BANK CREDIT

5.3 With the transition of the Indian economy to a higher growth trajectory, the provision of adequate and timely availability of bank credit to the productive sectors of the economy has acquired importance. As public sector banks still own about 71 per cent of the assets of the banking system, they continue to play an important role in responding to the changes in the economic environment. As the banking regulator and supervisor and as the monetary policy authority, the Reserve Bank of India (RBI) continues to guide the banking system, including foreign, private sector and public sector banks, to meet emerging economic challenges.

Policy Intervention

5.4 A number of policy initiatives have been taken by the RBI/Finance Ministry to make the banking system more responsive to the needs of the market as well as to strengthen its role in making growth more inclusive. Some of the measures initiated to widen the credit delivery include: (i) permitting the use of banking facilitators/ correspondents; (ii) augmentation of credit flow to the agriculture and other priority sectors as also to the distressed farmers and the areas hit by natural calamities; (iii) simplification of systems and procedures; (iv) information technology to address the last mile problem; and, (v) providing greater operational flexibility to the Regional Rural Banks (RRBs).

Access to banking facilities

5.5 A large number of people, especially in rural areas, do not have bank accounts. Banks have been encouraged to make available “no-frills” bank accounts with “nil” or very low minimum balances making such accounts accessible to public at large. The RRBs have also been advised to allow limited overdraft facilities in “no–frills” accounts without any collateral. Banks are required to make available all the printed material used by retail customers in the regional language concerned. All the State Level Bankers’ Committee (SLBC) convenor banks have been advised to initiate action for identifying at least one district in their State/Union Territory for 100 per cent financial inclusion. Guidelines have been issued to banks to enhance their outreach by utilizing "business facilitators" and "business correspondents" models. Banks are also entering into agreements with the Indian postal authority for using the wide network of post offices as business correspondents.

Directed credit

5.6 Efforts to widen and intensify the credit delivery mechanism have also continued. The guidelines on lending to the priority sector were revised, effective April 30, 2007, to expand its ambit. The target and sub-targets for the sector are being linked to (i) adjusted net bank credit (ANBC) or (ii) credit-equivalent amount of off-balance sheet exposure, as on March 31 of the previous accounting year. The broad categories of the priority sector for scheduled commercial banks now include: (i) Agriculture (direct and indirect finance), (ii) Small enterprises (direct and indirect finance), (iii) Retail trade, (iv) Micro-credit, (v) Education loans and (vi) Housing loans.

5.7 All SLBC convenor banks were advised on May 8, 2007, to review their institutional arrangements for delivering credit to the Small and Medium Enterprises (SME) sector, particularly in 388 clusters identified by the United Nations Industrial Development Organization (UNIDO) spread over 21 States of the country. Public sector banks were advised to operationalize at least one specialized Small Scale Industry (SSI) branch in every district and centre having a cluster of SSI units. At end-March 2007, 636 specialized SSI bank branches were in operation as compared to 629 at end-March 2006.

5.8 To ensure steady flow of credit to various segments of SSI, new instructions were given in April and July 2007. Banks were advised in July 2007 to ensure that (i) 40 per cent of total advances to small enterprises sector should go to micro (manufacturing) enterprises having investment in plant and machinery up to Rs. 5 lakh and micro (service) enterprises having investment in equipments up to Rs. 2 lakh; (ii) 20 per cent of the total advances to small enterprises sector should go to micro (manufacturing) enterprises with investment in plant and machinery above Rs. 5 lakh but less than Rs. 25 lakh and micro (service) enterprises with investment in equipments above Rs. 2 lakh but less than Rs. 10 lakh.

5.9 The revised priority sector guidelines envisaged that foreign banks having a shortfall in the stipulated priority sector lending target/sub-targets would be required to contribute to the Small Enterprises Development Fund (SEDF) to be set up by the SIDBI, or for such other purpose as may be stipulated by the RBI from time to time. The corpus of SEDF would be decided by the RBI on a year-on-year basis. The tenors of deposits shall be for a period of three years or as decided by the RBI from time to time.

Credit subsidy

5.10 From the *kharif* and *rabi* of 2005-06 commercial banks had provided interest relief of two percentage points in the interest rate on the principal amount up to Rs. 1 lakh on each crop loan granted by them. The Government had also ensured that the farmers receive short-term credit at 7 per cent rate of interest on loans up to Rs. 3,00,000 on the principal amount with effect from *kharif* 2006-07. The public sector banks and RRBs were advised that the Government would provide interest rate subvention of 2 per cent per annum to them in respect of the short-term production credit up to Rs. 3,00,000 provided to farmers. The Union Budget 2007-08 announced that the 2 per cent subvention scheme for short-term crop loans would continue in 2007-08.

