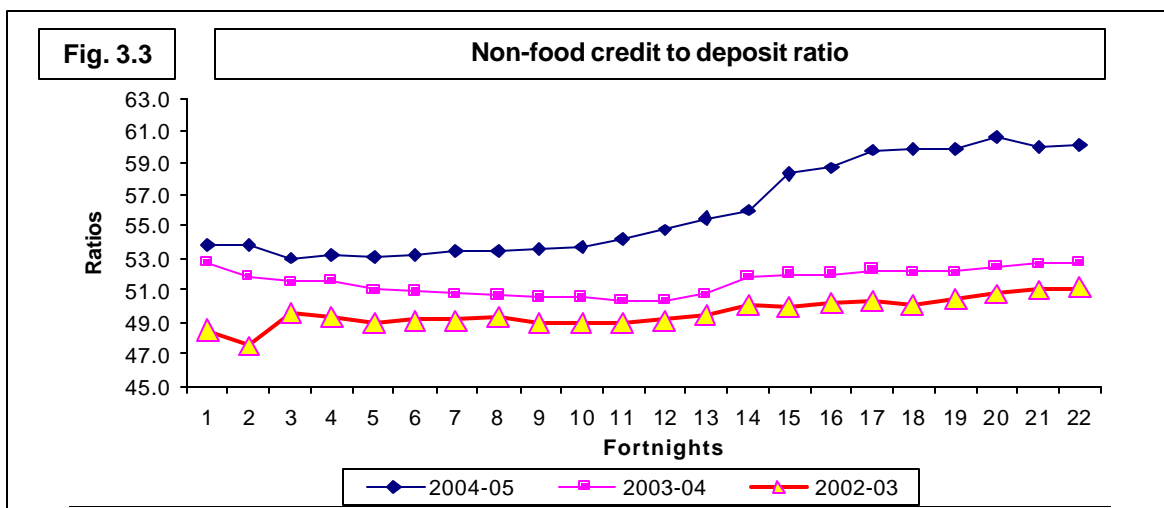


Bank credit

3.36 The spurt in bank credit witnessed from the second quarter of the previous year continued through the current year. Gross bank credit by SCBs increased by 23.8 per cent (net of conversion, 19.9 per cent) in the current year (up to January 21, 2005) compared to 9.3 per cent in the corresponding period last year. In contrast to the decline of 25.9 per cent witnessed last year, food credit grew by 15.2 per cent in the current year (up to January 21, 2005). Growth of non-food credit up to January 21, 2005 was 24.2 per cent (net

of conversion, 20.1 per cent) as compared to an increase of 11.9 per cent in the corresponding previous period. In absolute terms, incremental non-food credit amounted to Rs.1, 94,688 crore (net of conversion, Rs.1, 62,005 crore) in the current year as compared to Rs. 80,573 crore in the corresponding previous period. This is the highest growth in non-food credit witnessed since 1996-97. The rising trend in the ratio of ratio of non-food credit to aggregate deposits of the SCBs, during the current financial year, suggests a further likely increase in the demand for bank credit in the coming months (Figure 3.3).



3.37 Reflecting the higher credit off-take, excess liquidity in the banking sector has been witnessing a decline since August, 2004. With growth of manufacturing recording an increase of 9.0 per cent in April to December 2004, the highest after 1995-96, higher growth of non-food credit is likely to continue.

