CHAPTER 3

OPERATIONAL PERFORMANCE OF COMMERCIAL BANKS IN INDIA

Economic growth of any country depends on the savings and investment made by its people. This growth is reflected through rise in per capita income. Economic growth is associated with so many factors like technology, socio-cultural factors, psychological factors and attitudes of the people. Economic growth implies a long term rise in per capita national output and whatever the pattern of growth, the basic conditions determining the rate of growth are three, viz., Effort, Capital and Knowledge.[36] Capital is an essential input for production and it is a means of development.

The capital formation involves three distinct interdependent activities viz., savings, finance and investment.[37] Financial System is an organized mechanism which performs the activities of savings, finance and investment in a systematic way. They are important organs of the Indian financial system whose role is commendable in capital formation.

Financial Institutions perform the intermediation between savers and investors by arranging excess funds from the savers to the investors. The broad classification of financial institutions is shown in Fig.3.1.

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[36] Srivastava R.M and Divya Nigam, Management of Indian Financial Institutions, Himalaya Publishing House, Mumbai, 2001. pp. 6

[37] Ibid, pp.7

CLASSIFICATION OF FINANCIAL INSTITUTIONS

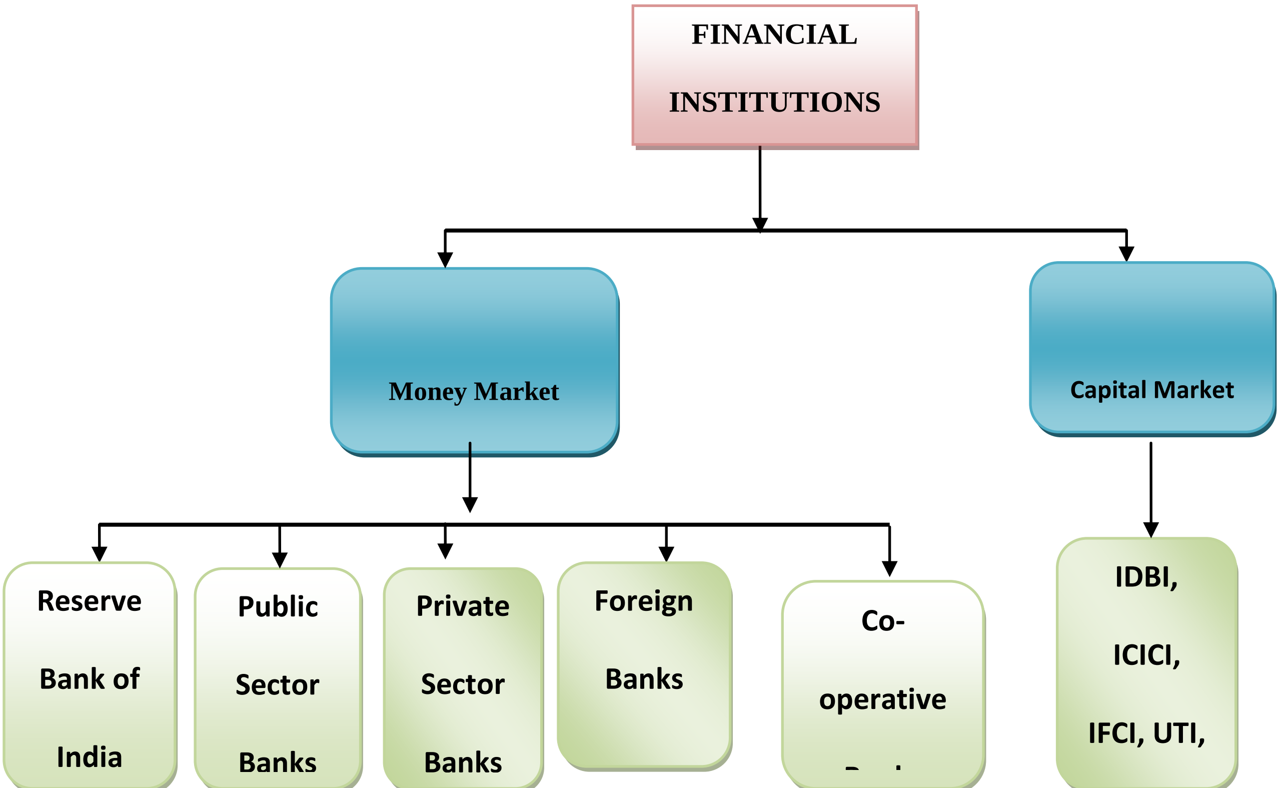

Figure.3.1

3.1 BANKING IN THE PRE-INDEPENDENCE PERIOD

The banking in India has its origin from Vedic times. Rina (debt) is often mentioned in Rigveda. According to the Central Banking Enquiry Committee (1931), money lending activity in India traced back to the Vedic Period, i.e., 2000 to 1400 BC. The existence of professional banking in India could be traced back to the 500 BC. Kautilya’s Arthasastra, dating back to 400 BC contained references of creditors, lender and lending rates.

Mr.W.E.Preston, member, Royal Commission on Indian Currency and Finance set up in 1926 observed “… it may be accepted that a system of banking that was eminently suited to India's then requirements was in force in that country many centuries before the science of banking became an accomplished fact in England".[38] Aryans treated money lending as one of the four honest callings, the other three being "tillage, trading and harvesting. In Sutra period (Seventh to Second century of B.C), Jatakas (Buddist writings) had a mention of money lending.

During 2nd to 5th centuries of A.D., the money lending was considered as most important for economic development. The Kings followed the Kautilya's Arthasastra to regulate the interest rates and laid down rules for creditors and debtors. The laws of Manu were also conferred wide powers on the creditors for the recovery of debts. During this period, money lenders were well controlled and regulated.

During 6th to 16th centuries, no significant changes were taken place in the indigenous banking. During Moghul period, indigenous banking was very popular. These bankers were very much affected with the passage of political power to Britishers. The first joint stock bank was Bank of Bombay, established in 1720 in Bombay. Bank of Hindustan in Calcutta followed this in 1770.[39]

In 18th Century, three Presidency banks, Bank of Bengal (1806), Bank of Bombay (1840) and Bank of Madras (1843) were established,[40] as the existing banks were not sufficient to meet the needs of the country. These banks performed the functions of Central Bank till their amalgamation into Imperial Bank of India in 1921[41]. The first

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[38] Evolution of Banking in India, Chapter III, Report on Currency and Finance 2006-08 Vol.4, pp.1, www.rbi.org.in
[39] H.C.Agarwal, Banking Law and Practice, op. cit., pp. 3-4
[40] Evolution of Banking in India, Chapter III, Report on Currency and Finance, op. cit., pp.75-76
[41] The name of Imperial Bank of India was suggested by Lord John Maynard Keynes quoted in Report on Currency on Finance 2006-08 Vol.4 pp.78

entirely Indian joint stock bank was the Oudh Commercial Bank, established in 1881 in Faizabad. It was defunct in 1958.[42] The first Indian bank was the Allahabad bank, set up in 1865 followed by Punjab National Bank in 1895 and Bank of India in 1906. Many more Indian Joint Stock banks were established in India due to Swadeshi Movement.

A new era was started in the history of banking with the establishment of Reserve Bank of India in 1935. The RBI is the central bank of the country and has given vested powers to regulate, control and develop the banking in the country. The banking development from 1870 to 1935 is shown in the following table.

Number of Banks and Deposits of Banks in India from 1870 To 1935

(Rupees in Crores)

Year end of December	Number of Banks	Deposits
1870	8	1263*
1880	10	1543 *
1890	13	2861 *
1900	20	3427 *
1910	30	8699 *
1920	76	23458*
1926	95	215
1929	98	212
1932	106	225
1935	124	245

(Report on Currency and Finance, 2006-08 Vol.4)
(* Amount in Lakhs)

Table 3.1

Table 3.1 highlights the number of banks and deposits of banks from 1870 to 1935. Number of banks had increased gradually from 8 to 124 during the above period.

[42] Http:/en.wikipedia.org/wiki/banking in India.

Their deposits had also grown significantly and reached to Rs.245 crores during the same period.

3.2 BANKING IN THE EARLY YEARS OF INDEPENDENCE

At the time of independence, Indian Banking was entirely in the private sector. The Reserve Bank of India was also not completely state owned bank till 1948. Independence has brought many changes in all the spheres of economic activity and banking is not an exception for this.