Bank Credit and Investment

Bank credit

5.11 The credit-deposit (C-D) ratio reached an all-time high of 74 per cent at end-March 2007. This was despite a deceleration in the Scheduled Commercial Banks' (SCBs) credit growth to 28 per cent at end-March 2007 from 30.8 per cent at end-March 2006. RBI's policy interventions have reduced credit growth sharply during the current financial year, with the SCBs' credit growing by only 21.5 per cent till January 4, 2008, compared to 30.8 per cent on January 5, 2007. Concomitantly, the non-food credit by SCBs as on this date was well below the indicative target of 24-25 per cent growth for 2007-08. The C-D ratio has consequently decreased to 71.8 per cent as on January 4, 2008 (Figure 5.1), compared to 74 per cent on January 5, 2007. Any further deceleration in the credit provided by SCBs would not only worsen the credit deposit ratio but would also have a detrimental impact on the overall economic growth.

Bank investments

5.12 Investments by SCBs in SLR (statutory liquidity ratio) securities grew by 10.2 per cent during 2006-07 compared to a decline of 3.1 per cent during 2005-06. This was mainly due to significant improvement in the mobilization of deposits, in particular the term deposits by SCBs. They were Rs. 7,90,432 crore at end-March 2007 compared to Rs. 7,17,454 crore at end-March 2006. The increase in investments was largely in the Government securities (Rs. 74,239 crore) compared to the decline of Rs. 19,514 crore during 2005-06. During the current financial year 2007-08 too, there has been an upward trend in the SLR investments; these investments (up to January 4, 2008) had expanded by Rs. 1,64,458 crore. They remain above the statutory minimum of 25 per cent.

5.13 The current financial year has witnessed a spurt in SLR investments due to continued higher aggregate deposit mobilization coupled with lower offtake of credit. On a year-on-year basis as on January 4, 2008, the increase in SLR investments was Rs. 1,89,349 crore (with investment in the Government securities at Rs. 1,85,524 crore)

Figure 5.1 Credit-deposit ratio

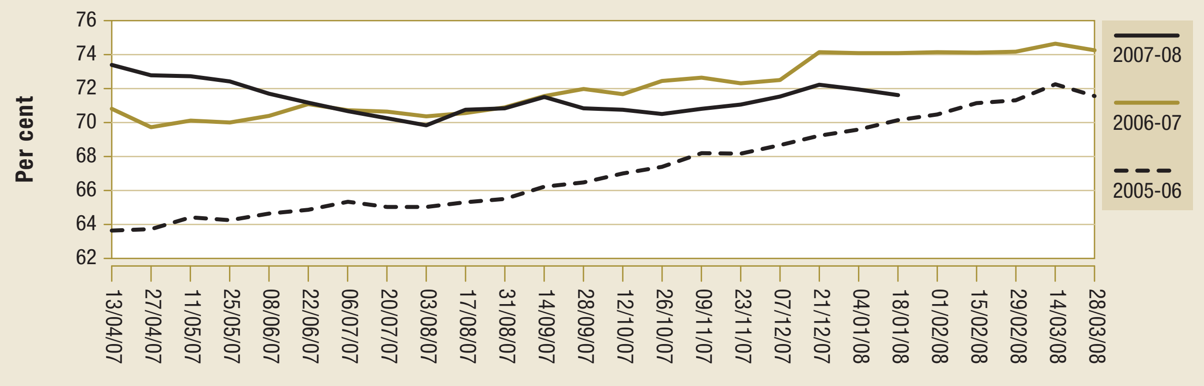
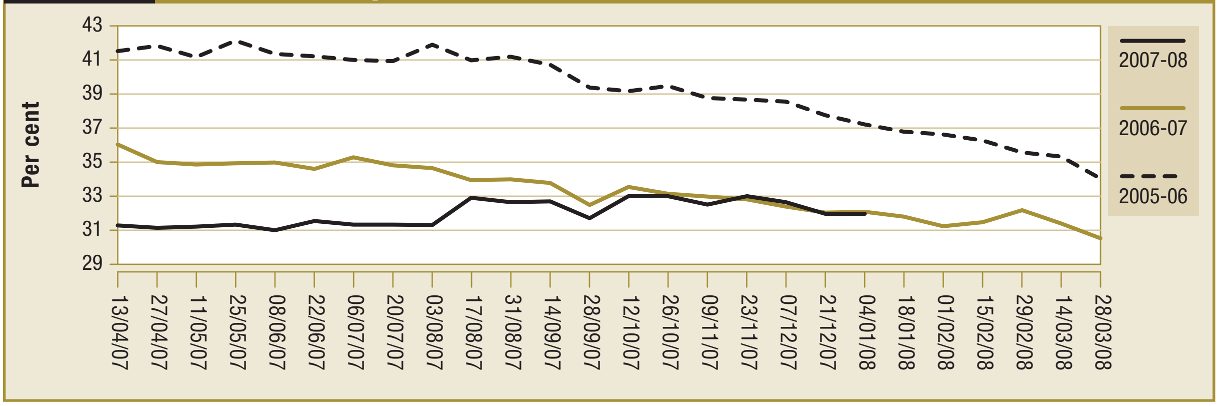


Figure 5.2 Investment-deposit ratio



compared to an increase of Rs. 42,836 crore (investments in Government securities at Rs. 45,379 crore) during the corresponding period of the previous year. The investment-deposit ratio as on January 4, 2008, was the same as was on January 5, 2007, at 32 per cent (Figure 5.2). This was higher than the level as at end-March 2006.

