5 and 5.6, it is evident that there has been wide disparity in the mobilization of deposit and credit across the districts. In deposit mobilized per office, concentration of office per 1000 sq km., and in CD ratio, Mumbai occupied the first position followed by either Pune or Thane; barring the CD ratio (table 5.6). In other words, in CD ratio Pune and Thane occupied 12 and 30th position respectively from top. At the other end Wasim occupied 34th position though in

HDI & per capita income it has maintained 30th and 21 be position respectively (table 6). Second, top five districts in Maharashtra together have mobilized about 92 percent of total deposit and disbursed credit marginally higher than that amount (94 per cent). In 2002, the bottom five districts have mobilized 0.5 per cent of total deposit and disbursed 0.2 per cent of total credit. It needs to be mentioned in both per capita income and Human Development Index the top five districts have occupied few top positions. For instance, in the Human Development Index, Mumbai, Pune, Thane, Nagpur and Nasik occupied 1st, 3rd, 2nd, 4th and 12th rank respectively. Similarly, in per capita income (1998-99) the above said states occupied 1st, 5th, 2nd, 4th and 8th rank respectively. This suggests close association between level of development and progress of banking sector. Third, the share of top five districts together has gone up both in deposit mobilization and credit disbursement implying increase in disparity over time. As regards credit-deposit ratio, a mixed picture is noticed. Credit Deposit ratio in some of the districts remained very low. This can be due to competition among the bankers to push credit and relatively low demand as compared to Mumbai. At the other end, the growth of real estate and service sector is relatively high in Mumbai as compared to other districts. This can have positive impact on demand for credit.

Table 5.4: Pattern of Deposit, Credit and CD Ratio Across Districts in Maharashtra (in per cent)

		Deposit as % of State Total				Credit as % of State Total				CD Ratio (per cent)			
Sl No.	District	2002	1992	1982	1972	2002	1992	1982	1972	2002	1992	1982	1972
1	Ahmednagar	0.5	0.6	0.9	0.8	0.3	0.8	1.1	1.1	60.1	81.9	96.8	109.4
2	Akola	0.2	0.3	0.5	0.4	0.2	0.4	0.4	0.3	74.3	79.3	71.2	56.3
3	Amravati	0.4	0.5	0.7	0.4	0.2	0.5	0.5	0.2	38.4	59.1	61.6	34.8
4	Aurangabad	0.7	0.6	0.6	0.6	0.6	0.7	0.7	0.4	72.7	77.3	96.9	56.1
5	Bhandara	0.3	0.3	0.3	0.2	0.1	0.3	0.2	0.1	47.3	65.5	52.9	33.5
6	Bid	0.2	0.2	0.2	0.2	0.1	0.2	0.2	0.0	58.3	58.1	81.0	18.2
7	Buldhana	0.2	0.2	0.3	0.2	0.1	0.2	0.3	0.1	77.9	76.6	88.6	35.7
8	Chandrapur	0.5	0.5	0.6	0.2	0.2	0.3	0.3	0.3	29.5	43.8	44.6	103.8
9	Dhule	0.2	0.3	0.5	0.5	0.1	0.4	0.4	0.2	57.0	78.8	64.5	38.9
10	Gadchiroli	0.1	0.1			0.0	0.0			36.4	45.6		
11	Hingloi	0.1				0.0				57.7			
12	Jalgaon	0.6	0.6	0.9	0.6	0.4	0.6	0.7	0.2	63.5	60.0	64.6	31.0
13	Jalna	0.2	0.1	0.2		0.2	0.2	0.2		84.0	93.8	106.3	
14	Kolhapur	0.8	0.8	1.2	1.0	0.6	1.0	1.1	1.1	67.3	80.6	77.7	88.7
15	Latur	0.3	0.2			0.2	0.2			57.4	67.6		
16	Mumbai	75.7	79.0	70.3	78.7	85.8	79.5	79.1	85.1	104.6	61.2	94.1	90.2
17	Nagpur	2.2	2.3	2.9	2.1	1.1	2.1	1.7	1.5	47.3	56.6	49.8	57.7
18	Nanded	0.3	0.3	0.4	0.2	0.2	0.3	0.4	0.1	61.0	76.2	83.3	54.3
19	Nandurbar	0.1				0.1				54.7			
20	Nasik	1.1	1.0	1.4	1.0	0.6	1.2	1.0	0.6	54.6	69.2	60.0	47.4
21	Osmanabad	0.1	0.1	0.4	0.3	0.1	0.1	0.3	0.1	42.3	57.5	77.0	26.3
22	Parbhani	0.2	0.2	0.3	0.2	0.1	0.2	0.3	0.0	63.8	75.2	89.6	17.6
23	Pune	6.6	4.9	7.6	6.0	4.3	5.4	5.7	5.1	59.9	66.9	62.9	70.9
24	Raigad	0.8	0.6	0.9		0.2	0.3	0.4		26.3	32.0	38.0	
25	Ratnagiri	0.5	0.5	0.6	0.6	0.2	0.2	0.2	0.1	28.3	24.4	27.1	20.0
26	Sangli	0.5	0.6	0.9	0.7	0.4	0.7	0.7	0.8	65.0	69.3	60.4	93.7
27	Satara	0.6	0.6	0.9	0.7	0.3	0.6	0.7	0.4	48.6	61.4	64.1	51.1
28	Sindhudurg	0.3	0.3	0.4		0.1	0.1	0.1		30.8	24.3	23.8	
29	Solapur	0.6	0.7	1.2	1.0	0.4	0.8	1.0	0.7	68.7	72.1	69.1	61.6
30	Thane	4.7	3.1	4.1	2.5	2.5	1.7	1.7	1.2	48.5	32.6	34.3	41.0
31	Wardha	0.2	0.3	0.4	0.3	0.1	0.3	0.2	0.1	56.8	60.0	54.0	42.2
32	Washim	0.1				0.0				65.3			
33	Yavatmal	0.3	0.3	0.4	0.3	0.2	0.3	0.3	0.1	52.9	64.8	56.2	20.9
34	Kolaba				0.3				0.1				22.1
35	**State Total**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**92.3**	**60.7**	**83.7**	**83.5**

Note: The figures for 2002 and 1992 represent March while for the remaining years it is December. Source: EPWRF (2004)
Source: RBI's Basic Statistical Returns, various issues

Table 5.5: Disparity in Deposit, Credit and CD Ratio Across few Selected Districts in Maharashtra

(in per cent)

Sl. No	District	Deposit as % of State Total					Credit as % of State Total					Credit-Deposit Ratio (per cent)				
		March 2004	March 2002	March 1992	Dec. 1982	Dec. 1972	March 2004	March 2002	March 1992	Dec. 1982	Dec. 1972	March 2004	March 2002	March 1992	Dec. 1982	Dec. 1972
1	Mumbai	78.0	75.7	79	70.3	78.7	85.6	85.8	79.5	79.1	85.1	89.7	104.6	61.2	94.1	90.2
2	Pune	6.1	6.6	4.9	7.6	6	4.8	4.3	5.4	5.7	5.1	64.4	59.9	66.9	62.9	70.9
3	Thane	4.7	4.7	3.1	4.1	2.5	2.1	2.5	1.7	1.7	1.2	37.2	48.5	32.6	34.3	41
4	Nagpur	1.9	2.2	2.3	2.9	2.1	1.3	1.1	2.1	1.7	1.5	52.8	47.3	56.6	49.8	57.7
5	Nasik	0.9	1.1	1.0	1.4	1.0	0.6	0.6	1.2	1.0	0.6	54	54.6	69.2	60	47.4
6	Top 5 Districts	91.6	90.4	90.3	86.4	90.3	94.4	94.4	89.9	89.2	93.4	84.2	96.4	60.5	86.4	86.4

Notes (i): Top 5 districts have been chosen on the basis of their deposit share in March 2002

(ii) CD ratio for March 2004 is as per sanction

Source: RBI's Basic Statistical Returns, various issues.

Table 5.6: Rank of Key Banking Indicators Across Districts in Maharashtra, 2004

Sl No	District	Deposit per Office	Credit per Office	Credit-Deposit Ratio	Office per 1000 sq km
		2004	2004	2004	2004
1	Ahmednagar	20	15	11	20
2	Akola	29	18	6	8
3	Amravati	13	24	29	21
4	Aurangabad	7	5	3	10
5	Bhandara	24	30	28	11
6	Bid	25	21	17	30
7	Brihan Mumbai	1	1	1	1
8	Buldhana	33	22	9	25
9	Chandrapur	12	31	33	18
10	Dhule	21	11	4	28
11	Gadchiroli	30	33	27	34
12	Gondia	28	27	23	22
13	Hingoli	32	28	21	33
14	Jalgaon	15	8	10	13
15	Jalna	23	17	13	27
16	Kolhapur	10	7	2	5
17	Latur	19	12	8	17
18	Nagpur	4	4	19	4
19	Nanded	22	20	16	19
20	Nandurbar	26	25	20	31
21	Nasik	6	6	18	14
22	Osmanabad	31	32	26	29
23	Parbhani	27	19	14	24
24	Pune	3	2	12	3
25	Raigad	5	14	34	7
26	Ratnagiri	9	26	32	9
27	Sangli	16	9	5	6
28	Satara	8	13	25	16
29	Sindhudurg	11	29	31	12
30	Solapur	17	10	7	15
31	Thane	2	3	30	2
32	Wardha	14	16	22	23
33	Washim	34	34	15	26
34	Yavatmal	18	23	24	32

Source: RBI's Basic Statistical Returns, various issues.

5.3.1 Credit for Various Occupations:

The allocation of credit for various occupations in Maharashtra has undergone noticeable change during the last one decade (1995-2004). From chart 2 and 3 it is evident that a large amount of total credit is disbursed to industry followed by either Trade or personal loans and services. Further, there has been decline in share of credit allocated to industry and Trade over the years. In contrast, allocation of credit for personal and professional services witnessed a substantial rise. In other words, secondary and tertiary sectors have been prioritized by the banking sector in the allocation of credit as share of agriculture remained between 4-5 per cent during the last one decade 1995-2004.