On the eve of independence, the banking system was surrounded by several difficulties as noted by the then Governor C.D.Deshmukh: "The difficulty of the task of the Reserve Bank of India in dealing with the banking system in the country does not lie in the multiplicity of banking units alone. It is aggravated by its diversity and range. There can be no standard treatment in practice although in theory the same law governs all".[43]

Number of Banks and Deposits of Banks in India as at December 1947

(End of December 1947)
(Rupees in Crores)

Category of Banks	Number of banks	Deposits
Scheduled Banks	97	1090 (86.43%)
Non-Scheduled Banks	557	89 (6%)
Co-operative Banks	395	82 (7%)
Total	1034	1261

(Source: Report on Currency and Finance 2003-08 Vol.4)

Table No.3.2

Table 3.2 highlights the banking scenario in India at the time of independence. As per the data, non-scheduled commercial banks (557) outnumbered the scheduled

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[43] Evolution of Banking in India, Chapter III, Report on Currency and Finance, 2003-08 Vol4 pp.85

commercial banks (97). However, deposits of scheduled commercial banks constituted nearly 87 per cent of the total deposits and the share of non-scheduled banks was merely 6 per cent. Hence, it is inferred that despite of their number, scheduled commercial banks dominated the banking industry by capturing the lion's share of business at the time of independence. Many banks were failed after independence due to partition of the country. The first task before the RBI after independence was to build a sound banking base in the country in order to achieve planned economic development. Prior to independence, the role of commercial banks in India was remained confined to providing vehicle for the community's savings and attending to the credit needs of only certain selected and limited segments of the economy.[44]

Banking Regulation Act 1949 conferred on the RBI the wide powers for banking supervision as the central banking authority of the country. The Act aims at protecting the interests of the depositors and covered various aspects like organization and management, audit and supervision of banking companies. To create confidence among the public, RBI weeded out several weak banks through amalgamation or liquidation between 1954 and 1966. In order to ensure the safety of deposits of small depositors, the Deposit Insurance Corporation Act, 1961 was enacted in January 1962.[45]

The State Bank of India, the flagship of Indian Banking, was established on 1st July 1955 by acquiring the assets and liabilities of Imperial bank of India.[46] The objective of nationalization of Imperial Bank was to extend the banking facilities on a large scale, particularly in the rural and semi-urban areas and also to shift its focus from

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[44] Srivastava R.M. and Divya Nigam, op. cit., pp.75
[45] Evolution of Banking in India, Report on Currency and Finance, op. cit., pp.88-89
[46] Agarwal H.C., op. cit., pp.25

‘credit worthiness’ to ‘purpose worthiness’. At the moment, SBI is the oldest and the largest commercial bank in the country. A new branch licensing policy was designed in May 1962 to address the issue of expansion of banking facilities in unbanked areas by examining the data on population per bank office.

Agriculture Refinance Corporation (ARC) was set up in 1963 to refinance Central Land Mortgage Banks, State Co-operative Banks and Scheduled Commercial Banks. In 1964, ceiling on interest rates on both deposits and advances was imposed to avoid unhealthy competition in the sector. Credit Authorization scheme was introduced in 1965 to control credit flow to the big borrowers. Under this scheme, banks have to take prior permission of RBI to sanction any fresh working capital limits above the prescribed norms.

Table 3.3 highlights the branch expansion of commercial banks from 1952 to 1967. The branches are almost doubled in rural, semi-urban and urban areas during the above period. The branch expansion varied between 13.1 per cent and 17.9 per cent in rural areas. The same has been varied between 43.3 per cent and 50 per cent in semi-urban areas and 33.5 per cent and 38.9 per cent in urban areas.

Branch Expansion of Commercial Banks from 1952 to 1967

Year End of December	Rural	Semi-urban	Urban	Total
1952	540 (13.3)	1942 (47.8)	1451 (35.7)	4061*
1960	831 (16.5)	2513 (50.0)	1633 (33.5)	5026
1965	801 (13.1)	2836 (46.2)	2354 (38.4)	6133**
1967	1247 (17.9)	3022 (43.3)	2716 (38.9)	6985

*: 128 branches were unclassified

**142 branches were unclassified.

Note: Figures in parentheses are percentage to total.

(Source: Report on Currency and Finance, 2006-08 Volume 4)

(Table 3.3)

The population per office declined from 136000 in 1951 to 92000 in 1960 and further to 65000 in 1967. However, the pattern of branch expansion remains unchanged and credit to agriculture also increased by merely 0.1 per cent between 1951 and 1967 and in contrast to this, credit to industries increased from 34 per cent in 1951 to 64.3 per cent in 1967.[47]

[47] Evolution of banking in India, Report on Currency and Finance, op. cit. , p.p.94

3.3 BANKING IN THE PRE-REFORMS PERIOD (1967- 1990)

The concept of social control over banks was introduced in December 1967 through Banking Laws (Amendment Act) 1968 which came into force on 1st February1969. This Act conferred on RBI the vested powers in controlling the affairs of the banks. The social control on banks intended to prevent misuse of credit and to direct the flow of credit to the hitherto neglected sections of the society. This measure also aims at imposition of certain restrictions on grant of loans by banks and giving professional bent to bank management.[48] In this direction, National Credit Council (NCC) was set up in 1968 to assist the RBI to allocate the bank credit to various sectors of the economy. NCC emphasized the need for increased credit flow to priority sectors by commercial banks. To enhance the credit flow to the neglected sectors of society, Government of India nationalized 14 major commercial banks whose deposits exceeded Rs.50 crore by an ordinance in 1969. This was a remarkable event in the history of Indian Banking. Nationalization has brought a sea change in the banking operations. It was aimed at expansion of bank branches and to provide access to formal finance to the needy sectors. This objective was visualized by introducing the 'Lead Bank Scheme' in 1969.

Credit Guarantee Corporation was established in 1971, to reduce the risk in lending to the small borrowers. Differential Rate of Interest scheme was instituted in 1972 to provide cheaper credit to certain sections of the society. The definition of priority sectors was formalized in the same year. Export Credit was included in priority sector lending in 1973 and District Credit Plans were initiated to make more focused

[48] Shekhar K.C, Lekshmy Shekhar, Banking Theory and Practice, Vikas Publishing House, New Delhi,2008 pp.189.

lending at village, block and district levels. In addition to this, a minimum lending rate was prescribed on all loans except for the priority sector.

In 1974, targets were imposed on commercial banks to reach a level of 1/3 of the outstanding credit to priority sector by March 1979. The above measures had a positive impact on agriculture loans and the share of agricultural credit in total bank credit increased from 2.2 percent in 1967 to 9.1 per cent in 1974-75.[49] To make a focused lending to agriculture, Regional Rural Banks were set up in 1975 with the objective of liquidation of rural indebtedness. Tandon Committee was set up by RBI to review the issues relating to credit to industry. The Committee suggested three methods of lending to industries. The first method[50] of lending had been introduced in order to reduce dependence of the corporates on short term borrowings from banks. Second method of lending[51] also has been introduced in 1980. RBI prescribed maximum lending rate on bank loans in 1976 in addition to minimum lending rate.

In 1978, targets for priority sector lending were imposed on private banks also on par with public sector banks. In addition to this, a sub target of 10 per cent for weaker sections was fixed within the overall target of priority sector. RBI directed the commercial banks and RRBs to charge a flat rate of interest of 9 per cent on all priority sector advances irrespective of the size of the loans.

In 1980, six commercial banks whose demand and time liabilities exceed Rs.200 crore were nationalized in order to give a further impetus to the priority sector lending.

[49] Evolution of Banking in India, Report on Currency and Finance 2006-08, Vol.4. pp.100
[50] Method I: 25 per cent of the working capital gap i.e. ., difference between current assets and current liabilities excluding bank finance to be funded from long term resources.
[51] Method II: 25 per cent of current assets to be funded from long term resources. The remaining 75 per cent of current assets less current liabilities to be funded by bank finance.

Banking Regulation Act was amended in 1984 to permit banks to diversify their activities which help in raising their profitability. Health Code System was introduced in 1985 in order to strengthen the capital base of the banks.

An important development in priority sector lending was the introduction of Service Area Approach in 1988. Due to implementation of Agricultural and Rural Debt Relief Scheme in 1990, the profitability of the banks was very much affected. The cash reserve ratio was gradually raised from 5.0 per cent in June 1973 to 15.0 per cent by July 1989 and SLR was raised from 26 per cent in February 1970 to 38.5 per cent in September 1990.[52]

By the end of 1990, ninety per cent of the commercial banks were in the public sector and closely regulated by RBI in all its facets. Profitability and efficiency was almost at its low and the banks ended up consolidating their losses rather than profits.[53]

According to Dr.Rangarajan, "the Indian financial system in the pre-reform period, i.e., up to the end of 1980s, essentially catered to the needs of planned development in a mixed economy framework where the government sector had a domineering role in economic activity. The strategy of planned economic development required huge development expenditures. This has met through the dominance of government ownership of banks, automatic monetization of fiscal deficit and subjecting the banking sector to large pre-emptions – both in terms of the statutory holding of Government securities (statutory liquidity ratio or SLR) and administrative direction of credit to preferred sectors.[54]

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[52] Evolution of Banking in India, Report on Currency and Finance 2006-08, op. cit., pp-107.
[53] .Srivastava R.M. and Divya Nigam, op. cit., pp-78
[54] Dr.Rangarajan C, The Indian Banking System : Challenges Ahead, The Journal of Indian Institute of Banking and Finance, July – September 2007, pp.73

Table 3.4 summarizes the branch expansion of commercial banks from 1969 to 1990.

Branch expansion of Commercial Banks from 1969 to 1990

Year end	Rural Centres	Semi-Urban Centres	Urban Centres	Metropolitan Centres/Port Towns	Total	Population per branch
June 1969	1443 (17.6)	3337 (40.8)	1911 (23.3)	1496 (18.3)	8187	65000
Dec 1975	6807 (36.3)	5598 (29.9)	3489 (18.6)	2836 (15.1)	18730	31660
Dec 1980	15105 (46.6)	8122 (25.1)	5178 (16.0)	4014 (12.4)	32419	20481
Dec 1985	30185 (58.7)	9816 (19.1)	6578 (12.8)	4806 (9.4)	51385	14381
Dec 1990	34791 (58.2)	11324 (19.0)	8042 (13.5)	5595 (9.4)	59752	13750

(Note: Figures in parentheses are percentage shares in total)

(Source: Report on Currency and Finance 2006-08, Vol.4)

Table: 3.4

Data indicates that bank branches in rural areas had grown from 1443 in 1969 to 34791in 1990. Share of rural branches increased from 17.6 per cent to 58.2 per cent during the same period implying that nearly 60 per cent of the bank branches were situated in rural areas by the end of 1990. The share of semi-urban, urban and metropolitan branches was gradually reduced though the number of branches increased during the reference period. Branch expansion has shown its impact on gradual reduction of population per branch also.

