

Bank credit

3.28 SCBs credit comprising food and non-food credit in the current financial year (up to January 10, 2003) increased by 17.3 percent as compared with 11.0 percent in the corresponding period last year. Excluding the impact of mergers, the comparable growth in the current financial year was 9.7 percent. An important feature of the credit growth in the current financial year is the sharp fall in the growth of food credit as compared with the acceleration witnessed in 1999-2000 and 2000-01. Food credit declined by 7.1 percent in the current financial year as compared with an increase of 33.0 percent in the corresponding period last year. The share of food credit in the outstanding bank credit as on January 10, 2003 was lower at 7.2 percent compared with 9.4 percent a year ago. Incremental food credit in the current year amounted to Rs. (-)3,836 crore as compared with Rs. 13,204 crore in the corresponding period last year. The decline in food credit is attributable to lower procurement and higher off-take of foodgrains in the current year.

3.29 Non-food credit by SCBs recorded a growth of 19.7 percent (11.4 percent, net of mergers) compared with 9.1 percent in the corresponding period of the previous year. The increase in non-food credit reflects a better outlook for industrial growth.

Investment

3.30 Investments by SCBs in Government and other approved securities continue to record significant growth in 2001-02. These investments increased by Rs. 68,109 crore in 2001-02 as compared with Rs. 61,216 crore in 2000-01. The holding of Government securities by commercial banks at the end of 2001-02 amounted to 36.5 percent of their net demand and time liabilities (NDTL), which was far in excess of the SLR of 25 percent. During the current financial year (up to January 10, 2003), there was a further pick up in the investments of commercial banks in Government and other approved securities. Incremental investments amounted to Rs. 85,738 crore as compared with Rs. 63,082 crore in the corresponding period last year.

The investment deposit ratio increased to 41.5 percent as on January 10, 2003 compared to 39.7 percent as on March 22, 2002.

3.31 Non-SLR investments by SCBs amounted to Rs. 5,156 crore in 2001-02 as compared with Rs. 14,091 crore in 2000-01. In the current financial year (up to January 10, 2003), non-SLR investment is much higher at Rs. 11,117 crore compared with Rs. 2,678 crore during the corresponding period last year. Much of this increase is accounted for by investments in shares and debentures issued by the public and private corporate sectors.

Sectoral deployment of bank credit

3.32 Information on deployment of credit relates to major SCBs, which account for around 90 percent of total advances of all SCBs. During the year 2001-02, there was a reduction in the percentage of non-food credit going to the priority sectors to 38.9 percent from 41.8 percent during 2000-01. Within the priority sectors, while growth in credit to agricultural sector remained at the same rate as in 2000-01, there was a substantial reduction in the growth of credit to small scale industry.

3.33 In the current financial year (up to November 2002) advances to priority sectors as a whole registered a lower growth. Within the priority sectors, agricultural sector registered higher growth. The other sectors which registered significant increases in the growth of credit were medium and large industries, housing and loans to individuals. (Table 3.7)

Priority sector lending

3.34 Targets and sub-targets are fixed under priority sector lending for domestic and foreign banks operating in India. For domestic banks, the target for total priority sector lending is 40 percent of net bank credit (NBC). The sub-targets are 18 percent of NBC for agriculture and 10 percent of NBC for advances to weaker sections. There is no sub-target for advances to SSI sector by domestic banks. For foreign banks operating in India, the target for priority