Investment

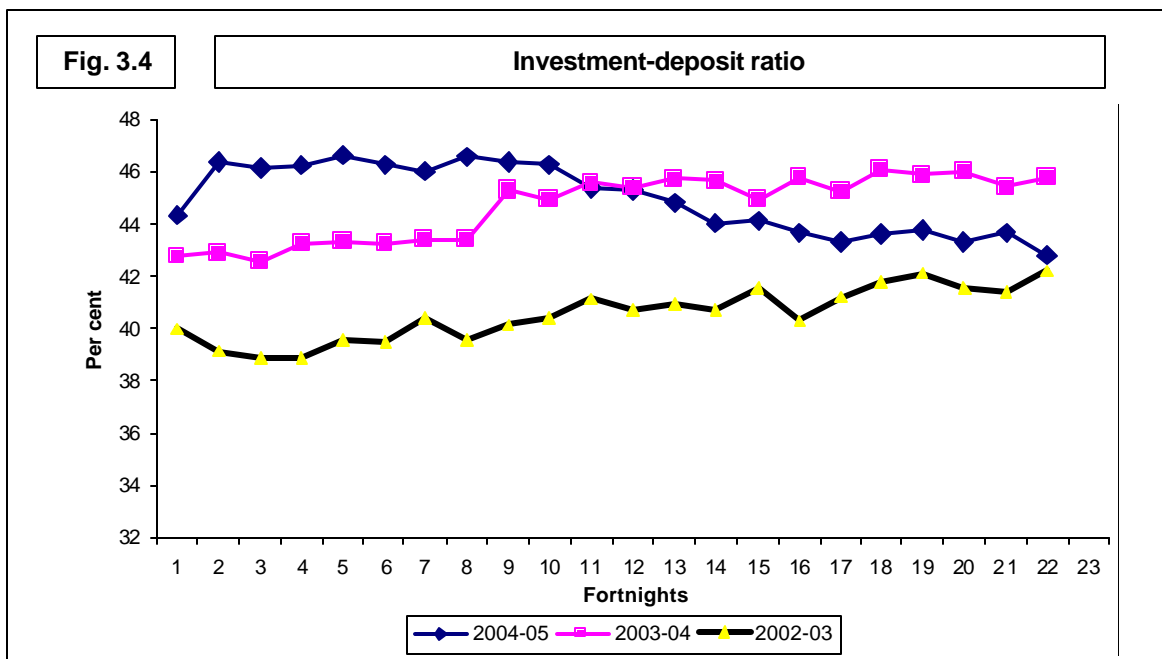
3.38 Investments by SCBs in Government and other approved securities remained much above the stipulated SLR of 25 per cent of net demand and time liabilities (NDTL) in recent years. At end-March 2004, these investments were 41.3 per cent of NDTL, marginally lower than 41.5 per cent at end-March 2003. During the current year (up to January 21, 2005), SLR investments by the SCBs grew at a lower rate of 5.1 per cent (net of conversion, 3.3 per cent) as compared to 19.0 per cent last year. The year-on-year growth as on January 21, 2005 was also substantially lower at 9.3 per cent (net of conversion, 7.4 per cent) as compared to 23.2 per cent on the corresponding date of last year. The lower growth of SLR investments in the current year is mainly on account of the higher growth of bank credit to the commercial sector and lower level of market borrowings by the Central Government. Even with the lower growth in

the current year, outstanding SLR investments were at 42.86 per cent of NDTL as on January 21, 2005. The ratio of SLR investment to aggregate bank deposits in the current financial year has registered a declining trend (Figure 3.4).

3.39 Non-SLR investments by SCBs, comprising investments in commercial paper, shares/ bonds, units of Unit Trust of India and other mutual funds, and debentures issued by private corporate sector and public sector companies, were marginally higher at Rs. 1, 37, 644 crore at end-March 2004 compared to Rs.1,33, 699 crore at end-March 2003. In the current year (up to January 7, 2005), non-SLR Investments by SCBs grew by 0.9 per cent compared to a decline of 5.0 per cent in the corresponding previous period. Total investments (SLR and non-SLR) by SCBs in the current year (up to January 7, 2005) were lower at 4.6 per cent compared to 17.1 per cent in the corresponding period of last year

Sectoral deployment of bank credit

3.40 Available information on sectoral deployment of bank credit in the current year relates to select SCBs, accounting for about 90 per cent of total bank credit extended by all SCBs. Total bank credit increased by 14.2 per



cent in 2003-04 compared to 14.9 per cent in 2002-03. While non-food credit increased by 17.5 per cent, food credit declined by 27.3 per cent in 2003-04. Within non-food credit, advances to the non-priority sector housing recorded the highest growth of 42.1 per cent followed by tourism (34.6 per cent) and priority sectors (24.7 per cent). Among the priority sectors, advances to agriculture grew by 23.2 per cent in 2003-04 compared to 17.9 per cent in 2002-03. Advances to other priority sectors witnessed a robust growth of 38.3 per cent compared to 25.1 per cent in the same period last year. Growth of credit to medium and large industries was lower at 5.1 per cent in 2003-04 compared to 16.3 per cent in 2002-03. Credit to SSIs improved from 5.7 per cent in 2002-03 to 9.0 per cent in 2003-04.

3.41 In the current year (up to October 2004), gross bank credit increased by 12.5 per cent compared to 3.5 per cent in the same period of last year. Credit to real estate and housing sectors were the driving force in the expansion of non-food credit during 2004-05 up to October 2004. Credit to real estate increased

by 47.7 per cent in the current year (up to October 2004) and that to housing increased by 30.9 per cent compared to 4.3 per cent and 19.8 per cent, respectively, in the same period last year. Credit to priority sector grew by 9.9 per cent in the current year compared to 10.1 per cent in the corresponding period last year. Credit to medium and large industries also grew by 10.3 per cent in the current year compared to a decline of 1.8 per cent in the corresponding previous period (Table 3.6).