5.14 Non-SLR investments by SCBs during 2006-07 had expanded by Rs. 3,929 crore. During the current financial year (up to January 4, 2008) these investments increased by Rs. 4,679 crore compared to a decline of Rs. 32 crore during the corresponding period of the previous year.

Sectoral deployment of bank credit

5.15 As per the sectoral credit data relating to 51 SCBs (covering about 90 per cent of SCBs credit) there was deceleration in the overall credit expansion during the year 2006-07 compared to the earlier year. During the current financial year, (as on last Friday of November 2007) bank credit expansion has further slowed down.

Priority sector lending

5.16 As per the RBI stipulation, domestic banks and foreign banks operating in India are required to provide 40 per cent and 32 per cent,

Table 5.1 Sectoral deployment of gross bank credit

Items	Per cent[1]				Per cent share in total			
	2005-06	2006-07	Nov-06	Nov-07	2005-06	2006-07	Nov-06	Nov-07
Gross bank credit	38.0	27.6	29.1	22.0	100.0	100.0	100.0	100.0
1. Public food procurement credit	-1.0	14.3	-8.9	-2.5	2.8	2.5	3.4	2.4
2. Gross non-food bank credit	39.6	27.9	30.4	22.6	97.2	97.5	96.6	97.6
(a) Priority sectors (i+ii+iii)[2]	36.1	24.0	25.1	20.5	35.3	34.3	35.2	34.1
i. Agriculture and allied activities[3]	39.9	32.4	31.5	21.5	12.0	12.5	11.7	11.9
ii. Small-scale industry	22.7	28.4	21.1	34.5	6.3	6.3	6.4	6.0
iii. Housing	47.5	21.5	28.1	20.8	9.2	8.8	9.3	9.2
iv. Other priority sectors	30.0	10.4	15.2	6.2	7.8	6.7	7.8	7.0
(b) Medium and large industries	31.5	25.2	26.5	23.4	31.8	31.2	32.1	31.5
(c) Wholesale trade (excluding food procurement)	25.4	25.1	38.0	13.7	2.7	2.7	2.6	2.8
(d) Other sectors	58.2	36.5	41.6	25.3	27.3	29.2	26.6	29.2
Of which:								
1. Housing	19.2	32.5	33.4	16.1	3.6	3.7	12.5	13.2
2. Consumer durables	-20.9	28.9	11.2	-4.4	0.5	0.5	0.7	0.6
3. Real estate loans	97.1	69.8	77.7	33.4	1.8	2.5	1.7	2.4
4. Loans to individuals[4]	27.4	-13.7	-6.4	-7.1	0.4	0.2	0.4	0.3

Source: Reserve Bank of India.

Note: Data is provisional and accounts for 90 per cent of bank credit of SCBs.
1. **As on the last reporting Friday of the year/month.**
2. **Exclude investments in eligible securities.**
3. **Indirect finance not included.**
4. **Against shares and debentures/bonds.**

respectively, of their adjusted net bank credit to priority sector. The credit to priority sector extended by SCBs during 2006-07 followed the overall trend in the expansion of credit during the year. It had expanded by a lower amount of Rs. 1,22,472 crore (24 per cent growth) compared to Rs. 1,35,222 crore (36.1 per cent) during 2005-06. Loans extended to agriculture was higher at Rs. 56,305 crore (32.4 per cent) compared to Rs. 49,606 crore (39.9 per cent) in the previous year. The credit to SSI sector was higher at Rs. 25,888 crore (28.4 per cent) compared to Rs. 16,831 crore (22.7 per cent). During 2007-08, the credit to the priority sectors on the last reporting Friday of November 2007, increased by 20.5 per cent compared to 25.1 per cent during the corresponding month of the previous year (Table 5.1).

Export Credit

5.17 Apart from the commercial banks, the Export-Import Bank of India (Exim Bank) is also financing different stages of exports. Availability of adequate export credit at competitive rates continues to be an important factor of export performance. While export credit as a proportion of net bank credit (NBC) has gone down steadily in the current decade (Table 5.2), in the first nine months of the current year, export credit as percentage of NBC increased marginally. Export credit as proportion of exports reached a high of 29.5 per cent as on December 21, 2007.