Chart 5.2

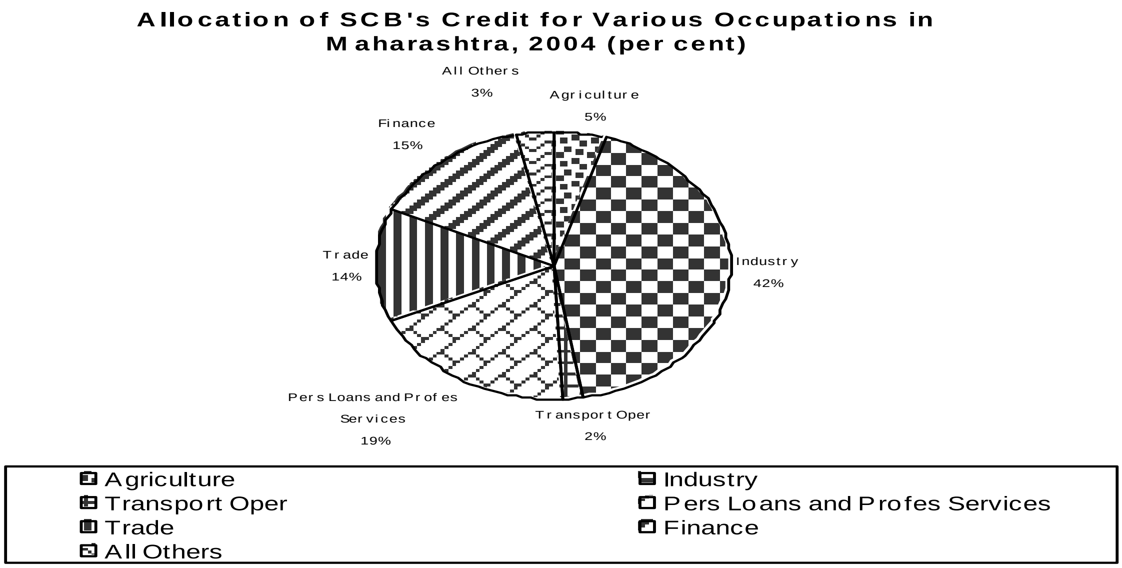
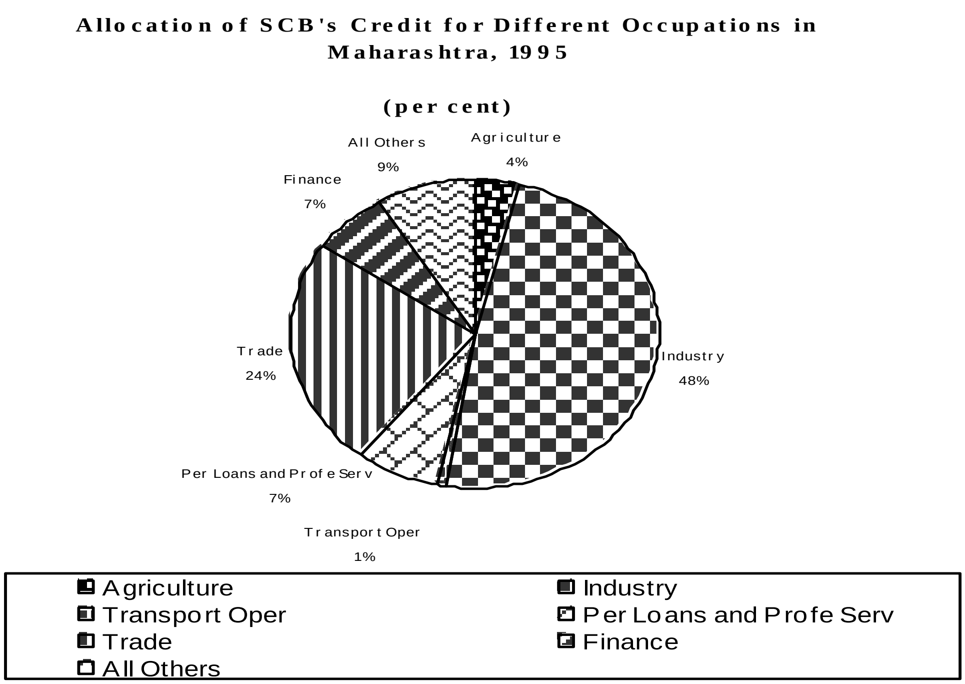


Chart 5.3



Section III

5.4 Performance of Commercial Banks in Karnataka

The financial infrastructure in Karnataka is relatively developed as evident for performance of banking and insurance sector. The share of Banking and insurance in NSDP witness almost a consistent rise during 1993-94 to 2002-03 as it went up from about 5 per cent in 1993-94 to about 11 per cent in 2002-03. Another interesting feature observed in the state is its uniqueness in giving birth to number of banks. Some of the Nationalized banks and private banks including Canara Bank, Corporation Bank, Syndicate Bank, Vijaya Bank, State Bank of Mysore, ING Vysya Bank Ltd, Karnataka Bank Ltd were originated in this state.

As mentioned in the previous chapter, in some of the banking indicators Southern States performed well as compared to their counter parts. In this aspect, Karnataka has an edge over some other states. In work load per office, it seems to be relatively low in the state as compared to other states. The number of people served per bank office turns out to be 11,000 in Karnataka in 2004 while the corresponding figure for the country is much higher, i.e, 19,000. Across the districts, it is noticed that in Kodagu and Udupi about 5,000 people are served per commercial bank office while it is very high in some of the backward districts, namely Gulbarga (18,000) and Bidar (16, 000) .

A disaggregation of total office reflects that close to 45 per cent of the total office is located in the rural areas followed by 21 per cent and 17 per cent and 16.5 per cent in semi-urban, urban and metropolitan area respectively. Despite higher proportion of rural branches, there has been a fall in growth of branch network in the rural area and in the unbanked areas. In 2002-03, office opened in Karnataka was 70 and it declined to 54 in 2003-04. Of the total 54 branches opened during June 30, 2003 to June30, 2004, only one office is opened in an unbanked centre.

There has been wide disparity in the mobilization of deposit and credit across the districts in Karnataka. For example, the top five districts accounts for 70 percent of total deposit, 73 percent of total credit and 42 per cent of total office (tables 5.**7 and 5.8**). In contrast, around 3 per cent of total deposit, credit and 8 per cent of total office is located in the bottom five districts (table 5.**9)**. In other words, around 30 per cent of total deposit is mobilized by close to 60 per cent of total office. This can be partly due to relatively low propensity to save on account of low income, locational disadvantage and low concentration of office in those districts. The co-efficient of variation of per capita deposit and per capita credit remained very high, i.e., 264 per cent and 285 per cent respectively in 2001 (table 5.10). Similarly, the population served per office also differ widely as evident from co-efficient of variation (94 per cent) in 2001.

Among the districts, it is noticed that Bangalore Urban occupied first position in deposit per office, credit per office and number of office per 1000 sq km in 2004 (tables 5.10 & 5.11). But in CD ratio it occupied 17th rank among the 27 districts. Contrary to it, the performance of Koppal is not encouraging as regards to deposit per office and office per 1000 sq km is concerned. However, on account of higher credit disbursement it maintained 1st rank in CD ratio.

Table 5.7: Banking Indicators of Commercial Banks Operating Across Districts in Karnataka

(per capita deposit and credit in Rupees)

Sl No	District	Per cap Deposit	Per capita Credit	Population Served per office (000's)	Share of Deposit Mobilized in Each District (per cent)		Percentage share of Total Credit Allocated in each Dist		Share of Office Located in Each District (per cent)	
		2001	2001	2001	2004	2000	2004	2000	2004	2000
1	Bagalkote	4994	2534	13.4	1.6	1.2	1.2	1.2	2.6	2.5
2	Bangalore Rural	932	480	59.4	1.1	1.2	0.8	1.1	2.2	2.3
3	Bangalore Urban	148250	98033	2.1	49.0	55.3	60.7	51.7	19.0	17.9
4	Belgaum	5508	2585	12.9	4.4	3.7	3.0	3.5	6.8	6.6
5	Bellary	2152	1758	26.5	1.7	1.5	2.2	2.3	3.3	3.4
6	Bidar	2780	1453	16.3	0.8	0.6	0.5	0.7	1.8	1.9
7	Bijapur	3817	2461	14.1	1.3	1.1	1.2	1.3	2.5	2.6
8	Chamarajanagar	2172	1322	18.6	0.4	0.3	0.3	0.5	1.1	1.1
9	Chikmagalur	7009	7998	8.4	1.6	1.2	1.9	2.9	2.8	2.8
10	Chitradurga	2962	2102	13.1	0.9	0.8	0.8	1.1	2.3	2.4
11	Dakshin Kannada	20624	8371	5.9	7.5	6.8	4.1	5.0	6.5	6.6
12	Davangere	3379	2969	13.7	1.1	1.0	1.4	1.7	2.6	2.7
13	Dharwad	10520	6220	8.1	3.1	3.0	2.9	2.8	4.3	4.0
14	Gadag	3590	2010	12.1	0.7	0.6	0.6	0.6	1.6	1.6
15	Gulbarga	3664	1874	17.8	2.1	1.8	1.6	2.0	3.6	3.6
16	Hassan	4791	3345	10.2	1.6	1.3	1.5	2.0	3.4	3.5
17	Haveri	2488	1860	15.0	0.7	0.6	0.7	0.8	1.9	2.0
18	Kodagu	12470	9049	4.9	1.4	1.0	1.2	1.7	2.3	2.3
19	Kolar	3326	1788	13.7	1.6	1.3	1.2	1.7	3.6	3.8
20	Koppal	2531	2463	16.4	0.6	0.5	0.8	0.9	1.5	1.5
21	Mandya	3193	1883	13.7	1.1	0.9	0.8	1.2	2.5	2.6
22	Mysore	9119	5493	10.5	4.6	4.0	3.4	4.6	5.1	5.1
23	Raichur	3210	2368	17.2	1.0	0.9	1.2	1.3	2.0	2.1
24	Shimoga	6600	4239	10.0	2.0	1.8	2.0	2.3	3.2	3.4
25	Tumkur	3463	1890	14.0	1.7	1.4	1.3	1.6	3.5	3.8
26	Udipi	20903	5766	5.3	4.4	4.3	1.8	2.2	4.3	4.3
27	Uttar Kannada	8076	2557	8.0	2.1	1.9	0.9	1.2	3.4	3.5
	Karnataka	10358	6314	10.8	100.0	100.0	100.0	100.0	100.0	100.0
	CV (per cent)	264	285	94						

Source: Estimation is based on figures available in Registrar General's Census of India and RBI's Basic Statistical Returns.

Table 5.8 Share of Top Five Districts in Total Deposit, Credit and Office in Karnataka: 2000 & 2004 (per cent)

Sl No	Districts	Deposit		Credit		Office	
		2004	2000	2004	2000	2004	2000
1	Bangalore Urban	49.0	55.3	60.7	51.7	19.0	17.9
2	Dakshin Kannada	7.5	6.8	4.1	5.0	6.5	6.6
3	Mysore	4.6	4.0	3.4	4.6	5.1	5.1
4	Belgaum	4.4	3.7	3.0	3.5	6.8	6.6
5	Udipi	4.4	4.3	1.8	2.2	4.3	4.3
6	Total	69.9	74.1	73.0	68.0	41.7	40.5

Note: Top five districts have been selected based on their share of deposit.

Source: Estimation is based on RBI's Basic Statistical Returns, various issues.

Table 5.9 Share of Bottom five Districts in Total Deposit, Credit and Office in Karnataka: 2000 & 2004

Sl. No.	District	Share of Deposit Mobilized in Each District (per cent)		Percentage share of Total Credit Allocated in each Dist		Share of Office Located in Each District (per cent)	
		2004	2000	2004	2000	2004	2000
1	Chamarajanagar	0.4	0.3	0.3	0.5	1.1	1.1
2	Koppal	0.6	0.5	0.8	0.9	1.5	1.5
3	Gadag	0.7	0.6	0.6	0.6	1.6	1.6
4	Haveri	0.7	0.6	0.7	0.8	1.9	2.0
5	Bidar	0.8	0.6	0.5	0.7	1.8	1.9
6	Bottom 5 Dists	3.1	2.7	2.9	3.6	8.0	8.1

Note: Bottom five districts have been selected based on their share of deposit.

Table 5.10: Banking Sector Performance Indicators Across Districts in Karnataka

Sl No	District	Deposit per office			Credit per office			Office per 1000 Sq km			CD Ratio (per cent)		
		2004	2003	2000	2004	2003	2000	2004	2003	2000	2004	2003	2000
1	Bagalkote	750	711	596	574	471	296	19	19	19	77	66	50
2	Bangalore Rural	930	801	435	406	347	295	50	50	51	44	43	68
3	Bangalore Urban	5890	4554	2603	3792	3000	1738	163	157	149	64	66	67
4	Belgaum	911	831	631	528	448	313	25	25	24	58	54	50
5	Bellary	903	708	469	801	624	403	19	19	19	89	88	86
6	Bidar	609	532	383	339	306	236	17	17	17	56	58	62
7	Bijapur	703	655	455	546	476	284	12	12	12	78	73	62
8	Chamarajanagar	500	466	354	345	318	272	11	11	10	69	68	77
9	Chikmagalur	727	678	532	802	781	630	19	19	19	110	115	118
10	Chitradurga	575	510	339	402	356	259	14	14	14	70	70	76
11	Dakshin Kannada	1788	1587	1086	747	633	455	71	70	70	42	40	42
12	Davangere	665	612	398	645	538	386	22	21	22	97	88	97
13	Dharwad	1274	1078	739	792	623	424	51	50	46	62	58	57
14	Gadag	590	538	378	418	332	238	17	17	17	71	62	63
15	Gulbarga	831	774	558	528	457	325	11	11	11	63	59	58
16	Hassan	636	570	442	527	450	354	25	25	25	83	79	80
17	Haveri	549	465	321	432	376	256	20	20	20	79	81	80
18	Kodagu	685	651	595	647	559	447	28	27	27	95	86	75
19	Kolar	596	549	402	377	316	268	22	22	22	63	58	67
20	Koppal	535	487	384	596	561	346	11	11	10	111	115	90
21	Mandya	570	515	386	386	337	270	26	26	26	68	65	70
22	Mysore	1356	1185	855	778	660	548	37	37	36	57	56	64
23	Raichur	668	638	465	697	603	362	15	15	15	104	95	78
24	Shimoga	926	846	559	719	609	417	19	19	19	78	72	75
25	Tumkur	653	588	429	434	349	248	17	17	18	66	59	58
26	Udipi	1684	1558	961	496	397	310	55	54	54	29	25	32
27	Uttar Kannada	908	830	559	322	256	206	17	17	16	35	31	37
	Karnataka	1876	1526	949	1185	951	601	26	26	25	63	62	63
	C.V. (per cent)	54	51	46	53	52	47	115	112	109	33	34	29

Source: Estimation is based on figures available in RBI's Basic Statistical Returns.