Priority sector lending

3.42 Advances by PSBs to priority sector increased by 21.0 per cent in 2003-04 compared to an increase of 18.6 per cent in 2002-03. The share of priority sector advances in total net bank credit (NBC) of PSBs increased from 42.5 per cent in 2002-03 to 44.0 per cent in 2003-04. This level of advances is higher than the target of 40 per cent stipulated for domestic banks. For foreign banks the target fixed for priority sector lending is 32 per cent of NBC. Total outstanding advances by foreign banks to priority sector

Table 3.6: Sectoral deployment of gross bank credit

	Outstanding balances of the end of				Variations during ¹							
	2002-	2003-	October		2002-	2003-	October		2002-	2003-	October	
	03#	04#	2003	2004	03	04#	2003	2004	03	04#	2003	2004
	(Rs. crore)								Per cent			
I. Gross bank credit	669534	764383	693067	860187	80179	94849	23533	95804	14.9	14.2	3.5	12.5
1. Public food credit	49479	35961	36020	39711	-4499	-13518	-13459	3750	-8.3	-27.3	-27.2	10.4
2. Gross non-food credit	620055	728422	657047	820476	84678	108367	36992	92054	17.5	17.5	6.0	12.6
(a) Priority sectors (i+ii+iii) ²	211609	263834	232953	290015	28540	52225	21344	26181	16.3	24.7	10.1	9.9
i. Agriculture ³	73518	90541	79112	101808	10848	17023	5594	11267	17.9	23.2	7.6	12.4
ii. Small scale industry	60394	65855	60430	67177	3287	5461	36	1322	5.7	9.0	0.1	2.0
iii. Other priority sector	77697	107438	93411	121030	14405	29741	15714	13592	25.1	38.3	20.2	12.7
(b) Medium and large industries	235168	247210	230984	272626	28011	12042	-4184	25416	16.3	5.1	-1.8	10.3
(c) Wholesale trade (excluding food procurement)	22578	24867	22317	32447	1939	2289	-261	7580	9.5	10.1	-1.2	30.5
(d) Other sectors	150700	192511	170793	225388	26188	41811	20093	32877	22.8	27.7	13.3	17.1
(1) Housing	36587	51981	43822	68069	12308	15394	7235	16088	55.1	42.1	19.8	30.9
(2) Consumer durables	7219	8274	7877	7316	-111	1055	658	-958	-1.6	14.6	9.1	-11.6
(3) Real estate loans	5894	5577	6150	8240	502	-317	256	2663	19.3	-5.4	4.3	47.7
(4) Tourism and tourism related hotels	2428	3269	2939	3436	266	841	511	167	17.3	34.6	21.0	5.1
(5) Loans to individuals ⁴	2001	2020	2504	1956	242	19	503	-64	15.9	0.9	25.1	-3.2
II. Export credit ⁵	49202	57687	51147	59222	6424	8485	1945	1535	14.9	17.2	4.0	2.7

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.

increased from 33.9 per cent in 2002-03 to 34.8 per cent of their NBC. The share of priority sector lending by private banks improved from 44.4 per cent in 2002-03 to 47.4 per cent in 2003-04. Thus all bank groups fulfilled the minimum target set for priority sector lending in 2003-04.

3.43 While the overall target fixed for priority sector lending had been met by all bank groups, shortfalls were noticed in meeting the sub-targets prescribed under priority sector lending. Within the overall target of 40 per cent of NBC for domestic banks, the sub-target fixed for agriculture is 18.0 per cent and that for weaker sections is 10 per cent. Advances by PSBs to agriculture at 15.4 per cent of NBC in 2003-04 fell short in the sub-target by 2.6 percentage points in 2003-04. PSBs also fell short of the sub-target of 10 per cent set for weaker sections by 2.6 percentage points. Advances to agriculture by PSBs remained within a narrow range of 15.4 per cent and 15.7 per cent of NBC between 2000-01 and 2003-04. Advances by private sector banks to agriculture and weaker sections at 15.8 per cent and 1.3 per cent of NBC, respectively, also fell short of the sub-targets in 2003-04.