Table 5.2 Export credit

Outstanding as on	Export credit (Rs. crore)	Variations (per cent	Export credit as per cent of NBC	Export credit as per cent exports
March 24, 2000	39118	9.0	9.8	24.5
March 23, 2001	43321	10.7	9.3	21.3
March 22, 2002	42978	-0.8	8.0	20.6
March 21, 2003	49202	14.5	7.4	19.3
March 19, 2004	57687	17.2	7.6	19.7
March 18, 2005	69059	19.7	6.3	18.4
March 31, 2006	86207	24.8	5.7	18.9
March 30, 2007	104926	21.7	5.4	18.4
Dec. 22, 2006	97763	13.4[b]	5.6	26.5
Dec. 21, 2007[a]	117719	12.2	5.5	29.5

Source: Reserve Bank of India.

[a] Over the corresponding figure as on March 30, 2007 (variation)

[b] Variation over March 31, 2006

Note : 1. Data up to March 2004 relate to select banks accounting for 90 per cent of bank credit

2. March 18, 2005, onwards, data pertain to all scheduled banks excluding RRBs availing export credit refinance from the RBI.

Lending to sensitive sectors

5.18 Credit to real estate by SCBs expanded by 41.5 per cent at end-March 2007 compared to 78.7 per cent growth at end-March 2006. The 91.9 per cent share of the real estate sector in the total credit of Rs. 4,03,532 crore extended to sensitive sectors continued to be high (Table 5.3). The outstanding credit extended to the capital market at end-March 2007 increased by 37.4 per cent compared to an expansion of 40.6 per cent at end-March 2006.

Table 5.3 Lending to sensitive sectors by SCBs

Sector	At end-March			
	2006	2007	2006	2007
	Rs. crore		Per cent to total	
(i) Capital market	22303	30637	7.8	7.6
(ii) Real estate	262053	370689	91.7	91.9
(iii) Commodities	1413	2206	0.5	0.6
Total	**285770**	**403532**	**100.0**	**100.0**

5.19 Total exposure of SCBs to the sensitive sectors was 20.4 per cent of aggregate bank loans and advances in 2006-07 as compared to 18.8 per cent in the previous year.

Agricultural credit

5.20 To improve credit flow to the agriculture sector, the Government initiated a number of policy measures, from time to time, like farm credit package and Special Agricultural Credit Plans (SACP). The Union Finance Minister in his Budget speech for 2006-07 had urged the banks (including cooperative banks and RRBs) to disburse Rs. 1,75,000 crore as credit to agriculture sector during 2006-07. The overall achievement during 2006-07 was Rs. 2,03,296 crore. Also, new farmers covered under the institutional credit system were 8.35 million as against the target of 5 million. Encouraged by the achievement, Budget 2007-08 set a higher target of Rs. 2,25,000 crore for disbursement of credit and further addition of 5 million new farmers as borrowers to the banking system. Up to November 30, 2007, the flow of

Table 5.4 Institutional credit to agriculture and allied activities

(Rs. crore)

Agencies	2002-03	2003-04	2004-05	2005-06	2006-07[a]	2007-08[b]
Cooperative banks	23,716.38	26,958.79	31,424.23	39403.77	42,479.80	33,070.17
RRBs	6,069.79	7,581.15	12,404.00	15222.90	20,434.65	15,924.56
Commercial banks	39,773.60	52,440.85	81,481.14	125858.90	1,40,381.93	88,764.83
Total	**69,559.77**	**86,980.79**	**1,25,309.37**	**1,80,485.57**	**2,03,296.38**	**1,37,759.56**

Source: NABARD [a] Provisional [b] Up to November 30, 2007

credit to this sector was Rs. 1,37,760 crore which is about 61 per cent of the target (Table 5.4).

Kisan Credit Card (KCC) Scheme

5.21 To provide adequate and timely credit support to the farmers from the formal banking system in a flexible, hassle-free and cost-effective manner the Kisan Credit Card (KCC) scheme was introduced in 1998-99. The KCC scheme has now been extended to borrowers of the long-term cooperative credit structure, thus paving the way for acceptance of KCC as a single window for a comprehensive credit product. To give further fillip to the KCC scheme, NABARD advised all RRBs to achieve the targets of issuing at least 150 KCCs by each branch of RRB during 2007-08. Since inception of the KCC scheme, the banking system has issued 707.55 lakh KCCs up to November 30, 2007 (Table 5.5).

5.22 During 2006-07, the total number of KCCs issued were 85.11 lakh and the amount sanctioned was Rs. 46,729 crore. As per the available information for 2007-08 (as on November 30, 2007), the amount sanctioned was Rs. 25,263 crore.