3.4 BANKING IN THE POST-REFORMS DECADE (1991 TO 2000)

Due to deterioration in the health of banking system in the country, the Government of India constituted a High Power Committee [55] in 1991 (Chairman : Sri.M.Narasimham) to study the various aspects relating to the structure, organization, functions and problems of the financial system in the country. The Committee appreciated the branch expansion and had shown concern on the deteriorating health of the banking sector.

The Committee gave several recommendations on directed investments, directed credit, interest rate structure and autonomy of banks etc., to improve the health of the banking system in the country. Government of India accepted some of the recommendations and these recommendations are popularly known as banking sector reforms.

As a first step to correct the health of the banks, prudential norms relating to income recognition, asset classification, provisioning and capital adequacy were

[55] Report of Narasimham Committee, www.rbi.org.in

introduced in 1992 as per the international standards. Capital to risk weighted assets ratio (CRAR) was also implemented for banks in order to strengthen their capital base. Further, they were also brought under the Asset Liability Management system. Commercial banks were advised to use Lok Adalats to settle the dues and The Recovery of Debts Due to Banks and Financial Institutions Act was enacted in 1993 which paves the way for easy recovery of loans. In this context, Five Debt recovery tribunals were set up immediately. Cash Reserve Ratio (CRR) and Statutory Liquid Ratio (SLR) were gradually reduced in a phased manner and interest rates were deregulated to improve the profitability of the banks. The scope of priority sector was also enlarged to make the priority sector lending more flexible.

In order to infuse competition in the banking sector, RBI permitted the entry of private sector banks in 1993 and adopted a liberalized policy in branch licensing. Apart from prudential norms, customer service was also considered important. In order to provide a speedy and less expensive resolution of customer grievances against deficiency in banking services, RBI announced Banking Ombudsman Scheme in June 1995. Rural Infrastructure Development Fund was created during 1995-96 where in public and private sector banks have to deposit their shortfalls in lending to priority sector or to agriculture.

3.4.1 Narasimham Report on Banking Sector Reforms -1998

The Government appointed Banking Sector Reforms Committee[56] (Chairman Sri.Narasimham) in 1998, to review the banking reforms progress and to design a program for further strengthening the financial system of India. The Committee focused on various areas such as capital adequacy, bank mergers, bank legislation, etc. The report

[56] Narasimham Committee Report, www.rbi.org.

was submitted to the Government in April 1998. They recommended for strengthening of banks, narrow banking, capital adequacy, bank ownership, review of banking laws etc. Apart from these major recommendations, the Committee also recommended faster computerization, technology up gradation, training of staff, depoliticizing of banks, professionalism in banking, reviewing bank recruitment, etc. Following these recommendations, RBI has further strengthened the prudential norms relating to income recognition, asset classification and provisioning etc. Banks have become risk averse due to tight regulation and pressure from RBI to reduce non-performing assets. This has resulted in reduced credit flow to various sectors between 1996-97 and 2003-04.[57] However, the asset quality of the banks began to improve.

3.5. BANKING DURING 2001 TO 2011

The growing non-performing assets of public sector banks have become a concern for the government and the present structure of recovery management has failed in reducing the level of non-performing assets. In the Union budget 2000-01, Government of India announced setting up of seven more Debt Recovery Tribunals (DRTs), strengthening the infrastructure of DRTs and amendment to the Recovery of Debts Due to Banks and Financial Institutions Act.[58]

It is proposed to issue an updated Master Circular on select subjects at the beginning of each year. RBI permitted to establish a Credit Information Bureau in India to facilitate reduction in NPAs. RBI modified the structure of Deposit Insurance in India.

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[57] Evolution of Banking in India, Report on Currency and Finance 2006-08, Vol.4 pp.121
[58] Trends and progress of Banking in 1999-2000, www.rbi.org.in

Another important event that took place in Indian banking industry was the entry of new private sector banks. RBI had issued new guidelines in January 2001 for the entry of new private sector banks[59] to intensify competition among banks. Many Public Sector Banks had announced Voluntary Retirement Scheme during this year due to surplus man power.

As per the Reserve Bank of India (RBI) norms, the unsecured portion of the advances of banks should not exceed 15 per cent of their total outstanding advances. However, RBI advised banks in 2002 to exclude the advances to SHGs for the purpose of computing unsecured advances as per prudential norms.[60] The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 was introduced to facilitate the realization of dues without the intervention of courts or tribunals.

RBI introduced bench mark prime lending rate in 2003-04 for ensuring transparency and for reducing the complexity involved in pricing of loans. It has also issued comprehensive guidelines on Know Your Customer (KYC) norms in November 2004.

In order to give support to the industrialists in times of financial distress, a Corporate Debt Restructuring Mechanism (CDRM) was developed in August 2001. Based on the recommendations of the special Group (Chairperson: Smt.S.Gopinath) constituted in September 2004 to review the scheme on CDRM, fresh guidelines were prepared and issued to all commercial banks and financial institutions in November 2005.

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[59] Trends and Progress of Banking in 2000-01, www.rbi.org.in
[60] Trends and progress of Banking 2002-03, www.rbi.org.in

RBI, in its annual policy statement for the year 2005-06, urged the banks to review their existing practices to align them with the objective of **financial inclusion**.[61] In this direction, in November 2005, RBI advised the banks to open no-frills account with low or minimum balance to give access to the poor to the formal financial institutions. This is another major event in the history of banking because the government understood that mere targets for priority sector lending are of no use to develop the nation and financial inclusion is the panacea for poverty combined with indebtedness of the vast sections of the society.

RBI in its mid-term review of annual policy for the year 2006-07[62] announced that the definition of small scale industry and micro and small enterprises engaged in providing or rendering services has been modified for the purpose of priority sector lending.

Based on the recommendations of the Working Group to review export credit (Chairman: Shri A.Sinha), RBI advised scheduled commercial banks in 2006 to review their existing procedure for export credit, Gold Card Scheme(GCS), export credit for non-star exporters and certain other aspects.

As a part of the financial inclusion programme, the account opening procedure for small accounts was simplified. As per the new guidelines, banks need to take only a photograph and self-declaration of address by the customer for opening small accounts.

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[61] Financial inclusion refers to the delivery of financial services to the masses and the vast sections of the disadvantaged and low income groups.

[62] Trends and Progress of banking in India 2005-06, www.rbi.org.in

A significant development during 2006-07 was the legislative amendments in the RBI Act 1934 and the Banking Regulation Act, 1949. These amendments increased the flexibility of RBI to control the banking activities.[63] RBI advised the conveners of State Level Bankers Committees/ Union Territory Level Bankers Committees on April 28, 2006 in all the states to implement a pilot project in select districts for achieving 100 per cent financial inclusion by providing 'no-frills' accounts and issue General purpose credit cards.

Priority sector lending norms were modified from 2007. As per the new guidelines, loans to priority sectors by domestic and foreign banks should be 40 per cent and 32 per cent respectively of Annual Net Bank Credit (ANBC) or credit equivalent amount to off balance sheet exposure whichever is higher, as on March 31st of the previous year. Credit limits for various categories under the priority sector were also revised during this year.

As per the announcement made in the Annual Policy statement for the year 2008-09, RBI advised banks in May 2008 to classify overdrafts up to Rs.25,000 (per account) against 'no-frills' accounts in the rural and semi-urban areas as indirect finance to the agriculture sector under the priority sector advances with immediate effect. Banks were also permitted to engage retired bank employees, ex-servicemen and business correspondents (BCs) with effect from April 24, 2008 subject to due diligence.[64] The eligibility criteria for loans under Differential Rate of Interest scheme was revised in April 2008.

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[63] Trends and progress of Banking in India 2006-07, www.rbi.org.in

[64] Report on Trends and Progress of banking in India 2007-08

In August 2008, Section 25 companies are permitted to act as Business Correspondents and the scope was further enlarged following the recommendations of the Working Group to review the Business Correspondent model.

During the year 2008-09, loans to Housing Financing Companies (HFCs) were included within the purview of priority sector loans with a maximum limit of Rs.20 lakhs per dwelling unit per family. The eligibility is restricted to five per cent of the individual bank's total priority sector lending, on an ongoing basis. This special dispensation shall apply to loans granted by banks to HFCs up to March 31, 2010[65]. Procedure for granting agriculture and allied activities loans was also simplified.

Further, RBI advised the commercial banks to include the amounts of shortfall in lending to weaker sections also for the purpose of allocating amounts to Rural Infrastructure Development Fund or funds with other Financial Institutions, as specified by the Reserve Bank, with effect from April 2009.