Table 5.11: Rank of Different Banking Indicators in Various Districts of Karnataka, 2004

Sl No	District	Deposit per Office	Credit per Office	Office per 1000 Sq Km	CD Ratio
		2004	2004	2004	2004
1	Bagalkote	14	12	14	11
2	Bangalore Rural	8	21	5	24
3	Bangalore Urban	1	1	1	17
4	Belgaum	10	14	9	21
5	Bellary	12	3	15	6
6	Bidar	22	26	20	23
7	Bijapur	16	13	24	9
8	Chamarajanagar	29	25	26	14
9	Chikmagalur	15	2	16	2
10	Chitradurga	25	22	23	13
11	Dakshin Kannada	3	6	2	25
12	Davangere	19	10	12	4
13	Dharwad	6	4	4	20
14	Gadag	24	20	18	12
15	Gulbarga	13	15	25	18
16	Hassan	21	16	10	7
17	Haveri	27	19	13	8
18	Kodagu	17	9	7	5
19	Kolar	23	24	11	19
20	Koppal	28	11	27	1
21	Mandya	26	23	8	15
22	Mysore	5	5	6	22
23	Raichur	18	8	22	3
24	Shimoga	9	7	17	10
25	Tumkur	20	18	21	16
26	Udipi	4	17	3	27
27	Uttar Kannada	11	27	19	26

Source: Based on figures provided in table 9

In order to identify the level of banking development across districts in Karnataka, a composite banking development index has been constructed. The indicators chosen and methodology adopted are as given in chapter iv. From tables 5.12 and 5.13, it is evident that of the total 27 districts only 5 districts remained in the developed category while 9 districts are in the least developed category. Again, none of the developed districts are from relatively underdeveloped north Karnataka region. Overall, it reflects the persistence of disparity across districts especially between the regions in the state.

Table 5.12: Level of Banking Development in Karnataka 2004

1. Developed Districts	Bangalore, Chikmagalur, Dakshina Kannada Kodagu, Udupi (5)
2. Moderately Developed Districts	Bagalkote, Belgaum, Bellary, Bijapur, Davanagere, Dharwad, Gadag Hassan, Koppal, Mysore, Raichur Shimoga, Uttara Kannada (13)
3. Least Developed Districts	Bangalore (R), Bidar, Chamarajanagar, Chitradurga, Gulbarga, Haveri Kolar, Mandya and Tumkur (9)

Table 5.13: Regionwise Classification of Districts in Banking Development

	North Karnataka	South Karnataka
Developed Districts		5
Moderately Developed Districts	8	5
Least Developed Districts	3	6
Total	11	16

5.4.1 Allocation of Credit for Various Occupations:

The allocation of credit for various occupations has witnessed noticeable change during 1998-2004. The share of industry in total credit has declined by about 8 percentage points during 1998-2004. Nevertheless, it accounts for relatively higher share of total credit. On account of substantial growth in service sector and consumerism, the share of personal loan went up to 27 per cent in 2004 for 13 per cent witnessed in 1998. However, agriculture suffered a setback as its share instead of going up declined marginally higher than 1 percentage point. Therefore, it is the cause for serious concern.

Chart 5.4

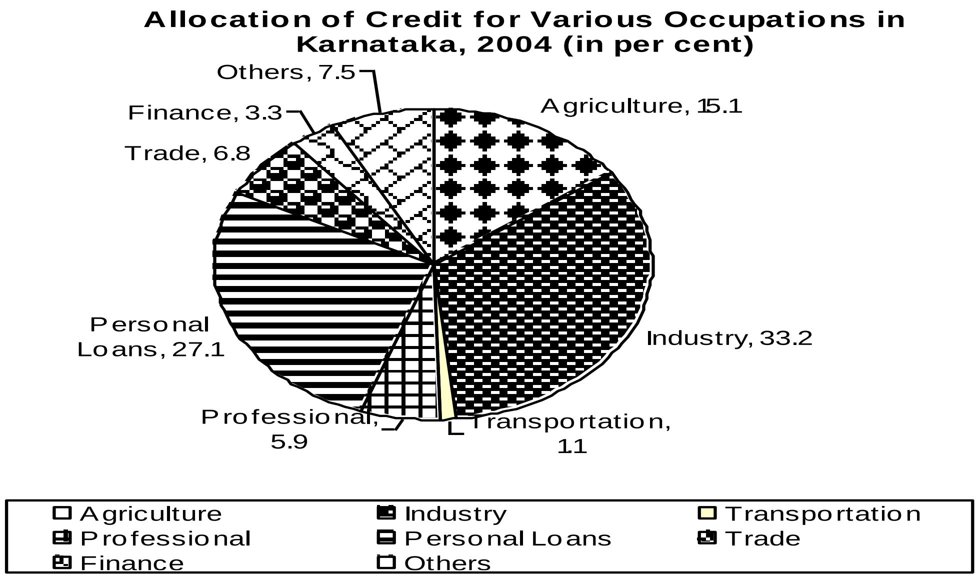
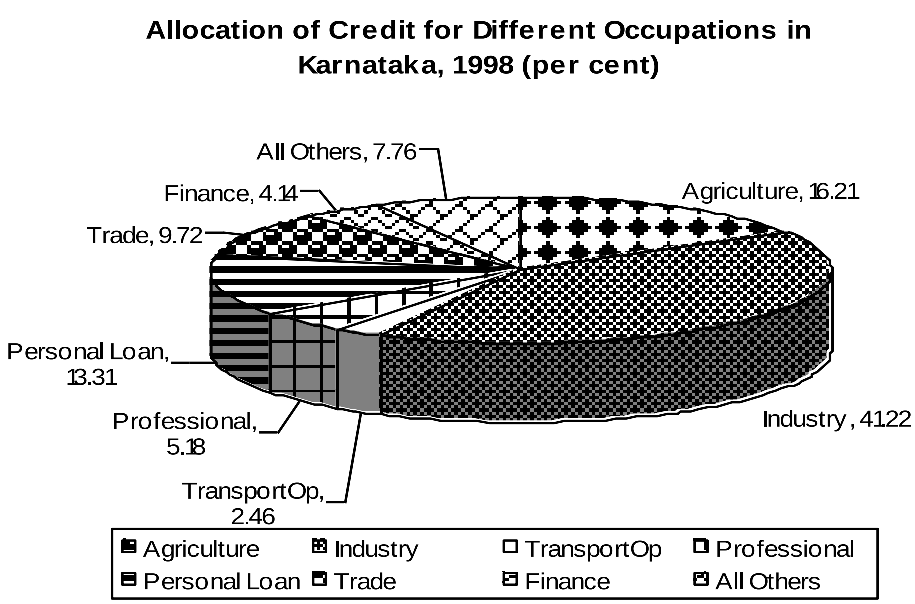


Chart 5.5



5.5 Section IV
Performance of Commercial Banks in Orissa

The overall performance of commercial banks in the state is not quite promising as compared to a middle income state, Karnataka or high income state, Maharashtra. As mentioned in the previous chapter, the state has occupied one of the lowest position in the banking development index ladder. Then again, persistence of wide disparity is noticed at the decentralized level (tables 5.14 and 5.15). The level of disparity is pronounced in per capita credit as compared to per capita deposit in 2001. In other words, the coefficient of variation in per capita deposit is 78 per cent while the corresponding figure for per capita credit is 90 percent in 2001 (table 5.15).

Table 5.14: Major Banking Performance Indicators Across Districts in Orissa (Credit and Deposit in Rs lakh)

		Credit per Office			Deposit per office			Office per 1000 sq km			CD Ratio (per cent)			Rank in
Sl No	District	2004	2003	1995	2004	2003	1995	2004	2003	1995	2004	2003	1995	HDI 1993
1	Angul	540	351	70	1145	1021	246	11.2	11.6	10.3	47.2	34.4	28.4	7
2	Balangir	332	246	79	558	438	107	10.5	10.7	11.1	59.5	56.1	74.4	18
3	Baleshwar	569	443	107	739	655	144	32.2	32.2	31.9	77.1	67.6	74.0	14
4	Bargarh	419	325	120	472	384	110	12.2	12.3	11.8	88.8	84.7	109.2	17
5	Bhadrak	352	272	99	732	634	135	23.2	23.2	22.8	48.1	42.9	73.6	15
6	Boudh	178	156	70	360	300	78	6.4	6.4	6.4	49.5	52.1	90.4	25
7	Cuttack	650	494	224	1260	1160	341	47.4	46.9	43.7	51.6	42.6	65.8	2
8	Deogarh	171	110	39	347	298	83	7.2	7.2	7.2	49.3	36.9	47.2	22
9	Dhenkanal	500	372	109	928	795	166	13.7	13.7	13.7	53.9	46.7	65.6	10
10	Gajapati	237	163	42	560	507	110	7.0	7.0	8.8	42.3	32.2	38.4	27
11	Ganjam	366	292	107	998	947	239	22.3	22.3	22.1	36.7	30.8	44.9	11
12	Jagatsinghpur	340	265	94	1625	1592	299	36.5	36.0	35.0	20.9	16.6	31.5	5
13	Jajpur	446	352	109	800	739	177	28.0	28.0	28.0	55.7	47.6	61.9	8
14	Jharsuguda	615	422	116	1081	944	338	15.5	15.0	13.6	56.9	44.7	34.4	4
15	Kalahandi	299	229	73	411	393	92	9.6	9.6	9.4	72.8	58.3	79.4	26
16	Kandhamal	222	185	53	422	362	115	4.7	4.7	5.1	52.7	51.2	46.1	24
17	Kendrapara	278	211	89	777	718	156	26.7	26.7	26.3	35.8	29.4	57.4	12
18	Keonjhar	404	308	76	838	637	172	10.6	10.5	10.5	48.2	48.3	44.1	13
19	Khurda	1539	1232	448	2431	2126	784	73.4	71.3	57.1	63.3	57.9	57.1	1
20	Koraput	451	350	94	822	708	200	7.7	7.7	7.6	54.8	49.4	47.0	20
21	Malkangiri	259	176	45	529	393	101	3.1	3.1	3.1	49.0	44.7	44.4	30
22	Mayurbhanj	293	505	65	607	549	145	13.3	13.1	12.7	48.3	91.9	44.6	19
23	Nawapara	230	164	72	577	467	82	8.2	8.2	8.2	40.0	35.2	87.9	28
24	Nawrangpur	284	252	99	427	352	115	5.5	5.5	5.5	66.6	71.4	85.8	29
25	Nayagarh	292	259	79	482	413	94	12.3	12.5	11.6	60.6	62.8	84.1	16
26	Puri	432	329	95	771	678	163	33.8	34.1	32.8	56.1	48.5	58.5	9
27	Rayagada	319	258	72	622	545	177	6.2	6.2	6.2	51.2	47.3	40.6	23
28	Sambalpur	484	365	142	962	854	260	12.4	12.2	11.6	50.3	42.7	54.6	6
29	Sonepur	250	184	85	434	342	80	11.5	11.5	11.9	57.6	53.8	106.2	21
30	Sundergarh	858	583	170	1422	1251	439	12.3	12.3	11.8	60.3	46.6	38.8	3
	Orissa	***536***	***425***	***132***	***998***	***883***	***242***	***14.6***	***14.5***	***14.0***	***53.7***	***48.2***	***54.5***	
	CV (per cent)	48	47	56	44	46	58	102.2	100.0	90.0	23.5	32.1	39.4	

Source: Estimation is based on figures available in RBI's Basic Statistical Returns.