Table 5.5 Agency-wise KCCs issued

(lakh)

Year	Cooperative banks	RRBs	Commercial banks	Total
1998-99	1.56	0.06	6.22	7.84
1999-00	35.95	1.73	13.66	51.34
2000-01	56.14	6.48	23.90	86.52
2001-02	54.36	8.34	30.71	93.41
2002-03	45.79	9.64	27.00	82.43
2003-04	48.78	12.75	30.94	92.47
2004-05	35.56	17.29	43.95	96.80
2005-06	25.98	12.49	41.65	80.12
2006-07	22.97	14.06	48.08	85.11
2007-08[a]	14.01	10.29	7.21[b]	31.51
Total	**341.10**	**93.13**	**273.32**	**707.55**
% Share	**48.21**	**13.16**	**38.63**	**100.00**

Source: NABARD and RBI.
[a] As on November 30, 2007
[b] Up to June 30, 2007

5.23 With the renewed emphasis by the Government on increasing credit flow to the agriculture sector, NABARD advised cooperative banks and RRBs to identify and cover all farmers including defaulters, oral lessees, tenant farmers, sharecroppers and others, who might have been left outside the fold of the KCC scheme for any reason, as also new farmers so that all farmers are covered under the scheme by March 31, 2007. Further, the banks were advised to issue KCCs in a hassle-free manner and extend crop loans only through KCC and renew them so as to ensure "quality in operations". To make the operation more user-friendly and comprehensive in its coverage of credit needs of the farmers through a single window, NABARD has extended the scope of KCC to cover term loans for agriculture and allied activities and reasonable component for consumption loan. The scheme has also been extended to the clientele of the State Cooperative Agriculture and Rural Development Banks (SCARDBs).

Micro-finance

5.24 The Self-Help Group (SHG)-bank linkage programme continued to be the main micro-finance model by which the formal banking system reaches the microentrepreneurs (including farmers). Launched in 1992 as a pilot project, it has since proved its efficacy as a mainstream programme for banking by the poor who mainly comprise the marginal farmers, landless labourers, artisans and craftsmen and others engaged in small business like hawking and vending in the rural areas. The main advantages of the programme are timely repayment of loans to banks, reduction in transaction costs both to the poor and the banks, doorstep "saving and credit" facility for poor and exploitation of the untapped business potential of the rural areas. In all 498 banks (50 commercial banks, 96 amalgamated RRBs and 352 cooperative banks) are actively participating in the programme. As on December 31, 2007, bank loan of Rs. 20,114

Table 5.6 Progress under SHG-bank linkage

Year	New SHGs financed by banks			Bank loan[a] (Rs. crore)		
	During the year		Cumulative	During the year		Cumulative
	No.	Growth (%)	No.	Amount	Growth (%)	amount
2002-03	255,882	29	717,360	1,022.34	87	2,048.68
2003-04	361,731	41	1,079,091	1,855.53	81	3,904.21
2004-05	539,365	49	1,618,456	2,994.25	62	6,898.46
2005-06	620,109	15	2,238,565	4,499.09	50	11,397.55
2006-07	686,408	11	2,987,441	6,643.19	47	18,040.74
2007-08[b]	126,068		3,051,041	2072.78		20,113.52

[a] Includes repeat loans to existing SHGs.
[b] As on December 31, 2007.

crore was availed of by 30.51 lakh SHGs (Table 5.6). The average bank loan availed of per SHG and per family amounted to Rs. 65,924 and Rs. 4,708, respectively. The outreach of the programme has enabled an estimated 427 lakh poor households to gain access to micro-finance from the formal banking system.

Rural Infrastructure Development Fund

5.25 The Rural Infrastructure Development Fund (RIDF) is operated by NABARD with funds raised from the scheduled commercial banks (public sector banks and private sector) which are unable to meet their targets for priority sector and/or agriculture lending. The fund has completed 12 years of its operations. RIDF XIII has been set up with the NABARD with a corpus of Rs. 12,000 crore for 2007-08. The separate window opened under the RIDF XII for financing of rural roads under the Bharat Nirman with a corpus of Rs. 4,000 crore during 2006-07 has been continued for the year 2007-08 with an additional corpus of Rs. 4,000 crore. Out of the total corpus of the RIDF (RIDF I to XIII) aggregating to Rs. 72,000 crore (excluding Rs. 8,000 crore allocated for the Bharat Nirman), the amount sanctioned and disbursed to the State Governments, as on January 11, 2008, was Rs. 69,883 crore and Rs. 41,360 crore, respectively. During 2007-08 (up to January 11, 2008), the amount sanctioned and disbursed was Rs. 8,592 crore and Rs. 3,800 crore, respectively. The first six tranches RIDF I to VI have been closed. The seventh tranche was closed on December 31, 2007; however, disbursements would be made till March 31, 2008. The phasing period of implementation in respect of projects under RIDF VIII to X tranches has been extended up to March 31, 2008. The scheduled dates of closure of RIDF XI and XII are March 31, 2008 and March 2009, respectively.