3.44 The sub-targets fixed for foreign banks are 10 per cent of NBC for SSI and 12 per cent of NBC for export credit. Advances by foreign banks to SSI sector constituted 10.4 per cent of NBC in 2003-04, an improvement of 1.7 percentage points over 2002-03. Foreign banks have consistently exceeded the sub-target under export credit. Credit to the export sector by foreign banks was 18.7 per cent of their NBC in 2003-04.

3.45 The decline in the share of SSI sector in total NBC has been a matter of grave concern. For PSBs, the share of SSI advances in total NBC has declined continuously from 14.2 per cent in 2000-01 to 10.4 per cent in 2003-04. For private sector banks and foreign banks, the corresponding declines have been from 13.8 per cent to 7.1 per cent, and from 10.6 per cent to 10.4 per cent, respectively.

3.46 The RBI has been taking initiatives from time to time to address the problem of declining credit flow to SSI sector. In 2003-04,

RBI raised the loan limit for SSI sector from Rs. 15 lakh to Rs. 25 lakh without the requirement of collateral. The RBI constituted a Working Group on flow of credit to SSI sector with Dr. A.S. Ganguly as Chairman. The Group submitted its report in April, 2004. The RBI has already accepted the following recommendations made by the Working Group:

- A full service approach to cater to the needs of the small and medium enterprises (SME) through extension of banking services to recognised SME clusters by adopting a 4-C approach, viz., Customer focus, Cost control, Cross sell and Contain risk.
- Promotion of corporate-linked SME cluster models by banks and financial institutions.
- Adoption of successful micro credit management models by SIDBI and Lead banks.
- Introduction of new instruments for promoting rural industry and improving flow of credit to rural artisans, industries and rural entrepreneurs.
- Higher working capital limits to be taken into account while extending credit to units located in hilly terrain and areas prone to frequent floods.

3.47 The RBI, in its annual policy statement for 2004-05, proposed that CIBIL would develop a system of proper credit records to enable banks to determine appropriate pricing of loans to SME. Furthermore, the RBI proposed a mechanism for debt restructuring for the SME sector. In its mid-term review of the annual policy for 2004-05, RBI announced further measures to improve the credit flow to SSI sector. RBI proposed that investments made by banks in securitised assets representing direct lending to the SSI sector would be treated as their direct lending to SSI sector under priority sector, provided the pooled assets represent loans to SSI sector which are reckoned under priority sector and the securitised loans are originated by banks/ financial institutions. RBI also raised the composite loan limit for SSI entrepreneurs from Rs. 50 lakh to Rs. 1 crore.

Lending to sensitive sectors

3.48. Advances by SCBs to sensitive sectors comprising capital market, real estate and commodities amounted to Rs. 27,455 crore at end-March, 2004. Advances by SCBs to the capital market recorded the highest growth of 34.2 per cent in 2003-04 followed by advances to commodities (13.9 per cent) and advances to real estate (13.7 per cent).

Real estate continues to remain the dominant sector receiving 51.6 per cent of advances under sensitive sectors followed by commodities (36.2 per cent) and capital market (12.2 per cent). The exposures of SCBs to sensitive sectors remain insignificant; advances to these sectors accounted for only 3 per cent of aggregate bank loans and advances (Table 3.7).

Table 3.7 : Lending to sensitive sectors					
Banks	2002-03	2003-04	Per cent variation	Per cent share in total	
	Rs. Crore			2002-03	2003-04
A. SCBs	23683	27456	15.9	100.0	100.0
1. Capital market	2484	3334	34.2	10.5	12.2
2. Real estate	12464	14170	13.7	52.6	51.6
3. Commodities	8735	9952	13.9	36.9	36.2
B. PSBs	15131	16414	8.5	63.9	59.8
1. Capital market	1032	1199	16.1	4.4	4.4
2. Real estate	7988	8558	7.1	33.7	31.2
3. Commodities	6111	6657	8.9	25.8	24.2
C. New pvt. banks	4424	5686	28.5	18.7	20.7
1. Capital market	660	823	24.7	2.8	3.0
2. Real estate	2702	3270	21.0	11.4	11.9
3. Commodities	1062	1593	50.0	4.5	5.8
D. Old pvt. banks	2600	3001	15.4	11.0	10.9
1. Capital market	207	280	35.4	0.9	1.0
2. Real estate	1067	1231	15.3	4.5	4.5
3. Commodities	1327	1490	12.3	5.6	5.4
E. Foreign banks	1528	2355	54.2	6.5	8.6
1. Capital market	585	1032	76.6	2.5	3.8
2. Real estate	708	1111	57.0	3.0	4.0
3. Commodities	235	212	-9.9	1.0	0.8