The level of disparity across the districts is also evident from table 14. The share of top five districts accounts for 54 percent of total deposit, 52 per cent of total credit and 34 per cent of total office in 2004. This implies that around 46 percent of total deposit is mobilised by 66 per cent of office in the state. The second crucial issue that needs to be elaborated is slow decline in the share of top five districts in deposit mobilization and credit disbursement during the last one decade (1995-2004). The share of deposit and credit of top five districts in total declined by only 3 percentage points during 1995-2004. The share of bottom five districts in deposit and credit hovers around 2 per cent while in office it represents about 5 per cent (table 5.17). Third, there seems to be a positive correlation between level of Human Development and performance of the top few districts in the said banking indicator (table 5.16). From table 16 it is evident that out of top five districts, four of them occupied 1st, 2nd, 3rd and 5th rank barring Ganjam.

Table 5.15: Key Banking Indicators of Different Districts in Orissa

Sl No	District	Per Capita Deposit (Rs)	Per Capita Credit (Rs)	Share of Total Credit Allocated in each District (per cent)			Share of Deposit Mobilized from each District (per cent)			Share of Office Located in each District (per cent)		
		2001	2001	2004	2003	1995	2004	2003	1995	2004	2003	1995
1	Angul	4378	1295	3.1	2.6	1.6	3.5	3.7	3.0	3.1	3.2	2.9
2	Balangir	1711	656	1.9	1.8	2.0	1.7	1.5	1.5	3.0	3.1	3.4
3	Baleshwar	2866	1686	5.5	5.4	4.3	3.8	3.8	3.2	5.2	5.2	5.3
4	Bargarh	1462	1485	2.4	2.4	2.9	1.5	1.4	1.4	3.1	3.2	3.2
5	Bhadrak	2192	756	1.8	1.8	2.1	2.0	2.0	1.6	2.7	2.7	2.8
6	Boudh	1382	736	0.3	0.4	0.5	0.3	0.3	0.3	1.0	1.0	1.0
7	Cuttack	6593	2329	9.5	9.0	12.7	9.8	10.2	10.5	7.8	7.7	7.5
8	Deogarh	1643	471	0.3	0.2	0.3	0.3	0.3	0.3	0.9	0.9	0.9
9	Dhenkanal	3362	1440	2.6	2.4	2.4	2.6	2.5	2.0	2.8	2.8	2.9
10	Gajapati	2014	684	0.5	0.5	0.5	0.7	0.7	0.7	1.2	1.2	1.6
11	Ganjam	4555	1316	5.8	5.9	7.2	8.5	9.2	8.7	8.5	8.6	8.8
12	Jagatsinghpur	8410	1376	2.0	2.0	2.3	5.2	5.7	3.9	3.2	3.1	3.2
13	Jajpur	2841	937	3.0	3.0	3.1	2.9	3.0	2.7	3.6	3.6	3.7
14	Jharsuguda	4932	1440	1.7	1.4	1.2	1.6	1.6	1.9	1.5	1.5	1.4
15	Kalahandi	1532	930	2.0	1.9	2.0	1.5	1.6	1.4	3.5	3.5	3.6
16	Kandhamal	1572	652	0.7	0.7	0.7	0.7	0.7	0.9	1.6	1.6	1.8
17	Kendrapara	2746	638	1.6	1.5	2.1	2.3	2.4	2.0	3.0	3.0	3.1
18	Keonjhar	2706	1135	2.9	2.8	2.3	3.3	2.8	2.8	3.9	3.8	4.0
19	Khurda	17544	8877	26.8	26.4	25.7	22.8	21.9	24.5	9.3	9.1	7.6
20	Koraput	2691	1306	2.3	2.2	2.0	2.2	2.2	2.3	2.7	2.7	2.8
21	Malkangiri	1183	525	0.4	0.3	0.3	0.4	0.4	0.4	0.8	0.8	0.9
22	Mayurbhanj	2610	1006	3.3	7.1	3.0	3.7	3.7	3.6	6.1	6.0	6.1
23	Nawapara	1455	628	0.5	0.5	0.7	0.7	0.7	0.4	1.2	1.2	1.3
24	Nawrangpur	743	581	0.7	0.8	1.0	0.5	0.5	0.6	1.3	1.3	1.3
25	Nayagarh	1893	871	1.3	1.4	1.4	1.1	1.1	0.9	2.3	2.3	2.2
26	Puri	3740	1470	3.7	3.6	3.3	3.5	3.5	3.1	4.5	4.6	4.6
27	Rayagada	2266	879	1.2	1.3	1.2	1.3	1.3	1.6	2.1	2.1	2.2
28	Sambalpur	5832	2226	3.3	3.1	3.8	3.5	3.5	3.8	3.7	3.6	3.6
29	Sonepur	1301	554	0.6	0.5	0.8	0.5	0.5	0.4	1.2	1.2	1.3
30	Sundergarh	6230	2409	8.4	7.2	6.8	7.5	7.5	9.6	5.2	5.3	5.3
	Orissa	4106	1652	100	100	100	100	100	100	100	100	100
	CV (per cent)	78	90									

Source: Estimation is based on figures available in Registrar General's Census of India and RBI's Basic Statistical Returns.

Table 5.16: Share of Top 5 Districts in Total Deposit, Credit and Office in Orissa (per cent)

Sl No	Districts	Deposit		Credit		Office		Rank in HDI
		2004	1995	2004	1995	2004	1995	1993
1	Khurda	22.8	24.5	27	26	9.3	7.6	1
2	Cuttack	9.8	10.5	9	13	7.8	7.5	2
3	Ganjam	8.5	8.7	6	7	8.5	8.8	11
4	Sundergarh	7.5	9.6	8	7	5.2	5.3	3
5	Jagatsinghpur	5.2	3.9	2	2	3.2	3.2	5
6	Total	53.8	57.2	52	55	34.0	32.4	

Note: Top five districts have been chosen based on the share in deposit of each district. Source: BSR

Source: RBI's Basic Statistical Returns, various issues.

Table 5.17: Share of Bottom 5 Districts in Total Deposit, Credit and Office in Orissa
(per cent)

Sl. No.	District	Share of Deposit of Each Dist inTotal			Share of Credit of Each Dist in Total(%)			Share of Office in Total (%)		
		2004	2003	1995	2004	2003	1995	2004	2003	1995
1	Deogarh	0.3	0.3	0.3	0	0	0	0.9	0.9	0.9
2	Boudh	0.3	0.3	0.3	0	0	1	1.0	1.0	1.0
3	Malkangiri	0.4	0.4	0.4	0	0	0	0.8	0.8	0.9
4	Sonepur	0.5	0.5	0.4	1	1	1	1.2	1.2	1.3
5	Nawrangpur	0.5	0.5	0.6	1	1	1	1.3	1.3	1.3
6	Bottom 5 Districts	2.2	2.0	2.1	2.2	2.2	2.9	5.2	5.2	5.4

Note: Bottom five districts have been chosen based on the share in deposit of each district.

Source: RBI's Basic Statistical Returns.

It is interesting to learn that disparity in mobilisation of deposit and disbursement of credit per office has gone down in 1995-2004 (table 5.14). In credit per office, the level of disparity across the districts has gone down by 8 percentage points (from 56 per cent to 48 per cent) while in deposit per office the extent of variation fell by 14 percentage points (from 58 per cent to 44 per cent) during the above said period. However, in the concentration of office per 1000 sq km. the variation across the districts seems to have been aggravated to some extent as reflected by rise in Coefficient of variation from 90 per cent to 102 per cent during 1995-2004. This can also be due to slow growth in office (4 percent) during the said period with wide variation across the districts (table 5.18). For instance, Khurda witnessed maximum growth (28 percent) in office during 1995-2004 partly due to state capital (Bhubaneswar) is located in this district. Similarly Cuttack which is one of the oldest city, former state capital, and a developed district has also witnessed acceleration in the expansion of branch network. In contrast some of the backward districts, namely Gajapati and Balangir, have witnessed fall in number of office per 1000 sq km (table 18).

Table 5.18: Growth of Key Indicators:1995-2004

Sl No	District	Credit Per Office	Deposit Per office	No Office
1	Angul	671	365	9
2	Balangir	319	423	-5
3	Baleshwar	434	412	1
4	Bargarh	250	330	3
5	Bhadrak	255	444	2
6	Boudh	153	362	0
7	Cuttack	190	269	9
8	Deogarh	337	319	0
9	Dhenkanal	360	461	0
10	Gajapati	459	408	-21
11	Ganjam	241	317	1
12	Jagatsinghpur	260	444	4
13	Jajpur	308	353	0
14	Jharsuguda	430	220	13
15	Kalahandi	307	344	1
16	Kandhamal	318	266	-8
17	Kendrapara	211	398	1
18	Keonjhar	434	388	1
19	Khurda	244	210	28
20	Koraput	380	311	2
21	Malkangiri	478	424	0
22	Mayurbhanj	353	319	5
23	Nawapara	218	601	0
24	Nawrangpur	188	272	0
25	Nayagarh	269	411	6
26	Puri	355	374	3
27	Rayagada	344	252	0
28	Sambalpur	241	271	6
29	Sonepur	195	444	-4
30	Sundergarh	404	224	3
	Orissa	306	312	4

Source: Estimation based on RBI's Basic Statistical Returns.

The deposit per office went up from Rs 2.42 crore in 1995 to close to Rs 10 crore in 2004. At the other end, credit per office went up from Rs 1.3 crore to Rs 5.4 crore during the said period (table 5.14). No doubt growth of deposit per office outweighs growth of credit per office during 1995-2004 by 6 percentage points but the difference is pronounced in some of the districts. For instance, in deposit per office Bargarh occupies 24th rank from top in 2004 but in disbursement of credit it occupied 12th rank partly due to high demand for credit by the industrial units located in this region (table 5.19).

On account of mismatch between growth of deposit and credit, Credit-Deposit ratio has declined over the years. Of late, in CD ratio Bargarh outweigh other districts (88.8 per cent in 2004) while this is very low in Jagatsingpur and Kendraparada (tables 5.14).

Table 5.19: Rank of Major Banking Indicators in Different Districts of Orissa, 2004

Sl No	District	Deposit per Office	Credit per Office	Office per 1000 Sq Km	CD Ratio
		2004	2004	2004	2004
1	Angul	5	6	18	25
2	Balangir	21	17	20	8
3	Baleshwar	15	5	5	2
4	Bargarh	24	12	16	1
5	Bhadrak	16	15	8	24
6	Boudh	29	29	26	19
7	Cuttack	4	3	2	16
8	Deogarh	30	30	24	20
9	Dhenkanal	9	7	11	14
10	Gajapati	20	26	25	26
11	Ganjam	7	14	9	28
12	Jagatsinghpur	2	16	3	30
13	Jajpur	12	10	6	12
14	Jharsuguda	6	4	10	10
15	Kalahandi	28	19	21	3
16	Kandhamal	27	28	29	15
17	Kendrapara	13	23	7	29
18	Keonjhar	10	13	19	23
19	Khurda	1	1	1	5
20	Koraput	11	9	23	13
21	Malkangiri	22	24	30	21
22	Mayurbhanj	18	20	12	22
23	Nawapara	19	27	22	27
24	Nawrangpur	26	22	28	4
25	Nayagarh	23	21	14	6
26	Puri	14	11	4	11
27	Rayagada	17	18	27	17
28	Sambalpur	8	8	13	18
29	Sonepur	25	25	17	9
30	Sundergarh	3	2	15	7
31	Orissa				

Source: RBI's Basic Statistical Returns.

In the pattern of allocation of credit for various occupation a shift from agriculture to personal loans is noticed in Orissa during 1995-2004(chart 5.6 & 5.7). There has been a fall in allocation of credit to agriculture by 9 percentage points (20 per cent to 11 per cent) during the said period. Similarly, share of industry also declined by 6 percentage points (33 per cent to 28 per cent) during the same period. In contrast, percentage share of personal loans went up from 15 per cent to 37 per cent during the said period.

