

Bank credit

3.58 With credit growing by 30.8 per cent in 2005-06, credit-deposit (C-D) ratio of the SCBs was sharply up from 64.7 per cent at end-March 2005 to 71.5 per cent at end-March 2006. With buoyant credit growth, the C-D ratio has continued to grow during the current year so far, and was 74.0 per cent on January 19, 2007 compared to 70.0 per cent on the corresponding date of the previous year.

3.59 Higher-than-expected GDP growth, particularly in manufacturing, appears to be driving the demand for non-food credit. Non-food credit by SCBs expanded by Rs. 259,435 crore during the current year up to January 19, 2007, substantially higher than the Rs. 212,176 crore observed during the corresponding period of the previous year.

Investments

3.60 SCBs' investment portfolio consist of: (i) SLR investments, comprising of investment in Government and other approved securities, and (ii) non-SLR investments comprising of commercial papers, shares, bonds and debentures issued by the corporates. Compared to an increase of Rs. 49,373 crore during 2004-05, SLR investments by SCBs declined by Rs. 22,809 crore during 2005-06. The decline in 2005-06 was mainly through an offloading of Government securities worth Rs. 19,514 crore and was for funding the growing demand for credit.

3.61 As a proportion of NDTL, SLR investment by SCBs is, by law, required to be at least 25 per cent, but such investments by SCBs are normally above this limit. While it had come down from 38.0 per cent at end-March 2005 to 31.3 per cent at end-March 2006, it continued to be considerably higher than the statutory requirement of 25.0 per cent.

3.62 During the current financial year up to January 19, 2007, with a hike in the deposits

rates and consequent pick-up in deposit growth, SLR investment increased sharply by Rs. 41,837 crore (of which, Rs. 36,754 crore in Government securities) compared to a decline of Rs.24,881 crore (of which, Rs.22,885 crore in Government securities) during the corresponding period of 2005-06. Nevertheless, with SLR investments growing slower than deposits, SLR investments as a proportion of deposits declined to 31.8 per cent on January 19, 2007 compared to 36.8 per cent a year ago. As on January 19, 2007, SLR investment by SCBs was Rs. 759,291 crore — with investment in Government securities at Rs.737,496 crore.

Sectoral deployment of bank credit

3.63 Credit to agriculture and allied sector expanded by Rs. 49,602 crore (39.9 per cent) in 2005-06 compared to an increase of Rs. 33,728 crore (37.3 per cent) in the previous year. Credit to industry (large and medium) increased by Rs.110,435 crore (31.6 per cent) in 2005-06, compared to the expansion of Rs. 101,737 crore (41.2 per cent) in 2004-05. Credit to small scale industries was higher by Rs. 16,757 crore (22.6 per cent) compared to Rs. 8,334 crore (12.7 per cent) in 2004-05. Credit to housing loans expanded by Rs.50,882 crore (38.0 per cent) in 2005-06 compared to Rs.81,927 crore (157.6 per cent) in 2004-05. While loans to real estate during 2005-06 increased by Rs.12,832 crore compared to Rs. 7,969 crore extended during 2004-05, the growth rate of 94.7 per cent in 2005-06 was lower than the corresponding growth rate of 142.9 per cent observed during the previous year.

3.64 Provisional data on sectoral deployment of non-food credit for the first half of 2006-07 indicates the continuation of the trend of broadening outreach of such credit across the various sectors witnessed during the earlier year, On September 29, 2006, the

year-on-year increase in credit to agriculture and allied activities was Rs. 46,333 crore or 33.0 per cent and to industry (large and medium) was Rs.98,274 crore or 24.3 per cent. On a year-on-year basis, housing loans as well as loans to real estate continued to expand at a faster rate of 37.3 per cent and 97.1 per cent, respectively. (Table 3.6).

Priority sector lending

3.65 The higher credit to agriculture and housing sector, which together constituted more than two-thirds of incremental priority sector lending, helped in the 36.0 per cent increase in priority sector lending in 2005-06 on top of an increase of 42.1 per cent in the previous year. Policy measures initiated by the Government and the RBI had facilitated higher credit to small scale industries, which registered an increase of 22.6 per cent in 2005-06 as compared to 12.7 per cent during the previous year. During 2006-07, the outstanding credit to the priority sectors as on September 29, 2006 was Rs. 536,734 crore compared to Rs.427,646 crore as on September 30, 2005.(Table 3.6)

Lending to sensitive sectors

3.66 A sharp increase in the exposure to the real estate sector during 2005-06 led to substantial lending to 'sensitive sectors' by SCBs. Overall exposure to sensitive sectors during 2005-06 was 18.9 per cent of aggregate bank credit, of which loans to real estate, capital market and commodities sectors in total credit were 17.2 per cent, 1.5 per cent and 0.3 per cent, respectively. Share of the real estate sector in such lending increased from 88.9 per cent to 90.8 per cent between end-March 2005 and end-March 2006 (Table 3.7).

Table 3.7: Lending to sensitive sectors by scheduled commercial banks

Sector	At end-March			
	2005		2006	
	Rs. Crore		Per cent to total	
(i) Capital market	15860	22077	9.7	7.7
(ii) Real estate	145605	260223	88.9	90.8
(iii) Commodities	2366	4391	1.4	1.5
Total	163831	286691	100.0	100.0

Table 3.6 : Sectoral deployment of gross bank credit

	Outstanding balances at the end of				Variations during ¹					
	2004-05		2005-06		2004-05		2005-06		2006 over 2005	
	September 2005		September 2006		Sep.06 over Sep.05		Sep.06 over Sep.05		Sep.06 over Sep.05	
	(Rs. crore)				Per cent					
I. Gross bank credit	1045954	1433728	1194588	1576982	281571	387774	382394	36.8	37.1	32.0
1. Public food procurement credit	41121	40691	40327	33458	5160	-430	-6869	14.3	-1.0	-17.0
2. Gross non-food Bank Credit	1004833	1393037	1154261	1543524	276411	388204	389263	37.9	38.6	33.7
(a) Priority sectors (i+ii+iii) ²	374953	509886	427646	536747	111119	134933	109101	42.1	36.0	25.5
i. Agriculture ³	124269	173871	140194	186527	33728	49602	46333	37.3	39.9	33.0
ii. Small scale industry	74189	90946	77827	94934	8334	16757	17107	12.7	22.6	22.0
iii. Other priority sector	176495	245069	209625	255286	69057	68574	45661	64.3	38.9	21.8
(b) Medium and large industries	348947	459382	403686	501960	101737	110435	98274	41.2	31.6	24.3
(c) Wholesale trade (excluding food procurement)	31559	39661	30534	43509	6692	8102	12975	26.9	25.7	42.5
(d) Other sectors of which:	249374	384108	292395	461308	56863	134734	168913	29.5	54.0	57.8
(1)Housing	133908	184790	152286	209099	81927	50882	56813	157.6	38.0	37.3
(2)Consumer durables	8976	8167	9211	9574	702	-809	363	8.5	-9.0	3.9
(3)Real estate loans	13546	26378	18047	35574	7969	12832	17527	142.9	94.7	97.1
(4)Loans to individuals ⁴	4101	5210	4323	4485	2081	1109	162	103.0	27.0	3.7

Note : Data is provisional; accounts for 90 per cent of bank credit of all SCBs.

- As on the last reporting Friday of the year.
- Excluding investments in eligible securities.
- Indirect finance not included.
- Against shares and debentures/bonds