RBI also advised the banks in August 2009 to issue collateral free loans up to Rs.5 lakh for the Micro and Small Enterprises (MSE) sector. The Union Budget for 2009-10 provided for a special fund worth Rs.4,000 crore to Small Industries Development Bank of India (SIDBI) to facilitate the flow of credit at reasonable rates to MSE sector. The Government of India extended interest rate subvention of 2 percentage points with effect from December 1, 2008 till March 31, 2009 on pre- and post-shipment rupee export credit, for certain employment oriented export sectors. Under IT enabled financial inclusion, RBI decided to partially reimburse the cost of opening accounts with

[65] Trends and Progress of banking in India 2008-09:

bio-metric access at the rate of Rs.50 per account for a limited period to route the social benefits through these accounts.

All commercial banks in India excluding Regional Rural Banks and Local Area Banks have become Basel II compliant as on March 31, 2009. Banking Ombudsman Scheme was also revised to provide better service to the customers. Cash withdrawal from Automated Teller Machines (ATMs) of the banks was made free of charge with effect from April 1, 2009. RTGS was modified to make the electronic financial transactions more efficient. During the year, most of the banks have migrated to cost saving Multiprotocol Label Switching (MPLS) technology.

Base Rate was introduced with effect from July1, 2010 following the recommendations of the Working Group on Bench mark Prime Lending Rate (BPLR).[66]

RBI permitted ‘For profit’ companies also as business correspondents excluding non-banking finance companies. Further, it advised banks to draw a roadmap to provide banking services through a banking outlet in every village having population of over 2000 by March 2011.

Know Your Customer (KYC) norms have been further simplified to give further impetus to financial inclusion. Adhar cards or Job cards issued under NREAGA scheme can be used as the basis for identification of the customer for opening no-frills accounts. It was further applicable for opening of all accounts vide circular dated 28 September 2011.

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[66] Report on Trend on Progress of Banking in India 2009-10, www.rbi.org.in

All Commercial banks in India completed migration to the basic approaches of Basel II. A central electronic registry has been established under the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act to prevent multiple lending from different banks on the same immovable property. During the year 2010-11, the Reserve Bank took important policy decisions with regard to forming draft guidelines for granting new licenses to private sector banks and release of two major discussion papers regarding the presence of foreign banks and promoting holding company structure for banks. [67] These initiatives were aimed at financial sector development through financial stability.

Computerization of banking operations began in early 1990s and over the years, the use of technology is increased to serve the customer better. Banks have adopted Core Banking System (CBS), use of automated teller machines and interconnectivity of branches, mobile banking, net banking etc. in order to survive in the market and to provide faster and better services to the customer.

Table 3.5 exhibits the number of banks in India from 1936 to 2000. The number has increased from 127 to 737 till 1945.

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[67] Report on Trend on Progress of Banking in India 2009-10, www.rbi.org.in

Number of Banks in India from 1936 to 2000

Year end	Total Banks
1936	127
1940	654
1945	737
1947	656
1950	600
1951	561
1952	529
1960	344
1967	91
1969	85
1980	84
1990	77
2000	101

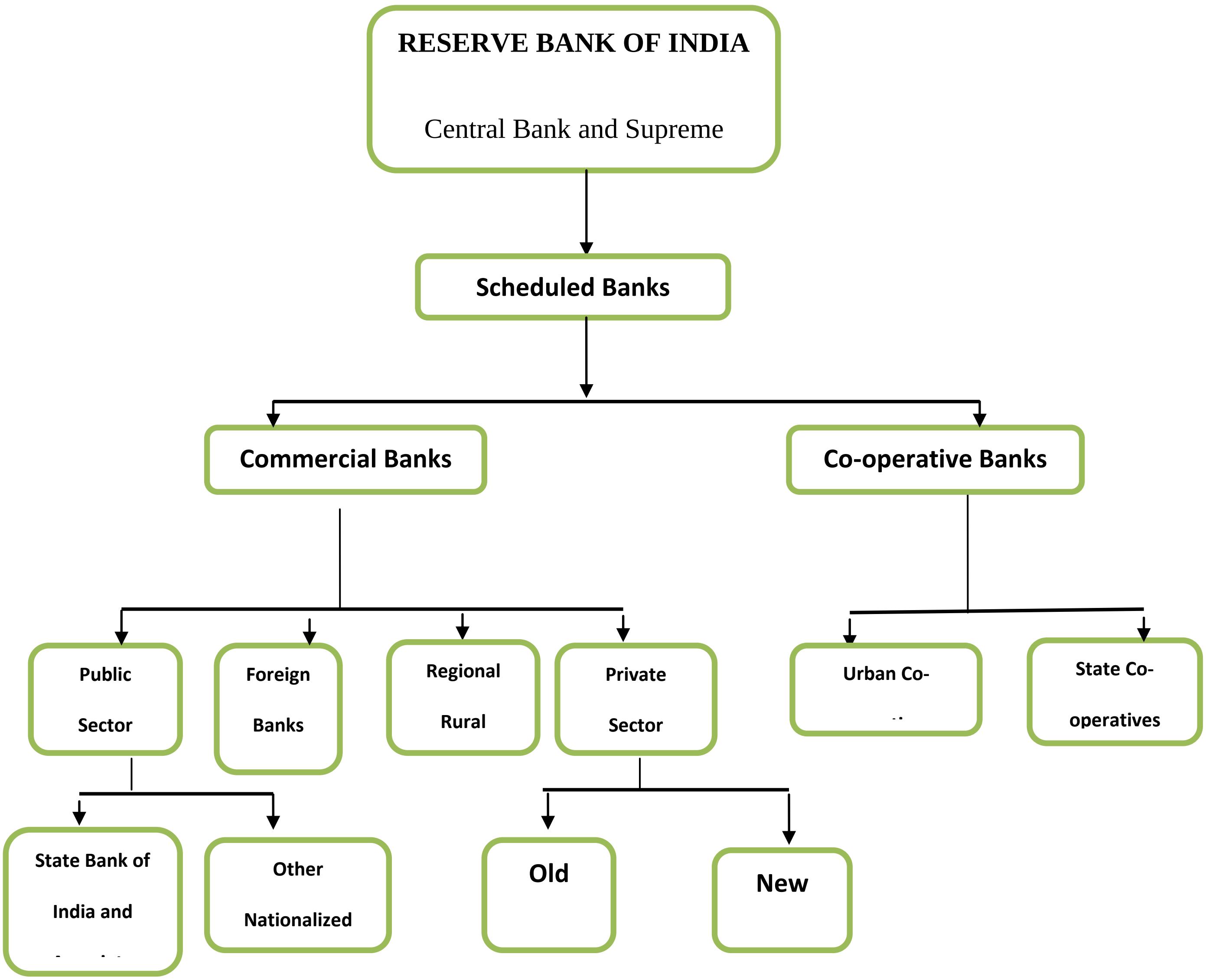
(Source: Report on Currency and Finance 2006-08, Vol.4 pp.141)

Table 3.5

However, they have gradually reduced due to amalgamations or liquidations till 1960. Further, a steep decline has been observed during the period of three decades. (Number of banks reduced from 344 to 77). But, their number has increased to 101 banks by the end of 2000.

Figure: 3.2

STRUCTURE OF THE ORGANISED BANKING SECTOR IN INDIA[68]



[68] www. wikipedia.org.in

Table 3.6 highlights the banking statistics in India from 2002 to 2010. Number of banks has declined from 94 to 77 during the reference period. Yet, an increase is observed in the total number of branches during the above period.

Commercial Banks in India from 2002 to 2010

(Figures as on March 31)

Indicators	2002	2003	2004	2005	2006	2007	2008	2009	2010
Number of Scheduled Commercial banks	94	87	85	84	81	78	75	76	77
Total Branches	68195	68500	69170	70373	71685	74346	78666	82794	87768
Rural	32503	32283	32227	30790	30436	30575	31105	31676	32528
Semi-urban	14962	15135	15288	15325	15811	16620	17897	19213	20771
Urban	11328	11566	11806	11419	13034	14049	15530	16693	18171
Metropolitan	9402	9516	9750	11839	14204	13102	14134	15212	16298
Population per branch office	15000	16000	16000	16000	16000	15000	15000	15000	14000

(Source: Banking Finance, July 2011 pp.42)

Table: 3.6

The branch expansion was insignificant in respect of rural branches. Number of branches was 32503 in 2002 and declined to 30436 by March end 2006. However, they were increased to 32528 by March 2010. On the contrary, a gradual increase has been observed in semi-urban, urban and metropolitan branches during the reference period. The population per branch office reduced to 14000 by March end 2010.

3.6 OPERATIONAL PERFORMANCE OF COMMERCIAL BANKS IN INDIA AND ANDHRA PRADES

3.6.1 Deposits - All India and Andhra Pradesh:

Deposit means a credit to an individual or to a firm[69]. Banks receive deposits in the form of current deposits, savings deposits and fixed deposits. Deposit mobilization is the first and foremost function of any commercial bank. Deposits are the mainstay of bank funds and 98 per cent of bank liabilities constitute deposits. Other activities of banks are mostly dependent on the deposits mobilized by it.[70]

Deposits are the major source of funds and they help the banks to supply the funds to the economic activities. Commercial banks receive deposits which they have to repay according to the promise and make them available to those who really need them. The bank is actually distributing its deposits between borrowers and its own vaults.[71]

As lending and investment operations of a bank are influenced by the magnitude of deposits, their composition and ownership, a banker always thinks of ways and means of increasing deposits. Aggregate deposits include current, savings and fixed deposits. Current, savings and fixed deposits accounted for 12.0 per cent, 25.5 per cent and 62.5 per cent respectively in the total deposits.