Bank Performance

Banking regulations

5.26 To prepare banks for the implementation of BASEL II norms, a three-track approach has been adopted by the RBI with regard to capital adequacy rules. In the first track are commercial banks. They are required to maintain capital for credit risk and market risk as per BASEL I framework. In the second track are the cooperative banks. They are required to maintain prescribed capital for credit risk as per BASEL I framework and through surrogates for market risk. The RRBs, which are on the third track, have to maintain a minimum capital which may not be on par with BASEL I rules.

5.27 The guidelines on sale/purchase of NPAs were revised in May 2007, whereby it was stipulated that at least 10 per cent of the estimated cash flow should be realized in the first year and at least 5 per cent in each half year thereafter, subject to full recovery within three years.

Financials

5.28 The income, expenditure and profitability of SCBs improved at a faster rate in 2006-07. Total income increased at a robust rate of 25.1 per cent during 2006-07 compared to 16 per cent during 2005-06. Income was, however, 8 per cent of total assets at end-March 2007, only marginally higher than the 7.9 per cent at end-March 2006. Return on advances registered a higher growth rate of 7.9 per cent at end-March 2007 compared to 7.3 per cent at end-March 2006 mainly due to hardening of interest rates. Consequently, interest income was 6.9 per cent of assets at end-March 2007 compared to 6.7 per cent of assets at end-

March 2006. "Other income" to assets ratio declined from 1.3 per cent as at end-March 2006 to 1.1 per cent at end-March 2007.

5.29 SCBs' expenditure also accelerated in line with income, growing at 24.9 per cent during 2006-07, up from a growth of 15.9 per cent during 2005-06. This was mainly due to a doubling of the rate of growth of interest expenditure to 34.3 per cent compared to a growth of 15.9 per cent in 2005-06. In contrast, the growth of operating expenses decelerated from a growth rate of 18.1 per cent during 2005-06 to 12 per cent in 2006-07. This owed to lower increase in the wage bill during 2006-07. Accordingly, banks' burden (excess of non-interest expenditure over non-interest income) declined marginally to 0.8 per cent of assets in 2006-07 from 0.9 per cent in 2005-06. The efficiency ratio, defined as operating expenses as a percentage of net interest income plus non-interest income, improved substantially to 50.2 per cent during 2006-07 from 52.1 per cent during 2005-06.

5.30 Higher interest income and moderation in the operating expenses during 2006-07 positively impacted on the operating profits of SCBs. There was a 21.2 per cent increase in the operating profits of SCBs during 2006-07 compared to 6.6 per cent during 2005-06. All banks except the State Bank Group registered higher operating profit. The operating profit as a proportion of total assets of SCBs, however, declined marginally to 1.9 per cent in 2006-07 from 2 per cent in 2005-06. The rate of return (RoR), defined as the ratio of net profit to total assets of SCBs, remained static at 0.9 per cent at end-March 2007 as was observed at end-March 2006 (Table 5.7).

5.31 With the rise in profits, there was a sharp decline in the amount raised by the SCBs from the domestic primary market. The total mobilization by SCBs through public issues during 2006-07 was Rs. 1,066 crore only compared to Rs. 11,067 crore during 2005-06.

Interest spread

5.32 Net interest income or spread, defined as the difference between interest income and interest expenses, of SCBs as a proportion of total assets was 12 basis points lower at 2.69 per cent during 2006-07 compared to 2.81 per cent in 2005-06. The highest spread during 2006-07 at 3.74 per cent was observed in respect of foreign banks followed by old private sector banks (2.83 per cent), and the PSBs (2.65 per cent) (Table 5.7).

Non-performing assets (NPAs) of the banking sector

5.33 With the availability of a number of legal options for recovery of bad loans for the financial sector, the gross non-performing assets of SCBs as proportion of total assets declined to 1.5 per cent during 2006-07 from 1.8 per cent during 2005-06. The amount recovered and written off (Rs. 26,243 crore) was more than the fresh addition (Rs. 26,211 crore) of NPAs during the year. Gross NPAs of SCBs, which had declined by Rs. 8,276 crore in 2005-06, declined further by Rs. 611 crore in 2006-07. During 2006-07, the largest number of cases for NPA recoveries were referred to Lok Adalat (1,60,368) followed by SARFAESI Act (60,178) and Debt Recovery Tribunals (DRT) (4,028). In terms of amounts, the largest amount of Rs. 3,749 crore (out of the amount involved of Rs. 9,058 crore) was recovered under SARFAESI Act followed by Rs. 3,463 crore (out of the amount involved of Rs. 9,156 crore) under DRT.

Capital adequacy ratio

5.34 Rapid credit expansion by SCBs, necessitated introduction of stiffer prudential norms by the RBI for maintaining quality of credit. Risk-weighted assets of SCBs at end-March 2007 increased to Rs. 24,12,236 crore from Rs. 17,97,207 crore at end-March 2006. Concomitantly, capital funds of SCBs kept pace with the risk-weighted assets and increased to Rs. 2,96,191 crore at end-March 2007 from the level of Rs. 2,21,363 crore at end-March 2006. The capital to risk-weighted assets ratio (CRAR) during 2006-07 remained at 12.3 per cent, unchanged from the previous year. It was substantially higher than the RBI stipulated minimum CRAR of 9 per cent.

