

Bank credit

3.36 There was adequate liquidity in the banking system in 2003-04 to support a credit pick up. Total bank credit (food and non-food) increased by 14.6 per cent in 2003-04 as compared with 16.1 per cent (net of mergers) in the previous year. In sharp contrast to the acceleration witnessed in 1999-2000 and 2000-01, food credit declined steeply by 27.3 per cent in 2003-04 after a decline of 8.3 per cent in the previous year. The steep decline in food credit was on account of lower procurement and higher offtake of foodgrains. Flow of non-food credit, which remained subdued in the first two quarters, started picking up from the third quarter of 2003-04. Offtake of non-food credit in the last two quarters of 2003-04 amounted to Rs.1,01,407 crore, much higher than the amount of Rs.71,980 crore in the corresponding quarters of the previous year. For the year as a whole, non-food credit grew by 17.6 per cent as compared with a growth of 18.6 per cent (net of mergers) in 2002-03. Incremental non-food credit in 2003-04 amounted to Rs.1,19,684 crore as compared with Rs. 99,448 crore (net of mergers) in the previous year. With improvement in industrial production, the pick up in non-food credit witnessed since September, 2003 is likely to be sustained.

Investment

3.37 In addition to extending credit, SCBs invest in approved securities under SLR and in instruments such as commercial paper, shares, bonds and debentures issued by the private corporate sector and public sector

undertakings. During 2003-04, SCBs invested an amount of Rs.1,29,828 crore in Government securities and an amount of Rs.2,283 crore in other approved securities. There was a decline in the growth of investments in Government securities from 27.3 per cent in 2002-03 to 24.8 per cent in 2003-04. Investments in other approved securities grew by 9.5 per cent as compared with a decline of 10.9 per cent in 2002-03. There was an off-loading of non-SLR investments by Rs.3,805 crore in 2003-04 as compared with an investment of Rs.11,853 crore in 2002-03. The decline in non-SLR investments was spread across all the instruments, viz., commercial paper, shares and bonds. The investment-deposit ratio increased from 42.7 per cent in 2002-03 to 45.3 per cent in 2003-04.

Sectoral deployment of bank credit

3.38 Information on sectoral deployment of bank credit relates to 48 SCBs accounting for about 90 per cent of bank credit of all SCBs. During the year 2003-04, total gross bank credit registered a marginally lower growth of 14.2 per cent as compared with a growth of 14.9 per cent in the previous year. The decline in food credit witnessed in 2002-03 continued in 2003-04. In 2003-04, food credit declined by 27.3 per cent on account of lower procurement of foodgrains and higher offtake from the public distribution system. Non-food credit in 2003-04 registered a growth of 17.5 per cent, the same as in the previous year. Within non-food credit, advances to priority sectors registered a higher growth. Among

the priority sectors, credit to agriculture increased from 17.9 per cent in 2002-03 to 23.2 per cent in 2003-04. Credit to small scale sector increased from 5.7 per cent in 2002-03 to 9.0 per cent in 2003-04. Growth of credit to medium and large industries was lower than that recorded in the previous year. The sectors which witnessed higher growth in credit were consumer durables and tourism.

3.39 In recent years, housing and consumer durables have emerged as new drivers of growth of non-food credit. The share of these sectors in outstanding non-food credit of SCBs increased to 8.2 per cent at the end of March, 2004 as compared with a share of 6.1 per cent at the end of March 2002. Credit for housing increased by 42.1 per cent in 2003-04 on top of a 55.1 per cent increase during 2002-03. In 2003-04 flow of credit to housing and consumer durables was Rs.16,449 crore constituting 15.2 per cent of the total flow of non-food credit. (Table 3.7)