'Household' sector with 58.0 per cent share in total deposits was the largest holder of outstanding deposits in India as on March 31, 2010. The share of term deposits in total deposits for the metropolitan areas stood at 70.5 per cent as on March 31, 2010,

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[69] Kanagasabai S, An Economic analysis of priority sector lending under lead bank scheme in the Union Territory of Pondicherry, Ph.D.Thesis, Pondicherry University, Pondicherry, December 1999 pp.23
[70] Agarwal. H.C,(2006), Banking Law and Practice, Swan Publications, Agra, VI edition , p.p.No.7
[71].Shekhar.K.C, Lekshmy Shekhar,(2008), Banking Theory and Practice, Vikas Publishing House Pvt.Ltd, New Delhi, 9th edition, p.p.6

somewhat lower compared to 72.4 per cent of the previous year. Savings deposits accounted for 46.9 per cent and 43.0 per cent share in total deposits of rural and semi-urban areas, respectively, whereas their shares increased for the urban and metropolitan areas during 2009-10. [72]

During the post nationalization period, there was a rapid growth in the banking sector in India which led to increase in volume of deposits also. This is highlighted in table 3.7.

Deposit Scenario in India from 1969 to 2000

(Rupees in crores)

Year	Deposits in India	Growth (as number of times)
June1969	4646	--
March 1979	31438	5.77
March 1999	722203	21.97
March2000	851593	0.18
		183.29

(Source: Table 1.1 Progress of Commercial Banking at a Glance, Basic Statistical Returns of RBI)

Table No.3.7

Deposits of commercial banks in India are exhibited in table No. 3.7 from June 1969 to March 2000. Deposits have grown 5.77 times from June 1969 to March 1979 and 21.97 times from 1979 to 1999. The growth accounts for **183.29 times** during the

[72] RBI bulletin, November 2011, www.rbi.org.

period of thirty years. This shows that there was an enormous increase in the volume of business of commercial banks during three decades after nationalization.

Table No. 3.8 exhibits the deposits of commercial banks in India and Andhra Pradesh from 2001 to 2011. Deposits of India as well as Andhra Pradesh had increased year on year. Yet, the growth rate was not uniform.

Trends in Deposit mobilization of Commercial Banks in India and Andhra Pradesh from 2001-2011

(Rupees in crores)

Year ending 31st March	Deposits in India	Growth%	Deposits in Andhra Pradesh	Growth %
2001	989141	16	54445.52	--
2002	1131188	14	63788.53	17
2003	1311761	16	73024.51	14
2004	1504416	15	84759.77	16
2005	1700198	13	98224.73	16
2006	2109049	24	117197.59	19
2007	2611934	24	141189.30	20
2008	3196940	22	178647.26	27
2009	3834110	20	218350.10	22
2010	4492826	17	249263.61	14
2011	5207969	16	283600.00	14
CGR%		**18.07**		**17.94**

(Source: Table 1.1 Progress Of Commercial Banking At A Glance, Important Indicators and Table 1.5 of Basic Statistical Returns Scheduled Commercial banks of various years)

Table: 3.8

In India, the deposits of commercial banks had grown from Rs. 989141 crores to Rs. 5207969 crores during the reference period and the growth rate varied between 13 per cent and 24 per cent during the same period. Least growth rate of 13 per cent has been registered in 2005 and highest growth rate of 24 per cent has been registered continuously for a period of two years i.e., in 2006 and 2007. It is observed that the growth rate of deposits fluctuated between 13 and 16 per cent from 2001 to 2005 and sharply rose to 24 per cent in 2006 and remained the same in 2007 also. From 2007 onwards, a steep decline has been observed year after year and reached to 16 per cent by March end 2011. Compound growth rate of deposits of commercial banks in India was 18.07 per cent during the study period.

Figure 3.3 exhibits the growth rates of deposits mobilized by commercial banks in India and Andhra Pradesh during the period 2001 to 2011.

Growth rates of Deposits of Commercial Banks in India and Andhra Pradesh from 2001-2011

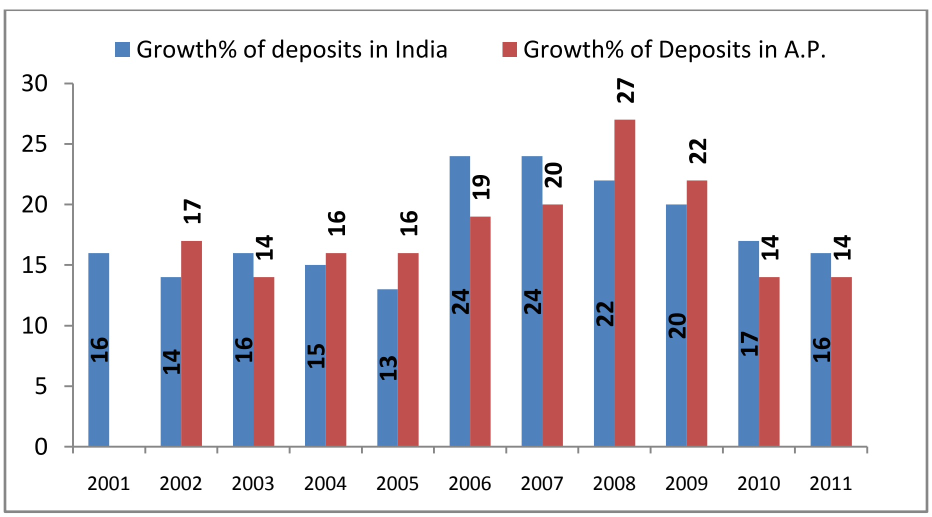

Figure: 3.3

Deposits of commercial banks in Andhra Pradesh had grown from Rs. 54445.52 crores to Rs. 283600 crores and their growth rate varied between 14 per cent and 27 per cent during the period 2001 to 2011. They had increased from 14 per cent to 27 per cent by March 2008 and thereafter declined to 14 per cent by March 2010. The same growth rate has continued in 2011 also. Least growth rate was registered in 2003, 2010 and 2011 and highest growth rate (27%) was registered in 2007-08. Compound growth rate of deposits of the state was 17.94 per cent.

The above analysis indicates that the compound growth rate of deposits of commercial banks in India was higher by 0.13 per cent than the compound growth rate of deposits of commercial banks in Andhra Pradesh. This implies that banks at national level exhibited a better performance than the banks at the state level during the study period. However, there is no much difference in the pattern of mobilization of deposits at the national and state levels. Banks have shown a fair performance both at the national level and state level in mobilizing the resources from the public.

3.6.2 Advances - India and Andhra Pradesh

Advancing of loans is the second important function of commercial banks which facilitates the flow of credit to economic activities. Banks generate the major portion of their income through advancing of loans. A loan is defined as an arrangement in which a lender gives money or property to a borrower and the borrower agrees to return the property or repay the money, usually along with interest, at some future point(s) in time. Usually, there is a predetermined time for repaying a loan, and generally, the lender has to bear the risk that the borrower may not repay a loan (though modern capital markets have developed many ways of managing this risk).[73]

The credit deployed by commercial banks is based on the deposits mobilized from the public. After keeping a portion of deposits in cash reserve and highly liquid assets, banks deploy the residual funds in various sources or in profitable avenues. They give short term loans, long term loans to the public and invest some funds in money market. The interest income on business loans have always been higher than those realized on investments.

Advances scenario in India from 1969 to 2000

(Rupees in crores)

Year	Advances in India	Growth (as number of times)
June 1969	3599	--
March 1979	21476	4.97
March 1999	368837	16.17
March 2000	454069	0.23
		126.16 times

(Source: Table 1.1 Progress of commercial banking at a glance, Basic statistical returns of RBI)

Table No.3.9

[73] http://www.investerwords.com/2858/loan.html#ixzz28LJMmTIO

As shown in Table No.3.9, credit deployed by commercial banks in India had increased from Rs.3599 crores to Rs.454069 crores from the year 1969 to 2000 indicates an increase of 126.16 times. Credit deployed by banks had increased substantially over the period. As the availability of credit was linked with the deposit mobilization, the percentage of growth varied correspondingly.

Growth Rates of Deposits and Advances of Commercial Banks in India from 1969 to 2000

	Growth Rate of Deposits	Growth Rate of Advances
Commercial Banks in India	183.29 times	126.16 times

(Source: Table 3.7 and 3.9)

Table 3.9a

As shown in table 3.9(a), there is a significant difference between the growth rates of deposits and advances during the three decades of post nationalization period. The deposits had grown 183.29 times, while advances had grown 126.16 times.

Table No.3.10 highlights the credit deployed by commercial banks in India and Andhra Pradesh from 2001 to 2011.

Trends in Credit deployment by commercial banks in India and Andhra Pradesh from 2001-2011

(Rupees in Crores)

Year ending 31st March	Advances in India	%Growth	Advances in Andhra Pradesh	%growth
2001	529271	--	35127.65	--
2002	609053	15	39505.56	12
2003	746432	23	45538.56	15
2004	840785	13	55850.87	23
2005	1100428	31	73461.95	32
2006	1507077	37	95336.56	30
2007	1931190	28	123320.26	29
2008	2361913	22	161552.55	31
2009	2775549	18	210384.80	30
2010	3244788	17	262085.46	25
2011	3942082	21	327275	25
CGR%		**22.24**		**25**

(Source: Table 1.1 Progress of Commercial Banking at a Glance, important indicators and Table 1.5 of Basic Statistical Returns Scheduled Commercial banks of various years1 to 2011.)