Chart 5.6

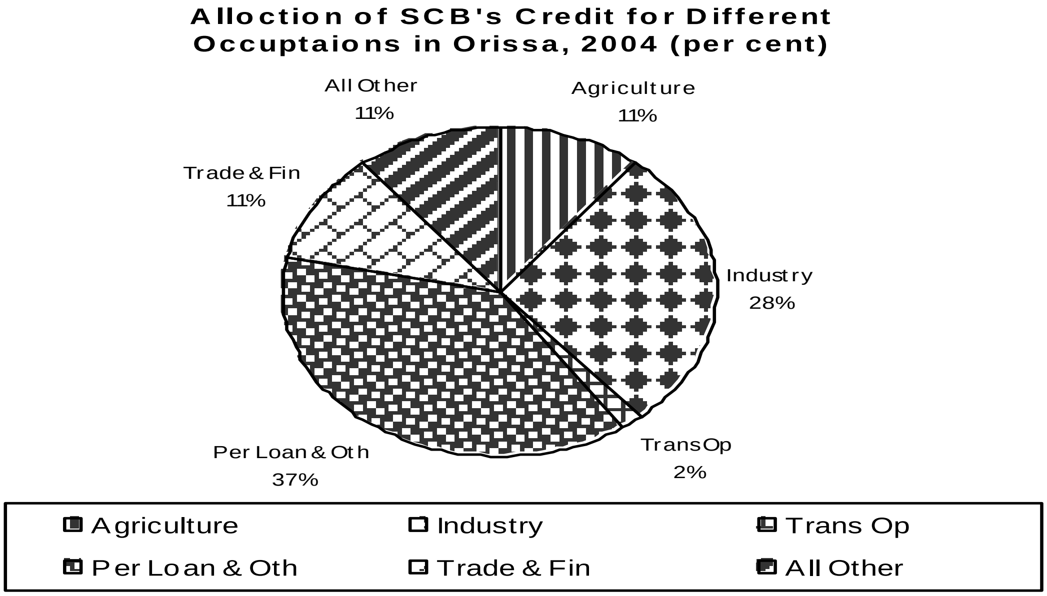
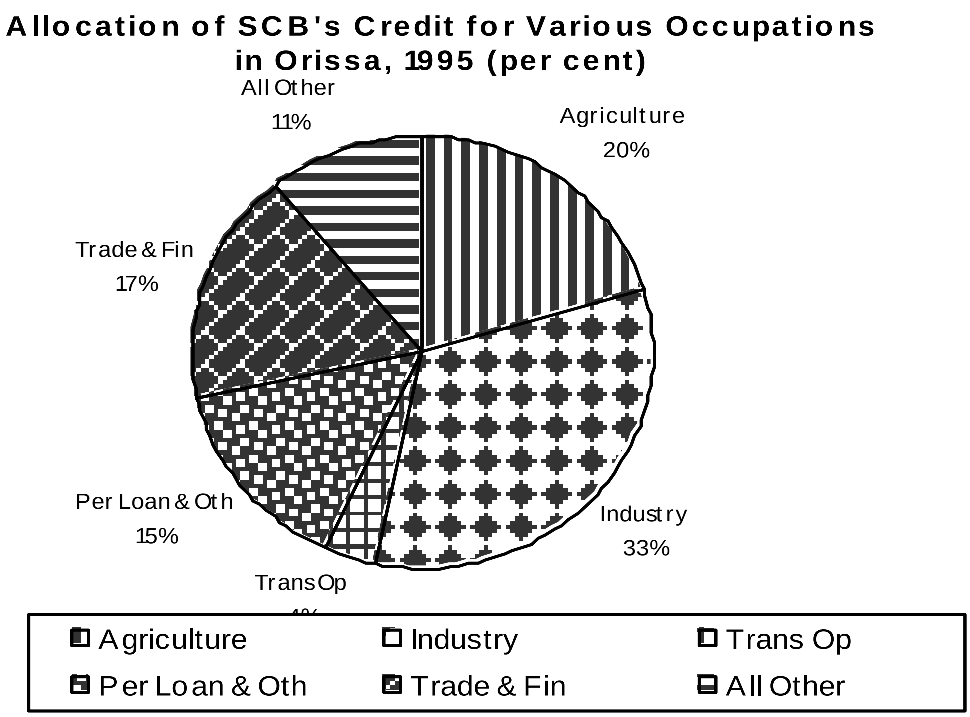


Chart 5.7



To assess the role of credit in the process of economic development, the present study has also captured the ground level realities by referring the research findings of primary survey carried out in few districts of the state. The study undertaken by Nabakrushna Choudhury Centre for Development Studies under the guidance of S N Mishra (1996) in 1991 is confined to eight villages and four blocks in hilly and drought prone areas of *Ganjam* and *Phulbani* districts of the state. It intends to capture the extent of credit gap, mismatch between end use of credit and purpose of disbursement, impact of bank credit on income, output and employment in agriculture and the problems encountered by farmer borrowers (small, marginal and large farmers) in availing the credit.

Overall, the geographical coverage and functional spread of Commercial Banking activities in hilly and drought prone blocks of *Ganjam* and *Phulbani* districts are quite encouraging. The banking activities are more active in a relatively developed *Ganjam* district than *Phulbani*. Similarly, banking activities are relatively wide spread in the developed (*Suruda* block *Ganjam* and *Phulban*i block of *Phulbani* district) block of the two districts but not in backward blocks (*Chikiti* in *Ganjam* & *G Udayagiri* in *Phulbani*).

In the pattern of distribution of credit, concentration in the developed blocks is noticed. Demand for credit is more in developed regions and blocks. However, the demand for credit by farmer borrower is not fully met by the commercial banks. Farmer non borrowers meet their need for credit out of their own resources. For any short fall in the demand for credit they depend upon informal agencies as they had no scope to borrow from formal credit agencies. For non borrowers, there is sizeable credit gap as there is difficulty in meeting the deficit fully from informal sources.

As per utilization of credit, it is noticed that farmer borrowers in the sample selected areas of 2 districts had not fully utilized the credit for the purpose for which it was sanctioned by commercial banks. The shortfall in the utilization of credit by farmer borrowers was ascribed to non- availability of consumer loans from banks, inadequate and irregular supply of inputs and decline in agricultural production due to severe drought. *Ganjam* being one of the agricultural advanced districts provided better opportunity for utilization of credit in agriculture as compared to *Phulbani* district which is agriculturally less advanced.

In analyzing the impact of credit on employment and output it is noticed that this is relatively high for the farmer borrowers. The farmer borrower experienced higher percentage change in output, income and employment between pre- loan and post loan periods. The provision of credit has encouraged farmer borrowers to concentrate more on agricultural activities. In other words, farmer borrowers got an access to farm inputs, agricultural implements and extension facilities through which they could be able to generate more output, income and employment in agriculture in the post loan period. However, bank credit did not encourage farmer borrowers to generate assets and accumulate savings. In contrast, by dint of hard work, enterprising ability and business expertise, the farmer non-borrowers could be able to generate assets and savings.

The major problems faced by borrowers and non-borrowers to undertake agricultural activities include inadequate supply of credit, non-availability of credit on time and in adequate quantities, problem in marketing, lack of irrigation and problem of storage of output. Similarly, the commercial banks face the problem in meeting the target, delayed release of subsidies by the government, poor recovery of loans and decline in profit.

5.6 Summary and conclusions

To sum up, the level of banking development is comparatively high in a developed state like Maharashtra as compared to Karnataka or Orissa. But in some other aspects, namely population served per branch, performance of Karnataka is quite promising. However the level of disparity across districts in Maharashtra is pronounced as compared to other states. Around 90 per cent of total banking activities is concentrated in five districts of Maharashtra while the corresponding figure is about 70 per cent in Karnataka and 50 per cent in Orissa. Similarly, wide disparity in level of banking development is noticed between northern and southern regions of Karnataka.

Chapter VI

Summary and Concluding Observations

6.1 Introduction

The present study made an attempt to examine the overall performance of the Scheduled Commercial banks in India with focus on social aspect in banking during the post-nationalization period. To assess performance of the banking sector during the reforms period a comparative analysis of its achievement during pre-reforms and reforms period has been carried out. Further efforts have been made to examine the level of inter-regional and inter-state disparity in some of the banking performance indicators over the said period. Then again, to capture level of development in financial infrastructure (banking sector) and role of banking sector in various categories of states, a composite index is constructed for the 15 major states. This facilitated assessment of inter-state disparity in the level of banking development and level of variation in banking development across categories of states since nationalization of commercial banks (1980) to 2001. In order to assess the role of banking sector in various categories of states especially at the decentralized level, three states from different levels of development (Maharashtra, Karnataka and Orissa) has been taken into account in the present exercise.

6.2 Overall Progress during Pre-Reforms Period

Based on the overall performance, it is noticed that banking sector has undergone noticeable change during different periods since independence till date. Before nationalization of commercial banks, slow progress in mobilization of adequate savings failed to meet investment requirements. There was also prevalence of urban-bias as reflected by distribution of credit in favour of industry and trading sectors. To ensure expansion of branch network particularly in the rural and urban areas, flow of credit for the priority sector and accumulation of adequate savings to meet the development requirements; nationalization of major commercial banks was introduced. By and large the major objectives of bank nationalization was fulfilled during one and a half decades since 1969. Despite its splendid performance in terms of functional aspects and geographical coverage, the banking industry was not in its pink during the said period.

Skepticism has arisen about the viability of the banks partly due to considerable erosion in efficiency, decline in productivity and profitability.

6.3 Outcome of Reforms in the Banking Sector

In order to remove the said ailments including strengthening its viability, financial sectors reforms with focus on prudential norms (income recognition, asset classification and capital adequacy norm) was introduced. In addition, to inject competitiveness in the banking industry, private sector banks have been allowed to enter the industry. The outcome is reflected by the achievement of the industry in cleaning the balance sheet.

6.3.1 Emergence of Urban Centric Growth

As specified, no reform is successful unless it ensures equity in distribution. There has been considerable overall growth of deposit and credit during the reforms period but it is mostly confined to the metropolitan area, implying emergence of urban centric growth. There has been a fall in the growth of office in the economy as a whole especially in the rural area but the share of office in the metropolitan area has been improved. It may be due to the fact that bankers prefer to move to a place where provision of infrastructure is ensured. Besides, it is argued that number of banks operating in rural areas are incurring huge loss. Therefore, it may not be rational to expand branch network in rural area when competition among different categories of banks has gone up in the recent past. Besides, the work load may be relatively high in the rural area as compared to deposit or profit. In other words, per employee deposit or profit may be higher in metropolitan area as compared to rural area. In this backdrop, the question still remains unanswered, i.e., whether banking is a follower or leader of economic activity?

Based on credit sanctioned, an erosion in CD ratio is observed in the recent past especially for the rural area. However, this trend has been arrested to a large extent by in-migration of credit to rural areas and thereby improved the CD ratio as per utilization.

6.3.2: Neglect of Priority Sector

In the allocation of credit to various sectors, it seems inadequate weight is assigned to the priority sector especially agriculture during the reforms period. In this aspect, diverse views are presented by academicians and bankers. The bankers may not be keen to allocate large amount of credit for agriculture because of proliferation of bad loans in agriculture and relatively higher number of defaulters in this sector. Therefore, tracing a new borrower, not having access to bank credit and willing to take loan, may be a difficult task. Therefore, sticking to the norm of 18 per cent net bank credit for agriculture can be difficult to achieve. In this aspect, it is argued that on account on stress on profitability, the bankers find it difficult to allocate more resources for agriculture.

Contrary to the above argument, in recent years it is noticed that the level of NPA generated in agriculture has come down. But it needs to examined whether decline in NPA is somewhat related to growth of borrowings. In other words, a borrower can raise a fresh loan bearing low rate of interest so as to replace the old loan carrying high rate of interest and thereby the level of NPA emerged from agriculture can go down.

