

Bank credit

3.37 Robust growth of the industrial sector and the government's conscious decision to increase credit to the agriculture sector led to rapid increases in bank credit. Non-food credit expanded by Rs. 2,21,802 crore (net of conversion) in 2004-05 compared to the increase of Rs. 1,25,088 crore in 2003-04. During the period (ending on January 20, 2006) of 2005-06, non-food credit expanded further by Rs.2,66,857 crore, up 25.2 per cent from Rs. 1,68,188 crore (net of conversion) in the corresponding period of the previous year.

3.38 Credit by SCBs increased significantly by 27.0 per cent (net of conversion) during 2004-05 compared to 15.3 per cent in the previous year. Food credit extended by SCBs had expanded by Rs. 5,159 crore in 2004-05 compared to a decline of Rs. 13,517 crore in the previous year. There has been a reversal of the trend in food credit, with food credit declining by Rs. 2,778 crore during 2005-06 up to January 20, 2006 compared to the increase of Rs. 5,468 crore during the corresponding period of the previous year. Thus, food credit declined by 6.8 per cent on a financial year basis, and on a year-on-year basis, there was a decline of 7.4 per cent.

3.39 The credit-to-GDP ratio grew steadily from about 10 per cent at end-December 1969 to about 40 per cent by end-March 2005. However, despite the steady increase over the years, the credit-to-GDP ratio in India is much lower than that in several advanced and emerging market economies. This suggests that financial deepening is still low in India and could improve further with the development of the financial sector.

Investments

3.40 Investments of SCBs — in Government and other approved securities under Statutory liquidity ratio (SLR) plus investments in the commercial sector in the form of bank credit against and investments in shares, debentures, bonds and commercial papers increased by 7.3 per cent (net of conversion) at end-March 2005 as against the increase of 23.8 per cent at end-March 2004. Furthermore, there was a pronounced shift in the composition of such investments. During 2004-05, the growth in investment in

Government and other approved securities was much lower at Rs.61,566 crore (9.1 per cent, net of conversion) than Rs.1,30,042 crore (23.8 per cent) in the previous year. SLR-investments as a proportion of Net Demand and Time Liabilities (NDTL) of SCBs declined to 38.4 per cent at end-March 2005 from 41.3 per cent at end-March 2004, but were still higher than the stipulated minimum of 25 per cent.

3.41 During 2005-06 up to January 20, 2006, SLR investment by SCBs declined by Rs.24,652 crore compared to an increase of Rs. 34,366 crore during the corresponding period of the previous year. This represents a decline of 3.3 per cent on financial year basis. However, on year-on-year basis increase was 0.4 per cent.

Sectoral deployment of bank credit

3.42 Bank credit disbursal during 2004-05 was well-diversified across different sectors of the economy, with flows to housing and retail sector particularly strong and a substantial pick up in flows to agriculture. Strong industrial recovery was accompanied by much higher credit growth of 17.4 per cent to industry (medium and large) in 2004-05 compared to only 5.1 per cent in the previous year. During 2005-06 up to end-October, 2005, the year-on-year growth of credit to industry accelerated further to 45.7 per cent. The share of industry in gross bank credit declined from 32.3 per cent during 2003-04 to 29.8 per cent during 2004-05. The declining trend was reversed during the current year up to October 2005, with the share increasing to 33.2 per cent from 31.7 per cent during the corresponding period of the previous year.

3.43 At end-March 2005, growth of credit to 'other sectors' at 36.0 per cent was higher than the growth of overall non-food credit of 27.9 per cent. Flow of credit to the infrastructure sector, in particular, grew sharply by 41.7 per cent at end-March 2005 compared to 36.9 per cent at end-March 2004. In 2005-06 up to end-October, 2005, year-on-year, credit to other sectors grew by 31.4 per cent. (Table 3.6)

Priority sector lending

3.44 After growing by 24.7 per cent in the previous year, lending by SCBs to priority sectors increased sharply by 31.0 per cent in 2004-05. The flow of credit to priority sectors