5.35 During 2006-07, the SBI Group significantly improved its CRAR from 11.9 per cent at end-March 2006 to 12.3 per cent at end-March 2007. CRAR for foreign and new private sector banks was 12.4 per cent and 12 per cent, respectively, at end-March 2007 compared to 13 per cent and 12.6 per cent, respectively, at end-March 2006.

Technology

5.36 Banks' programmes of technological upgradation through computerization, automation

Table 5.7 Working results of scheduled commercial banks

Items	Public sector banks		Foreign banks		Old pvt. sect banks		New pvt. sect banks		SCBs	
	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07
1	2	3	4	5	6	7	8	9	10	11
	(Rs. crore)									
A. Income	159780	188979	17662	24956	11593	13088	31721	49177	220756	276201
I) Interest Income	137874	168108	12291	18019	10372	11643	24851	39501	185388	237271
II) Other income	21905	20872	5371	6937	1221	1445	6870	9676	35368	38929
B. Expenditure	143240	168827	14593	20371	10727	11966	27612	43834	196173	244998
I) Interest expended	80503	103457	5150	7615	6247	7092	15261	25802	107161	143965
II) Intermediation cost	41308	43255	5854	7741	3089	2969	8949	12354	59201	66319
III) Provisions and contingenies	21429	22116	3590	5015	1392	1905	3402	5678	29812	34714
C. Operating Profit	37968	42268	6658	9600	2257	3027	7511	11021	54394	65917
D. Net profit (A-B)	16539	20152	3069	4585	866	1122	4109	5343	24582	31203
E. Net interest income (Spread)	57371	64651	7141	10404	4125	4552	9590	13699	78227	93306
F. Total assets	2014874	2439986	199358	278016	149972	160562	421659	584842	2785863	3463406
	(As per cent of total assets)									
A. Income	7.9	7.7	8.9	9.0	7.7	8.2	7.5	8.4	7.9	8.0
I) Interest Income	6.8	6.9	6.2	6.5	6.9	7.3	5.9	6.8	6.7	6.9
II) Other income	1.1	0.9	2.7	2.5	0.8	0.9	1.6	1.7	1.3	1.1
B. Expenditure	7.1	6.9	7.3	7.3	7.2	7.5	6.5	7.5	7.0	7.1
I) Interest expended	4.0	4.2	2.6	2.7	4.2	4.4	3.6	4.4	3.8	4.2
II) Intermediation cost	2.1	1.8	2.9	2.8	2.1	1.8	2.1	2.1	2.1	1.9
III) Provisions and contingenies	1.1	0.9	1.8	1.8	0.9	1.2	0.8	1.0	1.1	1.0
C. Operating profit	1.9	1.7	3.3	3.5	1.5	1.9	1.8	1.9	2.0	1.9
D. Net profit (A-B)	0.8	0.8	1.5	1.6	0.6	0.7	1.0	0.9	0.9	0.9
E. Net interest income (Spread)	2.85	2.65	3.58	3.74	2.75	2.83	2.27	2.34	2.81	2.69
F. Total assets	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Memo item										
1. Operating expenses as per cent of net income	52.1	50.6	46.8	44.6	57.8	49.5	54.4	52.9	52.1	50.2

and development of communication networks continued apace. The cumulative expenditure during September 1999 to March 2007 was Rs. 12,826 crore. These programmes are designed to improve the processes and procedures, promote rapid product development through alternative delivery channels, reduce transaction costs and eventually lead to higher productivity. They also help in changing the image and outlook of the banking sector. Technology is also being leveraged to expand the banking outreach particularly to rural areas. The number of branches providing "core banking solutions" (CBS) rose rapidly to 44.4 per cent at end-March 2007 from 28.9 per cent at end-March 2006. The number of Automated Teller Machines (ATM) at end-March 2007 was 27,088 compared to 20,267 at end-March 2006.

All India financial institutions (AIFIs)

5.37 Loans sanctioned and disbursed by AIFIs improved during 2005-06 and 2006-07. Loans sanctioned during 2006-07 were 12.9 per cent higher (Rs. 31,238 crore), following a 41 per cent increase (Rs. 27,666 crore) during 2005-06. Disbursements grew even more strongly during 2006-07 by 82.8 per cent (to Rs. 38,656 crore) on top of an increase of 38 per cent during 2005-06 to Rs. 21,146 crore (Table 5.8). Keeping pace

Table 5.8 Loans by all-India financial institutions

Items	April-March 2005-06	April-March 2006-07
A. Sanctions		
(a) DFI[a]	12108	12479
(b) Investment Institutions[b]	15558	18759
AIFIs (a+b)	27666	31238
B. Disbursements		
(a) DFI[a]	9375	10799
(b) Investment Institutions[b]	11771	27857
AIFIs (a+b)	21146	38656

Source: RBI

Notes: [a] Relates to IFCI, SIDBI, IIBI, IFCI-Venture Captial Fund, ICICI Venture and TFCI.