Nevertheless, in the absence of requisite support for agriculture and allied areas from the financial system, the economy can hardly sustain higher growth, eradicate poverty through improvement in growth of employment and smoothen regional disparity. The recent Tenth Plan Mid-Term Appraisal also indicates an erosion in growth of agriculture from 3.2 per cent that it had notched up during 1980/81-1995/96 to 1.9 per cent in the subsequent periods, implying decline in productivity growth. Therefore, it is quite difficult to accept that 1.9 per cent growth can support more than 60 per cent of total population living in rural area. Overall, this indicated that performance of the banking sector in achieving societal goals does not seem to be quite promising during the reforms period. This could be partly on account of challenges thrown up by NBFC, stiff competition among different categories of banks to improve the bottomline by reducing the level of NPA and to some extent due to relatively slow growth in agriculture as compared to tremendous growth in service sector. There is also an urgent need to change the attitude of the bankers towards agriculture, i.e., agriculture need not to be considered as losing proposition.

6.3.3 Regional Disparity in Banking Development

An analysis of regional disparity in the level of banking development reflects no remarkable change in the recent years. The extent of regional disparity in population served per office and deposit mobilization does not seem to have undergone substantial variation. For instance, Western Region and Northern Regions together accounts for about 32 per cent of total office in India but close to 50 per cent of total deposit is mobilized in those regions in 2003. In contrast, around 38 per cent of total office is located in Eastern and Central Region while the extent of resource mobilized is much lower than the share of office, i.e., 26 per cent of total in the said year. It is interesting to note that the Southern Region has benefited a lot by the commercial banks. The population served per office is one of the lowest (12,000) in 2003 while the corresponding figure at the national level and Eastern region is 16,000 and 19,000 respectively. Around 28 per cent of total office is located in this region and there has been immigration of credit to this region from other regions.

A state level analysis reflects wide variation in the banking performance indicators. This is noticed across the states and various categories of states during the last two and a half decades. On account of slow growth in expansion in branch network, population served per office went up during the reforms period as compared to pre-reforms period. The extent of disparity in concentration of office declined sharply during the 1980s but remained almost constant during the 1990s and afterwards. However, the concentration of office is relatively high in the middle income states as compared to its other state counterparts. Therefore, the number of people served per office in the middle income states is much lower as compared to other categories of states.

In deposit mobilization, the performance of the economy is somewhat encouraging during the reforms period. This can be partly due to sustaining higher growth in gross domestic product primarily on account of buoyant service sector. At the other end, on account of substantial decline in SLR and CRR, credit amount available with the banking sector seems to have been improved during the reforms period. Therefore, there is enough scope for disbursement of credit for various developmental purposes provided the bankers are not keen to park their funds in government securities.

The credit amount outstanding per office witnessed higher growth during the 1990s and afterwards as compared to period prior to it, primarily due to higher growth in deposit and to some extent due to slow growth in office. No doubt, there has been growth of deposit and credit during the reforms period but the mismatch between growth of per capita credit during the pre-reforms and reforms periods is higher than the corresponding difference in growth of per capita deposit during the said periods. In other words, the difference in per capita deposit (301 per cent) and per capita credit growth (273 per cent) during the 1980s is lower than that of the 1990s as respective growth of per capita deposit and credit is 290 per cent and 257 per cent respectively during the latter period. This is reflected by fall in CD ratio by higher extent during the 1990s (from 61.9 per cent to 56.7 per cent) as compared to the 1980s (66.5 per cent to 61.9 per cent) in the economy as a whole. The extent of decline in CD ratio as per sanction is pronounced in some of the backward states like Orissa, U.P, Bihar in recent years and therefore, it is the cause for serious concern. However, on account of inmigration of credit to some of the low-income states, there has been improvement in the CD ratio based on utilization to some extent.

6.3.4: Level of Banking Development Across States

In order to capture the level of banking development across states and various categories of states, level of banking development index has been constructed and the states have been classified into highly developed, moderately developed and under developed categories. There has been a consistent rise in achievement index score during 1981-2001 for the 15 major states together but the extent of improvement is more during the 1990s as compared to the 1980s. A higher level of improvement is noticed along with higher level of disparity among the states in improvement index. Overall, no noticeable change in the composition of various categories of states is observed barring few states. For instance, all the states except Gujarat remained in the underdeveloped category during the period under consideration. Almost a similar trend is noticed in other categories of states. Among the states, Goa retained first rank from top while Bihar is at the rock bottom level (15th rank). Some of the middle income and high-income states remained in the developed category while the BIMARU states retained the underdeveloped category. There is also positive correlation between level of achievement and improvement but the degree of association is relatively weak in the 1980s as compared to the 1990s. It indicates that level of improvement in 1991 is not strongly associated with the achievement score in 1981 but the extent of improvement in 2001 is positively and highly correlated with the achievement in 1991. This implies that states with higher level of achievement performed better as compared to their counterparts during the1990s. However, it is noticed that there has been a strong positive correlation between level of development in banking and level of human development, indicating a positive role played by banking indicators in the process of development.

6.3.5: Development of Banking Sector in Selected States

As regards performance of the banking sector in selected few states (Maharashtra, Karnataka and Orissa) it is noticed that the level of banking development is comparatively high in a developed state like Maharashtra as compared to Karnataka or Orissa. Contrary to it, in certain other aspects, namely population served per branch, performance of Karnataka is quite promising. In the selected few major indicators, Orissa remained at the bottom, implying positive relation between level of development and performance of the banking sector. The second disturbing feature emerged out of this analysis is persistence of high level of disparity at the decentralized level with no substantial change over the years. This is pronounced in Maharashtra as compared to other selected states. Based on selected few major indicators, it is observed that around 90 percent of total banking activities is concentrated in five districts of Maharashtra while the corresponding figure is about 70 per cent in Karnataka and 50 per cent in Orissa. In other words, 10 per cent, 30 per cent and 50 per cent of the total banking activities is concentrated in 80- 85 per cent districts in Maharashtra, Karnataka and Orissa respectively.

Overall, it reflects that there has been improvement in performance of the banking sector during the reforms period and the extent of improvement is relatively high during the Reforms period as compared to pre-Reforms period. But the level of disparity remained very high both at the state level and district level. Therefore, there is a need to take cognizance of the problem so as to smoothen regional disparity and ensure overall development of the economy. In addition to this, priority sector especially agriculture need not be ignored as it can adversely affect growth of employment and income. Needless to say, to sustain overall higher growth in an economy with equity, lending to rural area and agriculture cannot be looked down upon. Concomitantly, mere supply of bank credit to agriculture cannot necessarily ensure improvement in effective demand unless development of infrastructure in agriculture is prioritized and the price policy is based on functioning of the agrarian markets.

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Glossary[19]

Bank

A bank is an institution that accepts deposits of money from the public withdrawable by cheque and used for lending. Thus, there are two essential functions which make a financial institution a bank, i.e., acceptance of chequable deposits (of money) from the public and lending (Gupta, 1999).

Scheduled banks

These are banks which are included in the second schedule to the Reserve Bank of India Act 1934. These banks enjoy certain privileges such as free concessional remittances facilities and financial accommodation from the RBI. There are also certain obligations like minimum cash reserve ratio (CRR) to be kept with the RBI (CMIE, 2001).

Scheduled Commercial Banks

Commercial Banks which conduct the business of banking in India and which (a) have paid up capital and reserves of an aggregate real and exchangeable value of not less than Rs. 5 lakhs and (b) satisfy the Reserve Bank of India that their affairs are not being conducted in a manner detrimental to the interest of their depositors, are eligible for inclusion in the Second schedule to the Reserve Bank of India Act, 1934, and when included are known as 'Scheduled Commercial Banks'.

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[19] To avoid inconvenience, certain concepts related to the banking sector presented in the initial part are not in the alphabetical order. However, the additional concepts have been presented alphabetically. This is compiled from various sources and on several occasion the definition is almost given as it is in the original source. Some of the major source of reference are as follows:

(i) Agarwal, R N (1996): *Financial Liberalization in India, A Study of Banking System and Stock Markets*, B R Publishing Corporation, Delhi.
(ii) Gupta, Suraj B (1999): *Monetary Economics Institutions, Theory and Policy*, S Chand and Company Ltd.
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(v) Bhole, L M (2004): *Financial Institutions and Markets*, Tata Mc Graw Hill Publishing Company Ltd. New Delhi.
(vi) RBI (1997): *Report on Trend and Progress of Banking in India, 1996-9*, Reserve Bank of India, Mumabi.
(vii) Gopinath, Shyamala (2005): 'Retail Banking-Opportunities and Challenges', *Reserve Bank of India Bulletin*, RBI, Mumbai, June.

Scheduled Commercial Banks in India are categorized in five different groups according to their ownership and / or nature of operation. These bank groups are (i) State Bank of India and its associates, (ii) Nationalized Banks, (iii) Regional Rural Banks, (iv) Foreign Banks and (V) Other Indian Scheduled Commercial Banks (in the private sector).

All Scheduled Banks comprise Schedule Commercial and Scheduled Co-operative banks. Scheduled Co-operative banks consist of Scheduled State Co-operative banks and Scheduled Urban Co-operative banks.

Bank Offices comprise of branches doing banking business (i.e., either accepting deposit and/or offering credit to their customers) as well as administrative offices.

Branches of Banks refer to those offices which are engaged in either;

(1) banking business (i.e., either accepting deposit and/ or offering credit to their customer); or
(2) banking and foreign exchange business; or
(3) administration, banking & foreign exchange; or
(4) administration and banking; or
(5) administration and foreign exchange; or
(6) only foreign exchange business; or
(7) non-scheduled banks doing banking business.

Administrative Offices relate to those offices, which offer exclusive administrative support to their branches. These include Head Office, Zonal Office, Regional Office, Local Head Office, Training Centres, Clearing Cell, Service Branch, Asset Recovery Branch, Divisional Office, etc.

Population groups of the banked centres. This has been classified into four groups. For the present, it is based on 1991 Census population. The population groups are defined as under:

a. 'Rural' group includes all centres with population of less than 10000.
b. 'Semi-urban' group includes centres with population of 10000 and above but less than 1 lakh.

c. 'Urban' group includes centres with population of 1 lakh and above but less than 10 lakh.

d. 'Metropolitan' group includes centres with population of 10 lakh and more.

Categorization of Scheduled Commercial Banks in India

Sl No	**Nationalized Banks (19)**
1	Allahabad Bank
2	Andhra Bank
3	Bank of Baroda
4	Bank of India
5	Bank of Maharashtra
6	Canara Bank
7	Central Bank of India
8	Corporation Bank
9	Dena Bank
10	Indian Bank
11	Indian Overseas Bank
12	Oriental Bank of Commerce
13	Punjab and Sind Bank
14	Punjab National Bank
15	Syndicate Bank
16	UCO Bank
17	Union Bank of India
18	United Bank of India
19	Vijaya Bank
	State Bank Group (8)
20	State Bank of India
21	State Bank of Bikaner and Jaipur
22	State Bank of Hyderabad
23	State Bank of Indore
24	State Bank of Mysore
25	State Bank of Patiala
26	State Bank of Saurashtra
27	State Bank of Travancore

Private Sector Banks in India (30)

Sl No.	Old Private Sector Bank (22)
1	Bharat Overseas Bank Ltd.
2	City Union Bank Ltd.
3	Development Credit Bank Ltd.
4	Lord Krishna Bank Ltd.
5	SBI Commercial & International Bank Ltd.
6	Tamilnad Mercantile Bank Ltd.
7	The Bank of Rajasthan Ltd.
8	The Catholic Syrian Bank Ltd.
9	The Dhanalakshmi Bank Ltd.
10	The Federal Bank Ltd.
11	The Ganesh Bank of Kurundwad Ltd.
12	The Jammu & Kashmir Bank Ltd.
13	The Karnataka Bank Ltd.
14	The Karur Vysya Bank Ltd.
15	The Lakshmi Vilas Bank Ltd.
16	The Nainital Bank Ltd.
17	The Nedungadi Bank Ltd.
18	The Ratnakar Bank Ltd.
19	The Sangli Bank Ltd.
20	The South Indian Bank Ltd.
21	The United Western Bank Ltd.
22	The Vysya Bank Ltd.
	New Private Sector Banks (8)
23	Bank of Punjab Ltd.
24	Centurion Bank Ltd.
25	Global Trust Bank
26	HDFC Bank
27	ICICI Bank
28	IDBI Bank Ltd.
29	IndusInd Bank Ltd.
30	UTI Bank Ltd.