Table: 3.10

Credit deployed by commercial banks in India had grown from Rs.529271 crores to Rs.3942082 crores during the reference period showing an increase of 5.13 times. By the end of March 2006, advances rose to Rs.1507077 crores and registered a maximum growth rate of 37% during the study period. Thereafter, they had increased with a decreasing rate and decelerated to 17 per cent by March end 2010, and witnessed a sharp rise to 21 per cent in 2011. The growth rate varied between 13 per cent and 37 per cent (figure 3.4). Yet, volatility has been observed in the growth rate of advances during the reference period. Compound growth rate of advances in India was 22.24 per cent.

Percentage Growth in Advances of Commercial Banks in India and Andhra Pradesh

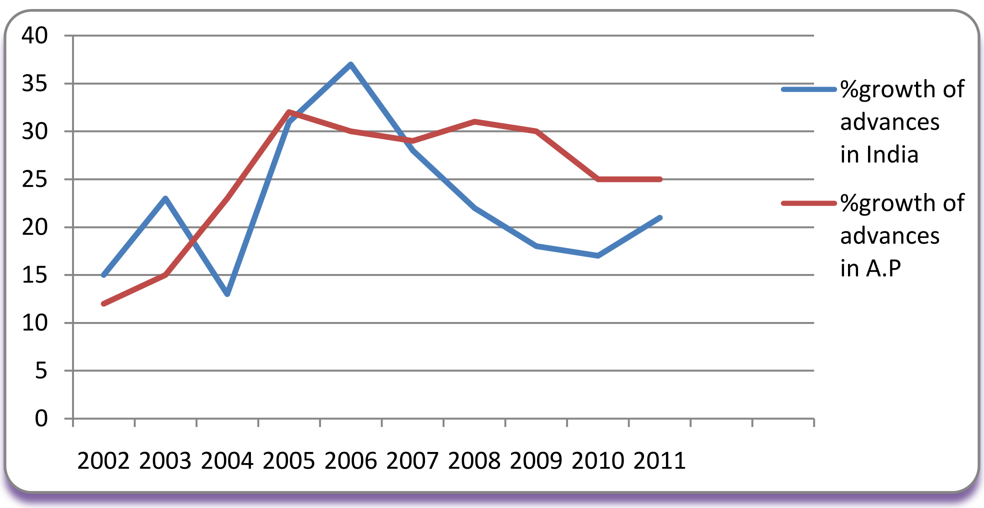

Figure3.4

In Andhra Pradesh, advances had increased year on year during the reference period. They had grown from Rs.35127.65 crores in 2001 to Rs. 327275 crores in 2011. Minimum growth rate of 12 per cent has been observed in 2002, while maximum growth rate of 32 per cent has been observed in 2005. It is observed that there has been a gradual increase from 12 per cent to 32 per cent in advances from 2001 to 2005 and they have declined from 32 per cent to 25 per cent from 2006 to 2011. Compound growth rate of advances of commercial banks in the state was 25 per cent.

Commercial banks is Andhra Pradesh have shown consistency in advancing loans as compared to banks in India as in Fig3.4. Further, their compound growth rate of advances was also higher compared to banks in India. This implies that funding by commercial banks for productive sectors in the state was significant.

Compound Growth Rates of Deposits and Advances of Commercial Banks in India from 2001 to 2011

	Compound Growth Rate of Deposits	Compound Growth Rate of Advances
Commercial Banks in India	18.07	22.24
Commercial Banks in Andhra Pradesh	17.94	25

(Source: Table 6.2 and 6.4)

Table: 3.10a

As can be seen in table 3.10(a), the compound growth rate (CGR%) of deposits of commercial banks in India was higher than the CGR% of deposits of banks in Andhra Pradesh. However, the CGR% was lower in case of advances compared to banks in Andhra Pradesh state. Hence, it is inferred that commercial banks in India have played an active role in mobilizing deposits than the banks at the state level. However, the banks at the state level have done a good business in advancing loans which was evident from the CGR(25%).

Further, it is also observed that the CGR of advances was higher than the deposits both at the national level and state level which signifies the bankers' interest towards contribution of economic growth.

3.6.3. Credit-Deposit Ratio – All India and Andhra Pradesh

The flow of credit is one of the key instruments to regulate various economic activities. The amount of credit deployed by commercial banks is based on the deposits mobilized from the public after keeping some portion for statutory requirements prescribed by RBI from time to time. Credit Deposit Ratio (CDR) is the ratio between the deposits and advances made by the banks during a given period expressed in terms of percentage.[74] It is an important parameter to judge the business policies of any financial institution.

In 1980, Reserve Bank of India (RBI) first advised public sector banks to achieve a CDR of 60 per cent in their rural and semi urban branches on a continuing basis.[75] The CDR has become more important after nationalization of banks to assess the extent of deployment of credit by commercial banks to benefit the economy in general and targeted group in particular. The CDR expressed in terms of percentage reflects the trends of the flow of credit during each period.

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[74] Kanagasabai.S, op. cit., Dec1999. Pp-159

[75] Thorat Y.S.P. and Graham A.N.Wright, The Credit-Deposit Ratio-Time for a Re-Think? , Micro-Save India Focus Note3, www.Microsave,org.

Priority sector lending normally depends on the CDR. The higher the CDR, the higher will be the flow towards the Priority Sector Lending. However, it is not a yardstick to measure the performance of commercial banks at the regional, state or district levels. Yet, to all intents and purposes, the CDR is now often considered as yardstick to assess the commitment of public sector banks to the rural and semi-urban sectors.[76]

Credit deposit ratio indicates the extent of investment of bank deposits by way of credit. It is an index of the health of banking system in terms of the demand for credit in proportion to total deposit growth in the banking sector. A declining CD ratio implies that banks are keeping their funds idle without any corresponding demand for credit. It affects the bank's profitability in the long run, as the banks have to pay interest to its depositors without any corresponding income from the advances.

The Government of India constituted an Expert Group to study on the CD Ratio. In the words of the Expert Group on the Credit-Deposit Ratio (which reported early in 2005) "Historically, the CD ratio has been a measure of bank's performance in lending." In particular, the CDR has been used as an indicator of Public Sector Banks duty to offer rural credit. " They expressed doubt that whether the CD ratio is useful indicator or not because the reasons for the decline of CDR may be as a result of more stringent provisioning requirements and policies of the banks or write off of loans in recent years or the collection of loans may be effective.[77] In addition to the above reasons, the public may take loans from other sources which cannot be counted as advances by public sector banks for counting Credit. Hence, a detailed study of CDR in India and Andhra Pradesh

[76] Ibid.
[77] Ibid.

is made below to assess the pattern of advances made by commercial banks after nationalization.

Credit – Deposit Ratio of Commercial Banks – All India and Andhra Pradesh

Year	CD ratio of Comml. Banks in India	CD ratio of Comml. Banks in Andhra Pradesh
1969	77.5	--
1979	68	--
1999	51.1	--
2000	53.3	--
2001	53.5	64.52
2002	53.8	61.93
2003	56.9	62.36
2004	55.9	65.89
2005	62.6	74.79
2006	70.1	81.35
2007	73.5	87.34
2008	74.6	90.43
2009	73.8	96.35
2010	73.6	105.14
2011	75.6	115.40

(Source: Table 1.1 Progress of Commercial Banking at a Glance, Basic Statistical Returns Scheduled Commercial banks of various years)

Table: 3.11

Table No.3.11 shows the CDR of commercial banks in India and Andhra Pradesh from 1969 to 2011. As per the table 6.5, CDR of commercial banks in India was 77.5 per cent in 1969 and has come down to 53.3 per cent by March 2000. Three decades have witnessed a decline in CDR though the deposits have grown to the extent of 183.29 times and advances have grown to the extent of 126.16 times. The post-nationalization decade has witnessed a steep decline in CDR by 9.5 per cent in particular (CDR was 77.5 per cent in 1969 and 68 per cent in 1979). This decline in CD ratio indicates the wide gap between the deposit mobilization and credit deployment by banks. It implies the reduced credit flow to all the productive sectors of the economy on the one hand and reduced interest of the bankers in pumping the funds into the market through advances on the other hand. It directly or indirectly hampers the progress of the nation. The proportion of bank deposits constitutes 78 per cent[78] of the banks liabilities and forms a very higher percentage to total money in circulation. Hence, it is of paramount importance to ensure adequate credit flow into the economy.

As discussed by Kanagasabai, "after the financial sector reforms in 1991, there was a decline in CDR from 60.8 per cent in March'90 to 60.6 per cent in March'91 and further down to 56.4% in March'92.[79]

From March'92 to March'2000, the CDR was below the stipulated target level i.e. 60 percent.