[b] Relates to LIC and GIC.

All data are provisional.

with the higher disbursements by AIFIs at end-March 2007, their combined balance sheet registered an increase of 14.9 per cent compared to 8.2 per cent at end-March 2006. Deposits with AIFIs increased by 51.5 per cent at end-March 2007 compared to 8.7 per cent at end-March 2006. Borrowings were also higher at 18.2 per cent at end-March 2007 compared to 8.8 per cent at end-March 2006. However, there was capital erosion by Rs. 543 crore in 2006-07 resulting in the reduction of the capital base to Rs. 4,888 crore. Nevertheless, AIFIs continued to have significantly higher capital adequacy ratio than the minimum stipulated norm of 9 per cent at end-March 2007.

Non-banking financial companies (NBFCs)

5.38 With the exit of many NBFCs from deposit taking business, the total number of NBFCs, consisting of NBFCs-D (deposit taking NBFCs), residual non-banking companies (RNBCs), mutual benefit companies (MBCs), miscellaneous non-banking companies (MNBCs) and Nidhi companies registered with RBI declined from 13,014 at end-June 2006 to 12,968 at end-June 2007. The number of NBFCs-D declined from 428 at end-June 2006 to 401 at end-June 2007 (Table 5.9).

5.39 Despite the significant decline in the number of reporting NBFCs-D, the assets, public deposits and net own funds of NBFCs increased by Rs. 12,549 crore, Rs. 2,074 crore and Rs. 795 crore, respectively. The ratio of deposits of reporting NBFCs to the aggregate deposits of SCBs dropped to 0.95 per cent at end-March 2007 from 1.07 per cent at end-March 2006.

5.40 Total assets/liabilities of NBFCs-D (excluding RNBCs) sharply increased by 29.8 per cent (Rs. 49,097 crore) at end-March 2007 from Rs. 37,828 crore at end-March 2006. On the liabilities side, the highest increase was achieved by “other liabilities” (98.4 per cent) followed by “borrowings” (31.4 per cent) and “paid-up capital” (27.8 per cent). On the assets side, significant increase was achieved by “other assets” (98 per cent) followed by investment (74.5 per cent). Bill discounting business declined by 83.2 per cent during 2006-07.

Table 5.9 Non-banking financial companies registered with RBI (number)

End-June	Total	Accepting public deposits
1999	7,855	624
2000	8,451	679
2001	13,815	776
2002	14,077	784
2003	13,849	710
2004	13,764	604
2005	13,261	507
2006	13,014	428
2007	12,968	401

Source: Reserve Bank of India.

5.41 During 2006-07, there was a turnaround in the financial performance of NBFCs-D largely on account of substantial increase in fund-based income (26.8 per cent) compared to an increase of 5.3 per cent during 2005-06. Fee-based income, however, continued the declining trend observed during the previous year (during 2006-07 income from this source declined by 7.6 per cent on top of the decline of 61.2 per cent in 2005-06). The overall income of NBFCs-D during 2006-07 increased by 25.7 per cent compared to the decline of 0.1 per cent during 2005-06.

5.42 The percentage increase of operating expenditure of NBFCs-D during 2006-07 was marginally higher at 33.9 per cent compared to 33.6 per cent during 2005-06. However, financial expenditure and other expenditure recorded substantial increases of 30.5 per cent and 22.3 per cent, respectively, during 2006-07, as compared to increases of 0.3 per cent and nil, respectively, during 2005-06. Net profit (profit after tax) declined by 6.7 per cent in 2006-07.

5.43 The asset quality of NBFCs-D continued to improve during 2006-07. Gross NPAs and net NPAs as percentage of gross advances of reporting NBFCs-D declined to 1.9 per cent and 0.4 per cent, respectively, at end-March 2007 compared to 3.6 per cent and 0.5 per cent, respectively, at end-March 2006.

5.44 Capital adequacy ratio norms were made applicable to NBFCs in 1998. Accordingly, rated NBFCs were required to maintain a minimum capital (consisting of Tier-I and Tier-II capital) of 12 per cent (15 per cent in the case of unrated deposit taking loan/investment companies) of the risk-weighted assets and of risk-adjusted value of off-balance sheet items. Total of Tier-II capital cannot exceed 100 per cent of Tier-I capital at any point of time. The number of NBFCs-D with a CRAR less than 12 per cent declined to 13 at end-March 2007 from 37 at end-March 2006.