Sl No.	Foreign Banks in India (40)
1	ABN - AMRO Bank N.V.
2	Abu Dhabi Commercial Bank Ltd.
3	American Express Bank Ltd.
4	Arab Bangladesh Bank Ltd
5	Bank International Indonesia
6	Bank Muscat S.A.O.G.
7	Bank of America NA
8	Bank of Bahrain and Kuwait B.S.C.
9	Bank of Ceylon
10	Barclays Bank PLC
11	BNP Paribas
12	Chinatrust Commercial Bank
13	Chohung Bank
14	Citi Bank N.A.
15	Commerz Bank AG
16	Credit Agricole Indosuez
17	Credit Lyonnais
18	Deutsche Bank AG
19	Development Bank of Singapore Ltd
20	Dresdner Bank AG
21	HSBC Ltd.
22	ING Bank N.V.
23	JP Morgan Chase Bank
	The Chase Manhattan Bank)
24	K.B.C.Bank NV
25	KrungThai Bank Public Co.Ltd
26	Mashreqbank psc
27	Mizuho Corporate Bank Ltd
	(The Fuji Bank Ltd)
28	Oman International Bank S.A.O.G.
29	Oversea-Chinese Banking Corporation Ltd
30	Societe Generale
31	Sonali Bank
32	Standard Chartered Bank
33	Standard Chartered Grindlays Bank
34	State Bank of Mauritius Ltd
35	Sumitomo Mitsui Banking Corporation
	(The Sumitomo Bank Ltd.)
36	The Bank of Nova Scotia
37	The Bank of Tokyo-Mitsubishi Ltd
38	The Siam Commercial Bank
39	The Toronto-Dominion Bank Ltd.
40	UFJ Bank Ltd
	(The Sanwa Bank Ltd)

Note: Figures in the bracket represent the number of banks
Operating in India in 2001-02

Source: RBI (2002): Report on Trend and Progress of Banking in India 2001-02

Balance Sheet of Commercial Bank

Liabilities of the Banking System

I Capital

II Reserves and surplus

(i) Statutory Reserves
(ii) Capital Reserves
(iii) Share Premium
(iv) Revenue and Other Reserves
(v) Balance of Profit

III Deposits

Type-wise
(i) Demand Deposits (from banks and from others)
(ii) Savings Bank Deposits
(iii) Term Deposits (from Banks and Others)
Location-wise
(a) Deposits of Branches in India
(b) Deposits of Branches outside India

IV Borrowings

(i) Borrowings in India (from RBI, other banks and other institutions And agencies)
(ii) Borrowings outside India

V Other Liabilities and Provisions
(i) Bills Payable
(ii) Inter-Office adjustments
(iii) Interest accrued
(iv) Others (including provisions)

Liabilities to the 'Banking System' as well as to 'others' in India

Liabilities to the 'Banking System' as well as to 'Others' can be divided into three heads viz. (a) demand and time deposits, (b) borrowings and (c) other demand and time liabilities.

Deposits

Commercial banks accept money from the people and keep it with the bank for certain duration. This is otherwise known as deposit. It serves as means of payment and medium of saving. Deposit is the major component of total liability of the commercial banks.

Types of Deposit

Commercial banks in India accepts two types of deposit, i.e., Demand Deposits and Term Deposits

(a) Demand Deposits

This consist of (i) current deposits, (ii) demand liabilities portion of saving bank deposits, (iii) margins held against letter of credit / guarantees, (iv) balances in overdue fixed deposits, cash certificates and cumulative/recurring deposits, (v) outstanding telegraphic transfers, mail transfers and demand drafts, (vi) unclaimed deposits, (vii) credit balances in the cash credit accounts and (viii) deposits held as security for advances which are payable on demand.

(i) Current Deposits

Current deposits are chequable accounts and there are no restrictions on the amount or the number of withdrawals from these accounts. It is possible to obtain a clean or secured overdraft on current account. Banks also extend to the account-holders certain useful services such as free collection of out-station cheques and issue of demand drafts. At present banks generally do not pay interest on current deposits.

Assets of the Banking System

I	*Cash in hand*	
II	*Balances with RBI*	
III	*Balances with Banks in India*	
IV	*Money at call and short notice*	
V	Balances with banks outside India	
VI	*Investments*	
(a)	Investments in India	
	(i)	Government Securities
	(ii)	Other approved Securities
	(iii)	Shares
	(iv)	Debentures and Bonds
	(v)	Others
(b)	*Investments outside India*	
	(i)	Government Securities
	(ii)	Subsidiaries and/or joint ventures
	(iii)	Others
	VII Advances	
	Type-wise	
(i)	Bills purchased and discounted	
(ii)	Cash Credits, overdrafts and Loans	
(iii)	Term Loans	
	Security-wise	
(i)	Secured by tangible assets	
(ii)	Covered by Bank/Government Guarantees	
(iii)	Unsecured	
	(a) Sector-wise Advances in India	
	(i)	Priority sectors
	(ii)	Public Sectors
	(iii)	Banks
	(iv)	Others
(b)	**Advances outside India**	
	VIII Fixed Assets	
	(i)	Premises
	(ii)	Fixed Assets under construction
	(iii)	Other Fixed Assets
IX		*Other Assets*
(i)		Inter-Office adjustments (net)
(ii)		Interest accrued
(iii)	Tax Paid	
(iv)	Stationary and stamps	
(v)	Others	

Banking Assets

Investments

Banks have four categories of assets: (a) cash in hand and balances with the RBI, (b) assets with the banking system, (c) investments in government and other approved securities, and (d) bank credit. Among these assets, investment in cash and government securities serves the liquidity requirements of banks and is influenced by the RBI policy. Quantitatively, bank credit and investment in government securities are banks' most important assets.

(i) Cash in hand represents notes and coins held by banks. Currencies of foreign countries are not included.

Assets with the Banking System

Assets with the banking system comprise (a) balances with the 'banking system' in current account, (b) balances with other banks in other accounts, (c) money at call and short notice (funds made available to the 'Banking System' by way of loans or deposits repayable at call or short notice of 14 days or less), (d) advances to banks (loans other than 'money at call and short notice' made available to the 'Banking System'[20], and (e) Other Assets (any other amounts due from the 'Banking System', which cannot be classified under any of the above four items.[21]

(iii) Bank Investments in India

Commercial banks' investments are of three types: (a) Government of India securities; (b) other approved securities, and (c) non-approved securities. While the first two types are known as **SLR securities**, the third one is known as **non-SLR securities**.

Investments in Government Securities consist of **(**i) central and state government securities including treasury bills, (ii) treasury deposit receipts, (iii) treasury savings deposit certificates, (iv) postal

[20] Participation Certificates purchased are also included.

[21] For example, in the case of inter-bank remittance facilities scheme, the total amount held by a bank with other banks (in transit or other accounts) are included under 'other assets' as such amounts cannot be interpreted as 'balances' or 'call money' or 'advances'.

obligations such as national plan certificates, national savings certificates, etc. and (v) government securities deposited by foreign scheduled banks under Sec.11 (2) of Banking Regulation (BR) Act, 1949.

Investments in Other Approved Securities comprise (i) securities of state associated bodies such as electricity board, housing board and corporation bonds, (ii) debentures of land development banks, (iii) units of UTI and (iv) shares of RRBs, etc., which are treated as approved securities under Sec.5 (a) of BR Act, 1949.

Investment in SLR Securities

At present, the banks are statutorily required to invest 25 per cent of their demand and time liabilities in the first two types of securities. The investments in the first type of securities is the major part of banks' investments. The government securities accounted for 95.59 per cent of their total investment portfolio in 2002-03. Their investments in the second type are marginal, while those in the third type are emerging as substantial investments.

Investment in Non-SLR Securities

There has been liberalization of investment norms for banks since 1985. This has enabled them to be active players in financial markets. The ambit of eligible investments has been enlarged to cover Commercial Paper (CP), units of mutual funds, shares and debentures of PSUs, and shares and debentures of private corporate sector, which are all known as non-SLR investments. Similarly, the limit on investments in the capital market has been gradually increased. Now, banks can invest in equities to the extent of five per cent of their outstanding (and not incremental as earlier) advances. Effective from May 2001, the total exposure of a bank to stock markets with sub-ceilings for total advances to all stock brokers and merchant bankers has been limited to five percent of the total advances (including CPs) as on March 31 of the previous year (2003).

(iv) Bank Credit

Types of Credit

Banks in India provide mainly short-term credit for financing working capital needs although their term loans have increased over the years. The various types of advances provided by them are: (a) loans, (b) cash credit, (c) overdrafts (OD), (d) demand loans, (e) purchase and discounting of commercial bills, and (f) installment or hire-purchase credit.

Bank Loans

Loans are advances for fixed amounts repayable on demand or in installments. They are normally made in lump sums and interest is paid on the entire amount. The borrower cannot draw funds beyond the amount sanctioned. There are two categories of loans: demand loans and term loans.

Demand loans

The term “demand loans” has been used in India in different senses. Demand loans by convention means loans which have to be repaid when demanded by the creditor and, as such, they are short-term loans.

Term Loans

Term loans are defined as (i) loans sanctioned for a period exceeding one year with specific schedule of repayment, (ii) interim cash credits/bridge loans pending disbursement of sanctioned term loans, and (iii) installment credit where repayment is spread over more than one year. Term loans are provided to purchase fixed assets, i.e., for meeting part of the capital cost of new and old projects.

Cash Credit and Overdraft

Cash credits and overdrafts are said to be running accounts, from which the borrower can withdraw funds as and when needed up to the credit limit sanctioned by his banker. Usually, while cash credit is given against the security of commodity stocks, overdrafts are allowed on personal or joint current accounts. Interest is charged on the outstanding amount borrowed and not on the credit limit sanctioned. In order to curb the misuse of this facility, banks used to levy a commitment charge on the unutilized portion of the credit limit sanctioned. However, this practice has now been discounted.

Purchasing and Discounting of Bills

Purchasing and discounting of bills (internal and foreign) is another method of advancing credit by banks. It is adopted mainly to finance trade transactions and movement of goods. Bill finance is either repayable on demand or after a period not exceeding 90 days.

Additional Concepts

Action Plans

Consequent on a rapid and vast increase in the total banking business after nationalization, a need was felt to consolidate and improve the quality of banks' operations, services, and overall performance. The system of formulating Action Plans to achieve this objective was introduced around 1985 by the RBI. These action Plans cover important and diverse areas like organizational structure, training and human resources development, customer service, deposit mobilization, credit management, house- keeping, manpower planning, recycling of funds, productivity, efficiency, profitability, modernization and technology up gradation, and consolidation of Service Area Approach.

Advances to priority sector

It consist of the advances to (i) agriculture, (ii) small scale industry including loans for setting up of industrial estates, (iii) small road and water transport operators, (iv) small business, (v) professional and self employed persons, (vi) retail trade, (vii) state sponsored organizations for Scheduled castes/Scheduled tribes, (viii) education, (ix) housing, (x) consumption loans granted under the consumption credit scheme and (xi) net funds provided to sponsored Regional Rural Banks.

Bank credit to the commercial sector

It includes RBI credit to the commercial sector non-depository financial corporations and bank credit in India of the banking system,

Burden

This is defined as the total non interest expenses minus total non-interest income.

Capital Adequacy Ratio

The capital adequacy ratio expresses the 'real' capital as a percentage of total risk weighted assets, and thereby indicates the margin of protection available to both depositors and creditors against unanticipated losses that may be experienced by a bank. Standards of capital adequacy take account of different degrees of risk in assets by requiring, for example, 100 per cent capital high risk items such as industrial shares, 10 per cent for unsecured loans, 5 per cent for secured loans, and so on. The international norm for capital adequacy ratio is the Basel International Standard of 8 per cent of total risk weighted assets of a bank and it will be 9 per cent from 1999-2000.