Priority sector lending

3.40 The target fixed for priority sector lending by domestic and foreign banks is 40 per cent and 32 per cent of their net bank credit (NBC), respectively. Public sector banks, as a group, have met the target of priority sector lending. At the end of March, 2003, priority sector lending by PSBs amounted to 42.5 per cent of their NBC. Outstanding priority sector advances by private sector banks constituted 44.4 per cent of NBC at the end of March, 2003 as compared with 40.9 per cent a year ago. Outstanding advances by foreign banks to priority sectors amounted to 33.9 per cent of their NBC. While there was a significant improvement in the share of priority sector lending by private sector banks from 40.9 per cent of NBC as at end-March 2002, to 44.4 per cent as at end-March, 2003 foreign banks witnessed a marginal reduction in their priority sector advances as proportion to NBC. As regards PSBs, there was improvement in the

Table 3.7: Sectoral deployment of gross bank credit

	Outstanding balances ¹				Variations during ¹					
	2001-02	2002-03	2002-03#	2003-04#	2001-02	2002-03	2003-04#	2001-02	2002-03	2003-04#
	Rs. crore							per cent		
I. Gross bank credit	536727	616906	669534	764383	67574	80179	94849	14.4	14.9	14.2
1. Public food credit	53978	49479	49479	35961	13987	-4499	-13518	35.0	-8.3	-27.3
2. Gross non-food credit	482749	567427	620055	728422	53587	84678	108367	12.5	17.5	17.5
(a) Priority sectors (i+ii+iii) ²	175259	203799	211609	263834	20845	28540	52225	13.5	16.3	24.7
i. Agriculture ³	60761	71609	73518	90541	8839	10848	17023	17.0	17.9	23.2
ii. Small scale industry	57199	60486	60394	65855	1197	3287	5461	2.1	5.7	9.0
iii. Other priority sector	57299	71704	77697	107438	10809	14405	29741	23.3	25.1	38.3
(b) Medium and large industries	172324	200335	235168	247210	9487	28011	12042	5.8	16.3	5.1
(c) Wholesale trade (excluding food procurement)	20459	22398	22578	24867	2614	1939	2289	14.6	9.5	10.1
(d) Other sectors	114707	140895	150700	192511	20641	26188	41811	21.9	22.8	27.7
Of which:										
(1) Housing	22346	34654	36587	51981	6203	12308	15394	38.4	55.1	42.1
(2) Consumer durables	7015	6904	7219	8274	1449	-111	1055	26.0	-1.6	14.6
(3) Real estate loans	2596	3098	5894	5577	830	502	-317	47.0	19.3	-5.4
(4) Tourism and tourism related hotels	1540	1806	2428	3269	544	266	841	54.6	17.3	34.6
(5) Loans to individuals ⁴	1520	1762	2001	2020	-177	242	19	-10.4	15.9	0.9
II. Export credit ⁵	42978	49402	49202	57687	-343	6424	8485	-0.8	14.9	17.2

1. As on the last reporting Friday of the year.

2. Excluding investments in eligible securities.

3. Indirect finance not included.

4. Against shares and debentures/bonds

5. Included under gross non-food credit.

Includes the impact of merger of ICICI with ICICI Bank.

Note: Figures for 2003-04 are provisional. Data relate to 48 SCBs which account for 90 per cent of the bank credit of all SCBs. Gross credit data include bills rediscounted with RBI, IDBI, Exim Bank and other approved financial institutions.

share of priority sector lending from 42.5 per cent of NBC as at end-March 2003 to 44.5 per cent as at end-September, 2003.

3.41 While all the bank groups met the overall targets under priority sector lending, there were shortfalls in meeting the sub-targets set for agriculture and weaker sections of the society. For PSBs, advances to agriculture constituted 15.9 per cent of NBC, falling short of the sub-target of 18 per cent. Outstanding advances to weaker sections constituted 7.2 per cent of NBC at the end of September, 2003 falling short of the sub-target by 2.8 percentage points. At the end of March 2003, outstanding advances to agriculture and weaker sections by private sector banks constituted 10.8 per cent and 1.5 per cent of NBC, respectively. To improve credit delivery to the agriculture sector, the RBI in its annual monetary policy statement for 2003-04 extended the limit of Rs.20 lakh on advances granted to dealers in drip irrigation/sprinkler irrigation system/ agricultural machinery, located in rural and semi-urban areas to all areas. The sub-targets for foreign banks operating in the country are 10 per cent of NBC for the small scale industry (SSI) sector and 12 per cent of NBC for export credit. Export credit does not form part of priority sector lending for domestic banks. Outstanding advances towards export credit by foreign banks constituted 18.7 per cent of their NBC at the end of March, 2003, exceeding the target by 6.7 percentage points. There was a shortfall in meeting the target set for SSI lending by these banks by 1.3 percentage points.