Table 3.6 : Sectoral deployment of gross bank credit

over	Outstanding balances of the end of				Variations during ¹					
	2003-04	2004-05	October		2003-04	2004-05	Oct.05 over Oct.04	2003-2004	2004-05	Oct.05 over Oct.04
			2004	2005						
	(Rs. crore)				Per cent					
I. Gross bank credit	764383	972587	860187	1197574	94849	208204	337387	14.2	27.2	39.2
1. Public food credit	35961	41121	39711	39805	-13518	5160	94	-27.3	14.3	0.2
2. Gross non-food credit	728422	931466	820476	1157769	108367	203044	337293	17.5	27.9	41.1
(a) Priority sectors (i+ii+iii) ²	263834	345627	290015	433422	52225	81793	143407	24.7	31.0	49.4
i. Agriculture ³	90541	122370	101808	141612	17023	31829	39804	23.2	35.2	39.1
ii. Small scale industry	65855	76114	67177	78780	5461	10259	11603	9.0	15.6	17.3
iii. Other priority sector	107438	147143	121030	213030	29741	39705	92000	38.3	37.0	76.0
(b) Medium and large industries	247210	290186	272626	397135	12042	42976	124509	5.1	17.4	45.7
(c) Wholesale trade (excluding food procurement)	24867	33814	32447	31012	2289	8947	-1435	10.1	36.0	-4.4
(d) Other sectors	192511	261839	225388	296200	41811	69328	70812	27.7	36.0	31.4
Of which:										
(1) Housing	51981	75173	68069	153267	15394	23192	85198	42.1	44.6	125.2
(2) Consumer durables	8274	8655	7316	8791	1055	381	1475	14.6	4.6	20.2
(3) Real estate loans	5577	10612	8240	20148	-317	5035	11908	-5.4	90.3	144.5
(4) Loans to individuals ⁴	2020	2390	1956	4843	19	370	2887	0.9	18.3	147.6
II. Export credit ⁵	57687	65914	59222	71826	8485	8227	12604	17.2	14.3	21.3

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.

Note : (a) Figures for 2003-04 are provisional. Data relate to 47 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.
(b) Outstanding balances at end-October 2005 for housing includes priority sector housing also.

increased by Rs.81,793 crore (accounting for 39.3 per cent of net bank credit) in 2004-05 compared to Rs.52,225 crore (accounting for 54.8 per cent) in 2003-04. Total outstanding credit to priority sectors on March 31, 2005 was Rs.3,45,627 crore. During 2005-06 upto end-October, 2005, SCBs credit to priority sectors expanded by Rs.1,43,407 crore over the level of the corresponding period of the previous year representing an increase of 49.4 per cent.

3.45 Credit flow to priority sectors was driven mainly by agriculture and 'other priority sectors'. Credit to agriculture had more than doubled in the last three years from Rs. 60,761 crore at end-March 2002 to Rs. 1,22,370 crore at end-March 2005; at end-October 2005, the outstanding balances were Rs. 1,41,612

crore. Credit to small-scale industries, after increasing from Rs. 57,199 crore at end-March 2002 to Rs. 76,114 crore at end-March 2005, further increased to Rs. 78,780 crore at end October 2005. RBI initiated a number of policy measures to augment credit flow to Small and Medium Enterprises (SME) sector.

Lending to sensitive sector

3.46 SCBs' credit to sensitive sectors, which consist of capital market, real estate market and some selected commodities, was driven mainly by the demand of the real estate market (Table 3.7). In view of the very rapid growth of credit to the real estate sector, RBI tightened the prudential norm by enhancing the risk weight on banks' exposure to this sector.

Table 3.7 : Lending to sensitive sectors

Banks	2003-04	2004-05	2003-04	2004-05	% share in total	
	Rs. Crore		Percent		2003-04	2004-05
A. SCBs	29018	39240	22.5	35.2	100.0	100.0
(i) Capital market	3711	3767	49.4	1.5	12.8	9.6
(ii) Real estate	15848	24691	27.1	55.8	54.6	62.9
(iii) Commodities	9459	10783	8.3	14.0	32.6	27.5
B. PSBs	17176	22863	13.5	33.1	59.2	58.3
(i) Capital market	1185	1512	14.8	27.6	4.1	3.9
(ii) Real estate	9937	15125	24.4	52.2	34.2	38.5
(iii) Commodities	6054	6225	-0.9	2.8	20.9	15.9
1. Nationalised	15192	18997	14.1	25.0	52.4	48.4
(i) Capital market	1104	1334	15.1	20.8	3.8	3.4
(ii) Real estate	9083	12438	25.6	36.9	31.3	31.7
(iii) Commodities	5004	5225	-2.3	4.4	17.2	13.3
2. State bank group	1984	3866	9.0	94.9	6.8	9.9
(i) Capital market	81	178	11.1	119.3	0.3	0.5
(ii) Real estate	853	2687	12.8	214.9	2.9	6.8
(iii) Commodities	1049	1000	5.9	-4.6	3.6	2.5
C. New Pvt. banks	6061	8644	37.0	42.6	20.9	22.0
(i) Capital market	1167	1048	76.8	-10.2	4.0	2.7
(ii) Real estate	3301	5211	22.2	57.9	11.4	13.3
(iii) Commodities	1593	2384	50.0	49.7	5.5	6.1
D. Old Pvt. banks	3001	4292	15.4	43.0	10.3	10.9
(i) Capital market	280	342	35.4	22.4	1.0	0.9
(ii) Real estate	1231	2311	15.4	87.8	4.2	5.9
(iii) Commodities	1490	1638	12.3	9.9	5.1	4.2
E. Foreign banks	2781	3442	82.1	23.8	9.6	8.8
(i) Capital market	1079	864	84.6	-20.0	3.7	2.2
(ii) Real estate	1380	2042	94.9	48.0	4.8	5.2
(iii) Commodities	322	536	37.0	66.4	1.1	1.4