Cash Reserve Ratio

To make sure that banks do not run out of money to pay for withdrawals, they are supposed to hold a certain percentage of deposits as free cash. This is called the cash reserve ratio. An increase in CRR means that banks will have to hold more cash then they did earlier. It reduces the overall amount of money floating in the system. As the amount of cash goes down, there are fewer rupees chasing the same goods. The effect of this is to reduce inflation.

Certificates of deposits (CDs)

The scheme of CDs was introduced in June 1989 to enable commercial banks to raise additional funds from the market through the issue of market paper in the form of CDs of various maturities, typically of 3 months maturity at the short end and of one year at the long end.

Commercial Paper (CP)

Another money market instrument has been in operation since January 1990 is known as cItr ommercial paper of companies. It is a method adopted to raise funds for the company. To safeguard the interests of lenders, only companies of the specified minimum size and credit worthiness and above are allowed to issue such paper.

Cost of deposits = Interest paid on deposits)/ Average Deposits

Cost of borrowings = Interest paid on borrowings / Average Borrowings

Cost of funds = Total interest paid on deposits and borrowings / Total of average deposits and borrowings

Doubtful Assets

A doubtful asset is one, which has remained NPA for a period exceeding two years. With effect from 31st March 2001, an asset is said to be classified as doubtful, if it has remained NPA for a period exceeding 18 months.

Financial Sector

It comprises banking system, non-banking financial institutions, and the stock markets (both primary and secondary).

Financial Intermediation

This reflects method of facilitating flow of funds from surplus spending units (SSUs) to deficit spending units (DSUs) through financial intermediaries, i.e., with primary securities (issued by DSUs) held by financial intermediaries and secondary securities (issued by financial institutions) held by SSUs

Financial System

The financial system comprises of financial institutions, financial markets, financial instruments and services. The Indian financial system is characterized by its two major segments, viz., an organized sector and a traditional sector (informal credit market).

Financial Institutions

It can be classified as banking and non-banking institutions. The RBI as the main regulator of credit is the apex institutions in the financial system. Other important financial institutions are the Commercial banks (in the Public and Private sector), Co-operative banks, Regional Rural Banks and Development Banks.

Food credit by banks

It indicates bank credit to Food Corporation of India, State governments and State cooperative agencies for food procurement.

Gilt edged Securities:

The securities which are issued by the Central government, State government and local self government are called Government or Gilt edged securities and securities that are issued by the industrial enterprises are called industrial securities.

Gross NPA Vrs Net NPA:

Net NPAs are obtained from Gross NPAs after deduction of the following:

(i) balance in interest suspense account, i.e., interest due but not received

(ii) claims received from credit guarantors and kept in suspense account pending adjustment (for final settlement)

(iii) part payment received and kept in suspense account

(iv) total provisions held

Intermediation cost

This is equal to “total operating expenses”.

Lead Banking, Service Area Approach and Action Plans

Over time, various approaches, schemes or institutional arrangements have been evolved to guide and monitor the overall development of banks in general and social banking in particular. The lead Bank Scheme (LBS), the Service Area Approach (SAA), and the Action Plans (APs), are some of these approaches.

Lead Bank Scheme

Under this scheme, districts were assigned to individual commercial banks, which were entrusted with the responsibility of estimating the deposit potential and the credit gaps, so that steps could be taken to fill the credit gaps through a phased programme of action (RBI: 2004)

The Lead Bank Scheme was introduced by the RBI in December 1969 with the following objectives: (a) to survey the potential for banking, industrial, and agricultural development in a given area, mostly a district, (b) to mobilize deposits on a massive scale, (c) to increase lending, on reasonable terms to the weaker sections of the society, along with the underdeveloped sectors and areas in the economy, (d) to make banks one of the key instruments in local development, (e) to expand the network of bank branches in unbanked and underbanked areas in a planned manner so that greater regional balance is achieved in banking development, (f) to prepare District Credit Plans (DCPs) for the lead districts and (g) to enhance the proportion of bank finance to the priority sectors.

Under this scheme, a given bank is entrusted with the responsibility of (a) locating growth centers, (b) assessing deposit potential, (c) identifying functional and territorial credit gaps, and (d) evolving co-ordinated programmes of credit deployment in each district assigned to it, with the help of other banks and credit agencies.

Since August 1976, the lead banks are required to assume leadership in formulating district credit plans which are the blueprints for action by banks and other financial institutions to bring about overall development of the district. The lead banks, therefore, are an important agency in the institutional arrangements for credit planning- district, regional and national. The RBI has allotted all the districts, except metropolitan cities to nationalized banks and each of these banks has been designated a lead bank for the districts allotted to it. The LBS covered 458 districts at the end of June 1990, 512 districts at the end-March 1996, and 582 districts as at end-March 2003.

Loss Assets:

A loss asset is one where loss has been identified by the bank of international or external auditors or the RBI inspection but the amount has not been written off, wholly or partly. In other words, such an asset is considered uncollectable and of such little value that its continuance as a bankable assets is not warranted although there may be some salvage or recovery value.

Margins

The loan made by a bank against a given security is always less than the value of that security. This difference is known as a “margin”. The extent of margin differs from security to security; the major principles which determine it are marketability, ascertainability of value, stability of value, and transferability of title of the security.

Certain margin requirements which are in vogue in India are: (a) gold bullion-10 per cent; (b) gold ornaments-20 to 30 per cent; (c) government and other trustee securities- 10 per cent; (d) ordinary shares- 40 to 50 per cent; (e) preference shares- 25 per cent; (f) debentures-15 to 20 per cent; (g) life policies-90 per cent of surrender value; (h) commodities- 25 to 50 per cent; (i) immovable property-50 per cent.

Merchant Banking

Merchant bankers are financial intermediaries between entrepreneurs on the one end and investors on the other. Merchant banking includes a wide range of services. A merchant banker may act as advisor, under-writer and manager for public issues, and also provide bridge loans against these issues. While certifying a project, the merchant banker is expected to ensure that full and accurate disclosures are made in the prospectus and the letter of offer to the public, that the viability of the project has been assessed properly, that under-writers have the capacity to stand by their commitments, etc. From the beginning of 1993, merchant banking has been statutorily brought under the regulatory framework of the Securities Exchange Board of India (SEBI) to ensure greater transparency in the operation of merchant bankers and make them accountable.

Micro Finance

The micro finance approach or tool has emerged as an important development in banking for channelising credit for poverty alleviation directly and effectively. The RBI has issued comprehensive guidelines to banks in February 2000 for promoting the system of micro credit, and for enhancing the outreach of the suppliers of micro credit. The micro credit extended by banks to individual borrowers directly or through any agency is regarded as a part of banks' priority sector loans. The Self-Help Group (SHG)-Banks linkage programme is the major programme, which is implemented by commercial banks now for increasing the volume and outreach of micro credit.

Net bank credit to government

It is the sum of net RBI credit to the government and other banks' credit to government sector.

Net RBI credit to government

It is the sum of net claims of the RBI on the Union and state governments as the central bank is banker to the governments. The net RBI credit to the government is the sum of loans and advances from the RBI to the government and the RBI's holdings of Treasury Bills, dated securities, rupee coins and small coins net of the Centre's cash balances. Dated securities of the Central Government include, marketable securities, special securities, special non-interest bearing securities and gold bonds. The provisions governing the loans and advances to the Centre were changed from time to time.

Net RBI credit to the state governments

It comprises its loans and advances to state governments net of their deposit balances with the central bank.

Net interest margin

It is the total interest earned minus total interest paid

Non-bank financial institutions

It includes Life Insurance Corporations, Unit Trust of India, Mutual Funds, Post office etc.

Non-Performing Assets

Assets can be 'standard' or 'non-performing'. Standard asset is one that does not disclose any problems and which does not carry more than normal risk attached to the business. Standard Assets are defined as credit facilities with respect to some of which interest on principal or both are paid by due date, and for others, where the amount due is paid within thirty days of due date.

An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank. A 'non-performing asset' (NPA) is defined as a credit facility in respect of *which the interest and/or installment of principal has remained 'past due' for a specified period of time. An amount due under any credit facility is treated as "past due" when it has not been paid within 30 days from the due date.*

With effect from March 31, 2001, 'overdue' concept is to be used instead of 'past due' for classifying an asset. With a view to moving towards international best practices and to ensure greater transparency, it has been decided to adopt the *'90 days' overdue norm for identification of NPAs, from the year ending March 31, 2004*

Non-Performing Assets is further classified into:

-Substandard Assets

-Doubtful Assets

-Loss Assets

Open Market Operations

The term 'open market operations' stands for the purchase and sale of government securities by the RBI from/to the public and banks on its own account. In its capacity as the government's banker and as the manager of public debt, the RBI buys all the unsold stock of new government loans at the end of the subscription period and thereafter keeps them on sale in the market on its own account. Such purchases of government securities by the RBI are not genuine market purchases, but constitute only an internal arrangement between the government and the RBI whereby the new government loans are sold 'on tap', not directly by the government, but through the RBI as its agent.

Operating profit

This is defined as total earnings minus total expenses, excluding provisions and contingencies.

Other banks credit to government

It represent the total of commercial and co-operative banks' investments in government securities, including Treasury bills.

Return on equity = net profit / [average(capital + reserves & surplus, not adjusted for accumulated loss)]

Return on advances = (Interest / Discount earned on advances/bills)/ (Average Advances)

Return on investment = Interest earned on investments / (Average Investments)

Retail Banking

It refers to the dealing of commercial banks with individual customers, both on liabilities and assets sides of the balance sheet (Shyamlal, 2005). In the liabilities aspect fixed, current/savings accounts are taken into account while mortgages, loans (e.g., personal, housing, auto and educational) on the assets side, are the more important of the products offered by banks are considered in the asset side. In addition, related ancillary services include credit cards, or depository services. Broadly, retail banking sector is characterized by three basic characteristics:

- Multiple products (deposits, credit cards, insurance, investments and securities);
- Multiple channels of distribution (call centre, branch, internet and kiosk); and
- Multiple customer groups (consumer, small business, and corporate).

Retail Banking in India

Some of the major typical products offered in the Indian retail banking segment include housing loans, consumption loans for purchase of durables, auto loans, credit cards and educational loans (shyamlal, 2005).

Reserve Money

Reserve Money indicates the monetary liabilities of the RBI and the Government of India to public including banks in India. The reserve money, or currency and notes, is held by public and banks in their currency chests and as deposits with RBI. It also includes 'other deposits' with RBI.

Service Area Approach (SAA)

The Reserve Bank of India introduced a new strategy of rural lending in the form of SAA as part of the Lead Bank Schemes and it becomes operational on April 1, 1989. Under this approach, each rural and semi-urban bank branches including RRBs is assigned specific areas within which it will operate, adopting a planned approach to its growth.

The basic objective of SAA is to *improve the quality of rural lending*, i.e., to make rural lending more purposeful and productive so that it results in higher income levels in rural areas. The service areas of each branch normally comprises 15 to 20 villages. After carrying out surveys of villages in respect of potential for lending, the identified branches prepare integrated annual credit plans for the villages that lie in their respective service areas. The annual branch credit plans are aggregated into block credit plans which, in turn, are aggregated into DCPs to achieve coordination on an ongoing basis for the effective implementation of the plans. The system to monitor continuously the progress in implementation of SAA also has been created.

Statutory Liquidity Ratio:

This represents the ratio at which banks are required to invest in approved securities. It was originally devised as a prudential measure but latter on adopted as the main investment pre-emption of bank resources especially during the pre-reforms period. Nevertheless, it is considered as tool for monetary control by the RBI.

Sub-Standard Assets

Sub-standard asset is one which has been classified as NPA for a period not exceeding two years. With effect from 31 March 2001, a sub-standard asset is one, which has remained NPA for a period of less than or equal to 18 months. In such cases, the current net worth of the borrower/guarantor or the current market value of the security charged in not enough to ensure full recovery of the dues to the bank in full. In other words, such an asset will have well defined credit weaknesses that jeopardize the liquidation of the debt and are characterized by the distinct possibility that bank will sustain some loss, if deficiencies are not corrected.

Wage bills

It is defined as "payments to and provisions for employees".