3.42 The declining share of the SSI sector in the outstanding priority sector advances of public and private sector banks since 1999-2000 is a cause for concern. The share of SSI advances in the NBC declined from 16.1 per cent at the end of March, 1999 to 11.1 per cent at the end of March, 2003 in respect of PSBs. For the private sector banks, the share declined from 18.8 per cent to 8.3 per cent in the same period. There is no sub-target for advances to SSI sector by domestic banks.

3.43 The limited access of SSI sector to funds needs to be addressed on a priority basis. Large corporates are able to access

bank loans at below PLR besides accessing international markets. But, for the SSI sector, the cost of funds continues to remain high despite falling deposit rates. Banking institutions need to upgrade their credit assessment capabilities so that a clear distinction can be made between bad and good credit. The RBI in its mid-year review of monetary and credit policy for 2003-04 had announced a number of measures aimed at improving credit delivery to the SSI sector. These measures included raising the loan limit from Rs.15 lakh up to Rs.25 lakh without the requirement of collateral, rationalising interest rate on the deposits of foreign banks placed with the Small Industries Development Bank of India (SIDBI) towards their priority sector shortfall (reduction of interest from 6.75 per cent to the prevailing bank rate) and mandating SIDBI to take appropriate steps to ensure that priority sector funds are utilised expeditiously and the benefit of reductions in interest rates is passed on to borrowers. In addition, all loans granted by banks to Non-Banking Financial Companies (NBFCs) for the purpose of on-lending to the SSI sector would also be reckoned under priority sector lending.

3.44 In its annual policy statement for 2004-05, the RBI announced new measures to improve the credit delivery mechanism, specially to improve credit flows to priority sectors and infrastructure. These include a waiver of margin/security requirement for agricultural loans, coverage of loans for storage units under priority sector representing indirect agricultural finance, treatment of securitisation of agricultural loans under priority sector and fixing NPA norms for agricultural finance.

Sensitive sector lending

3.45 Lending by SCBs to sensitive sectors comprise capital market, real estate and commodities. Outstanding lending to these sectors amounted to Rs.23,947 crore at the end of March, 2003 as compared with Rs.20,820 crore at the end of March, 2002. The exposure of SCBs to sensitive sectors had undergone a compositional change in 2002-03. The share of real estate in total

Table 3.8 : Lending to sensitive sectors					
Banks	2001-02	2002-03	Per cent variation	Per cent share in total	
	Rs. crore			2001-02	2002-03
A. SCBs	20820	23947	15.0	100.0	100.0
B. PSBs	13577	15375	13.2	65.2	64.2
i. Nationalised	11379	13286	16.8	54.7	55.5
ii. State Bank Group	2198	2088	-5.0	10.6	8.7
C. New Pvt. banks	3134	4453	42.1	15.1	18.6
D. Old Pvt. banks	2708	2591	-4.3	13.0	10.8
E. Foreign banks	1401	1528	9.0	6.7	6.4

outstanding lending to the sensitive sectors increased to 52.0 per cent at the end of March, 2003 as compared with 43.3 per cent a year ago. This was mainly on account of aggressive marketing of housing loans by most banks. Of late, lending to the housing sector has emerged as the major driver of the offtake of credit. The SCBs offloaded their exposure to the capital market in 2002-03 on account of

lacklustre performance of the capital market. Accordingly, the share of capital market in total sensitive lending came down to 10.5 per cent in 2002-03 from 14.8 per cent a year ago. Exposure to commodities also came down to 37.5 per cent from 41.9 per cent in the same period. Details regarding lending to sensitive sectors are given in Table 3.8.