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[78] Trends and Progress of Banking 2010-11, www.rbi.org.in

[79] Kanagasabai.S op. cit., Dec1999. Pp-160

C-D Ratio of Commercial Banks – All India and Andhra Pradesh from

From 2001 to 2011

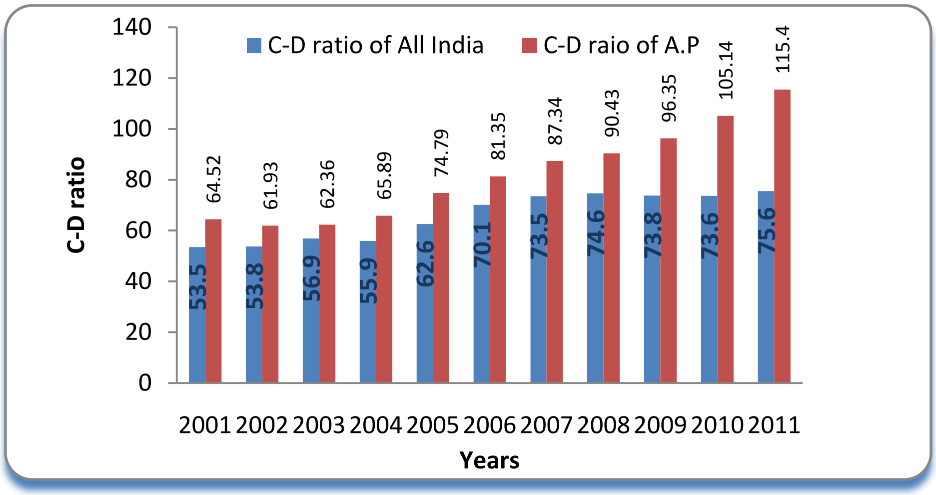

Figure: 3.5

Fig. 3.5 shows the CD ratio of commercial banks in India and Andhra Pradesh from 2001 to 2011.

The CD ratio of commercial banks in All India had grown from 53.5 per cent in 2001 to 56.9 per cent in 2003. However, it has declined to 55.9 per cent by March end 2004. From the year 2005 to 2011, the CD ratio was lying between 62.6 per cent and 75.6 per cent.

It is observed that from 2005 onwards, the CDR was above the stipulated target of 60 percent which means that more than 60 per cent of the funds were flown to the productive sectors of the country. The Credit Deposit Ratio (C-D Ratio) of All India by the end of March 2010 was 73.6 percent, where as Tamil Nadu occupied top most place among the major 15 states in the CD Ratio (112.65%) followed by Andhra Pradesh

(105.14%) and Maharashtra (81.30%). In Kerala CD ratio was observed as 63.60 percent during the same period.[80]

C-D ratio of commercial banks in Andhra Pradesh during the period from 1980 to 2000 oscillated between 87.1 per cent between 64.2 per cent.[81] Further, it has varied between 61.9 per cent and 115.40 per cent during 2000-01 to 2010-11. CD ratio has declined from 64.52 per cent in 2000-01 to 61.93 per cent by March end 2002. However, it has increased year-to-year and reached to 96.35 per cent by March end 2009. Deployment of credit by Commercial banks in the state has exceeded their deposits in 2010 and 2011 by showing an incremental CD ratio of 105.14 per cent and 115.40 per cent respectively. A high incremental CD ratio indicates the weakness of the sectors' resource profile, reflecting the inadequacy of retail deposit to support credit growth.[82] This means loans exceeded deposits and banks involved in advancing loans by depending on borrowed funds which is not advisable. An ideal CD ratio would be anywhere between 65 and 75. A CD ratio of 70 means that out of every Rs.100 that a bank rises as deposits it lends Rs.70. Since banks have to compulsorily park Rs.24 in government securities (Statutory Liquid Ratio) and Rs. 6 as cash (Cash Reserve Ratio) with the RBI, they can potentially lend Rs. 70 to customers. In the words of RBI Governor Duvvuri Subbarao in January 2011 highlighting the need for lower incremental CD ratio, "We told their boards that they must increase their deposits, must restrain their credit and that credit and deposit growth have to be aligned."[83]

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[80] Economic Review 2010

[81] Region-wise C-D Ratio, Planning Commission.nic.in

[82] C-D ratio to moderate to less than 90 per cent by March: Report of Crisil, Financial Express,10th February,2011.

[83] Sunny Verma, Reserve Bank wants to reduce C-D ratio, Financial Express, 29.04.2011.

From the above data, it is inferred that the CD ratio of commercial banks in India has improved during the period of study. They have exceeded the target of 60 percent in seven years commencing from 2005. The CD ratio of commercial banks in the state was well above the targets during the entire period of the study. This implies that they have actively deployed the funds in the state in all the years as in Fig.3.5 during the reference period. Further, the credit deposit ratio of commercial banks in Andhra Pradesh was higher than the credit deposit ratio of commercial banks in India in all the years of study period (Fig.3.5). Banks in the state have played an active role in deployment of funds which led to development of the state. Hence, commercial banks' performance in Andhra Pradesh has appreciated over the years as compared to the commercial banks in India during the study period.

3.6.4 Priority Sector Advances – All India and Andhra Pradesh

As per the Reserve Bank of India's guidelines, at least 60 per cent of the CDR should be achieved by the commercial banks with 40% of the net bank credit to priority sector.[84] Hence, the priority sector advances depend on the quantum of net bank credit offered by banks. At present, the targets for priority sector lending for commercial banks in India are:

The target for aggregate advances to the priority sector is 40 per cent of the adjusted net bank credit or credit equivalent of off balance sheet exposure whichever is higher for domestic banks and 32 per cent for foreign banks.

[84] DBOD NO.BP.BC.126/C.464(M)-80 dated 29.10.80, www.rbi.org.in

3.6.4(i) Share of Priority Sector Advances to Total Credit of Commercial Banks in India from 1969 to 1999

The share of priority sector advances to total bank credit during post nationalization period is shown in Table No.3.12 in order to make an assessment of achievement of the objectives of socialization of banks.

The priority sector advances made by commercial banks during post nationalization period shows an increasing trend. The priority sector advances had increased from 14 per cent in 1969 to 21 per cent by the end of 1972 implying a significant rise in the banks' lending to this sector within a three years span of time.

The reasons for this may be attributed to the concerted efforts of RBI and Government of India to develop the economy in a planned way. The advances had increased gradually and gone up to 42.9 per cent in 1987. Although it has declined to 40.7 per cent in 1990, it was above the bench mark level i.e.40% of net bank credit.

Share of Priority Sector Advances to Total bank credit in India from 1969 to 1999

Year	Share of Priority Sector Advances to Total Credit (in %)
1969	14
1972	21
1975	25
1978	28.6
1981	35.6
1984	38
1987	42.9
1990	40.7
1993	34.4
1996	32.8
1999	35.5

(Source: Basic Statistical Returns of RBI)

Table 3.12

Table 3.12 shows that the commercial banks had achieved the target of 40 per cent in 1987 and 1990.

Share of priority sector advances to total credit of Commerical Banks in India from 1969 to 1999

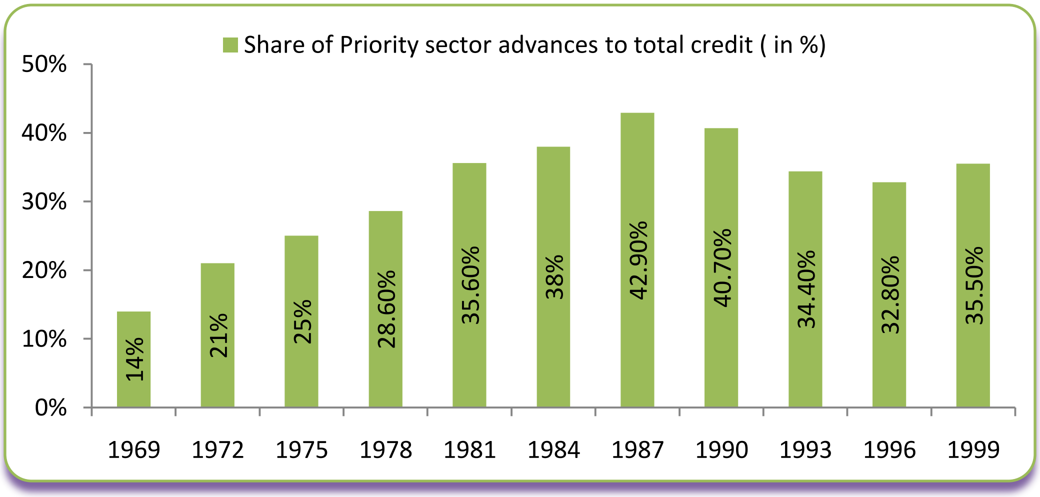

Figure:3.6

During the post reforms period (from 1991 onwards), there was a drastic reduction in the share of priority sector advances (Fig.3.6) by the commercial banks as the share has reduced from 40.7% in 1990 to 32.8% in 1996. However, banks have improved their performance in lending to priority sector in 1999 by increasing their share to 35.5 per cent. It is evident from the above data that during the post reforms decade banks have shown their reluctance to deploy their funds to the priority sector.

3.6.4 *(ii). Share of Priority Sector Advances from 2001 to 2011*

Table No.3.13 highlights the share of priority sector advances made by commercial banks in India and Andhra Pradesh from 2001 to 2011.

Public sector banks in India had achieved the targets of priority sector advances in all the years except in the year 2007. The share of priority sector advances fell short of only 0.3 percent during this year. (The targets for aggregate advances to the priority sector are 40 per cent of the adjusted net bank credit or credit equivalent of off balance sheet exposure whichever is higher for domestic banks and 32 per cent for foreign banks).

Private sector banks also achieved the targets of lending to priority sector in all the years except in 2001 and 2002. Foreign banks have exceeded the targets in all the years under the reference period.

While total lending to priority sector by commercial banks as whole had increased from Rs. 179931 crores to Rs.1338860 crores (table 3.13), their growth rate varied between 14 per cent and 36 per cent during the reference period.

It is inferred from the above data that the commercial banks in India have achieved the priority sector targets during the study period and their performance was well.

Share of Priority Sector Advances of Commercial Banks in India and Andhra Pradesh

(Rupees in Crores)

Year ending 31st March	Priority sector advances of Commercial Banks in India			P.S.advances of Commercial banks in Andhra Pradesh
	Public Sector Banks	Private Sector Banks	Foreign Banks	
2001	146546 (43.0)	21550 (38.2)	11835 (34.0)	14495 (41.26)
2002	171484 (43.5)	24184 (38.4)	9936 (34.6)	16678 (42.22)
2003	199786 (41.2)	36648 (44.1)	14555 (33.1)	20727 (45.52)
2004	244456 (43.6)	48920 (47.3)	17960 (34.9)	25602 (45.84)
2005	307046 (42.8)	69886 (43.6)	23843 (35.3)	33750 (45.94)
2006	409748 (40.3)	106586 (42.8)	30439 (34.4)	47855 **(50.20)**
2007	521376 (39.7)	144549 (42.9)	37831 (33.4)	60925 (49.40)
2008	610450 (44.7)	164068 (47.8)	50254 (39.5)	70669 (43.74)
2009	720083 (42.5)	190207 (46.8)	55453 (34.3)	93271 (44.33)
2010	864564 (41.7)	215552 (46.0)	60290 (35.1)	112611 (42.97)
2011	1022925 (41.0)	249139 (46.7)	66796 (39.1)	154227 (47.12)

(Source: RBI, Trends and Progress of banking in India from 2001 to 2011.)

(Note: Figures in brackets are percentages to net bank credit (NBC) up to 2007; thereafter they are percentages to Adjusted Net Bank Credit (ANBC) or credit equivalent to OFF balance sheet exposure which is higher in the respective groups.)

Table 3.13

Commercial banks in Andhra Pradesh had also played a dynamic role in advancing loans to priority sector by surpassing the targets of 40 per cent in all the years during the study period (Table 3.13). The share of priority sector advances had increased from 41.26 per cent in 2001 to 50.20 per cent in 2006. However, a gradual reduction has been observed till 2010. Yet, an upward movement has been observed in the subsequent year with 47.12 per cent. Highest share of priority sector advances was observed in 2006 with Rs.47855 crores (50.20 per cent of share). Hence, it is inferred that in Andhra Pradesh also commercial banks have performed well in achieving the national objectives by contributing towards priority sector as a whole.

Achievement of targets of priority sector advances by Commercial Banks in India and Andhra Pradesh

Year ending 31st March	Achievement of Priority sector targets by Commercial Banks in India			P.S.advances of Commercial banks in Andhra Pradesh
	Public Sector Banks	Private Sector Banks	Foreign Banks	
2001	✓	--	✓	✓
2002	✓	--	✓	✓
2003	✓	✓	✓	✓
2004	✓	✓	✓	✓
2005	✓	✓	✓	✓
2006	✓	✓	✓	✓
2007	--	✓	✓	✓
2008	✓	✓	✓	✓
2009	✓	✓	✓	✓
2010	✓	✓	✓	✓
2011	✓	✓	✓	✓

(Source: Table 3.13)

Table 3.13a

As illustrated in table 3.13(a), public sector banks had achieved their targets in ten years with an exception in 2007 (achieved 39.7%). Private sector banks also failed to achieve the targets in two consecutive years i.e. in 2001 and 2002. In the later years, they had met the targets duly. Foreign banks have met their targets in all the eleven years of study period.

However, commercial banks as a whole met the targets as per norms during the entire study period.

Commercial banks in Andhra Pradesh were successful in meeting the targets in all the years under reference period. Hence, it can be inferred that their performance is significant.

3.6.4(iii)). Growth of Priority Sector Lending in India and Andhra Pradesh:

Priority sector advances of commercial banks in India had increased from Rs. 179931 crores in 2001 to Rs.1338860 crores in 2011 with a corresponding growth rate varied between 14 per cent to 36 per cent during the period 2001 to 2011 (table 3.14). Priority Sector advances had grown at an increasing rate till 2006 and later on increased at a decreasing rate till 2011. The compound growth rate of priority sector advances was 22.23%.

Percentage growth of Priority Sector Advances of Commercial Banks in India and Andhra Pradesh

(Rupees in Crores)

Year ending March	Total P.S.advances of Commercial Banks in India	% Growth	Total P.S.advances of Commercial Banks in Andhra Pradesh	% Growth
2001	179931		14495	
2002	205604	14	16678	15
2003	250989	22	20727	24
2004	311336	24	25602	24
2005	400775	29	33750	32
2006	546773	36	47855	42
2007	703756	29	60925	27
2008	824772	17	70669	16
2009	965743	17	93271	32
2010	1140406	18	112611	21
2011	1338860	17	154227	37
CGR %		**22.23%**		**26.68%**

(Source: Compiled from Table No.6.7 and Table 6.1 of Basic statistical returns of RBI of various years)

Table: 3.14

Growth% of Priority Sector Advances of Commercial Banks in India and Andhra Pradesh

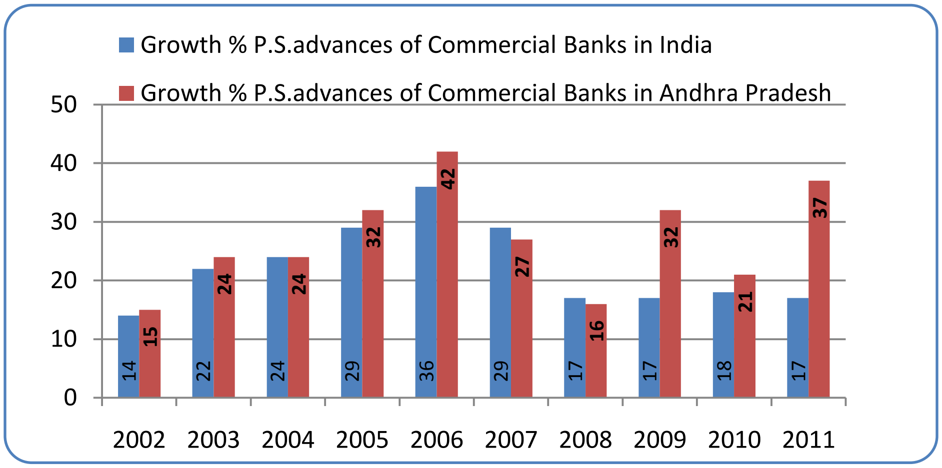

Figure3.7

Priority sector advances in Andhra Pradesh had increased from Rs.14495 crores in 2001 to Rs.154227 crores in 2011. Growth rate of these advances varied between 15 per cent and 42 per cent during the study period. Highest growth rate of 42 per cent (Rs.47855 crores as priority sector advances) has been recorded in 2006 and lowest growth rate (15%) has been registered in 2002 (fig. 3.7). The Compound growth rate of these advances was 26.68 per cent.

Compound Growth rates of Priority Sector Advances of Commercial banks in India and Andhra Pradesh

Priority Sector Advances	CGR%
Commercial Banks in India	22.23%
Commercial Banks in Andhra Pradesh	26.68%

(Source: Table 3.14)

Table: 3.14a

The compound growth rate of priority sector advances of commercial banks in India grew at a lesser rate than the CGR of banks in the state. It means that banks at the state level have played a dynamic role in giving loans to needy sectors.

In order to analyze whether there is any significant difference between the growth rates of deposits, advances and priority sector advances of commercial banks in India and Andhra Pradesh, Mann-Whitney test has been used.

Mann Whitney U test

It is a statistical test used to test the null hypothesis $u_1=u_2$. It is used to compare the two variables.

$$U_A = n_a n_b + \frac{n_a(n_a+1)}{2} - T_a$$

Ta = The observed sum of ranks for sample A.

If the observed value of z is less than the critical value, accept the hypothesis.

Growth rates of deposits, advances and priority sector advances are compared between 2000-01 and 2010-11. The following hypotheses were formed for the study.

H_1. There is no significant difference between the growth rates of deposits at the national and State levels.

H_2. There is no significant difference between the growth rates of advances at the national and State level.

H_3 There is no significant difference between the growth rates of priority sector advances at the National and State levels.

To test the hypotheses, T values were calculated for growth rates of deposits, advances and priority sector advances. Table 3.15 exhibits the T values for deposits, advances and priority sector advances of commercial banks in India and Andhra Pradesh.

Growth rates of Deposits, Advances and Priority Sector Advances: Mann-Whitney U Test

(Level of significance 0.05)

Growth rate	Calculated Value	Table Value	Result
1. Deposits	48	<23 or >77	Accept H_1
2. Advances	63.5	<23 or >77	Accept H_2
3. Priority Sector Advances	65	<23 or >77	Accept H_3

Table 3.15

The results of Mann-Whitney test prove that there is no significant difference between the growth rates of deposits, advances and priority sector advances at national and state levels. Hence, the hypotheses H_1, H_2 and H_3 are accepted.

It is concluded that the growth rates of deposits, advances and priority sector advances of the commercial banks are similar at the national and state levels.