Table 3.7 : Sectoral deployment of gross bank credit

Items	Outstanding balances				Variation ¹							
	2000-01	2001-02	April-Nov.		2000-01	2001-02	April-Nov.		2000-01	2001-02	April-Nov.	
			2001-02	2002-03			2001-02	2002-03			2001-02	2002-03
	<i>Rs. crore</i>								<i>Percent</i>			
I. Gross bank credit	469153	536727	501509	577780	68335	67574	32356	41053	17.0	14.4	6.9	7.6
1. Public food credit	39991	53978	51730	54346	14300	13987	11739	368	55.7	35.0	29.4	0.7
2. Gross non-food credit	429162	482749	449779	523434	54035	53587	20617	40685	14.4	12.5	4.8	8.4
(a) Priority sectors (i+ii+iii) ²	154414	175259	162534	182391	22587	20845	8120	7132	17.1	13.5	5.3	4.1
i. Agriculture ³	51922	60761	55418	65741	7541	8839	3496	4980	17.0	17.0	6.7	8.2
ii. Small scale industry	56002	57199	54494	57060	3188	1197	-1508	-139	6.0	2.1	-2.7	-0.2
iii. Other priority sector	46490	57299	52622	59590	11858	10809	6132	2291	34.2	23.3	13.2	4.0
(b) Medium and large industries	162837	172324	165846	188829	15518	9487	3009	16505	10.5	5.8	1.8	9.6
(c) Wholesale trade (excluding food procurement)	17845	20459	18672	21131	1027	2614	827	672	6.1	14.6	4.6	3.3
(d) Other sectors	94066	114707	102727	131083	14903	20641	8661	16376	18.8	21.9	9.2	14.3
Of which:												
(1) Housing	16143	22346	19510	29148	2043	6203	3367	6802	14.5	38.4	20.9	30.4
(2) Consumer durables	5566	7015	7312	7049	1711	1449	1746	34	44.4	26.0	31.4	0.5
(3) Real estate loans	1766	2596	1979	2612	122	830	213	16	7.4	47.0	12.1	0.6
(4) Tourism and tourism related hotels	996	1540	1747	2098	96	544	751	558	10.7	54.6	75.4	36.2
(5) Loans to individuals ⁴	1697	1520	1369	1889	-449	-177	-328	369	-20.9	-10.4	-19.3	24.3
II. Export credit ⁵	43321	42978	39950	43306	4203	-343	-3371	328	10.7	-0.8	-7.8	0.8

1. As on the last reporting Friday of the period.
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: All figures are provisional. Data relate to 50 SCBs (49 banks since March 2001) which account for 90-95 per cent of the bank credit of all SCBs. Gross bank credit data include bills rediscounted with RBI, IDBI, Exim Bank and other approved financial institutions.

sector lending is 32 percent of NBC. The sub-targets are 10 percent of NBC for small scale sector and 12 percent of the NBC for export credit. Export credit does not form part of priority sector lending for domestic banks.

3.35 PSBs have performed well in terms of meeting the target for priority sector lending. While priority sector advances of PSBs formed 43.1 percent of NBC as at the end of March, 2002, the corresponding percentage for private banks was 40.9 percent. Priority sector lending by foreign banks amounted to 34.2 percent of NBC for the same period. Thus, all bank groups operating in India have exceeded the targets under priority sector lending in

2001-02. There was a marginal improvement in the percentage of NBC going to the priority sectors in 2001-02 over 2000-01 in respect of PSBs and private sector banks. The percentage share of priority sectors in NBC for PSBs and private sector banks was 43.0 percent and 38.2 percent respectively in 2000-01. The share of priority sector lending in the NBC of foreign banks marginally improved to 34.2 percent from 34.1 percent.

3.36 While all bank groups met the overall targets under priority sector lending, there were shortfalls under sub-targets set for agricultural advances. Advances to the agricultural sector by PSBs and private sector

banks amounted to 15.8 percent and 8.5 percent of their respective NBCs in 2001-02. The shortfall is significant in case of private sector banks. In order to improve credit delivery to agriculture, RBI in its Annual Policy Statement raised the limit for financing of distribution of inputs for allied sectors such as cattle feed, poultry feed, etc., under priority sector lending from Rs. 15 lakh to Rs. 25 lakh. The credit limit for marketing of crops by farmers was raised from Rs. 1 lakh to Rs. 5 lakh and the repayment schedule of such credit was enhanced from 6 months to 12 months. In its Mid-Term Review, RBI had raised the limit on advances granted to dealers in drip irrigation/sprinkler irrigation/agricultural machinery located in rural and semi-urban areas from Rs. 10 lakh to Rs. 20 lakh under priority sector lending to agriculture.

3.37 Another cause of concern is the reduction in the share of advances to SSI sector in the case of both PSBs and private sector banks. The share of the SSI sector had come down from 16.1 percent as at end-March 1999 to 12.5 percent as at end-March 2002 in the case of PSBs. The reduction in the case of private sector banks was from 18.8 percent to 13.7 percent in the same period. To improve the flow of credit to the SSI sector, RBI in its Annual Policy Statement, had advised the banks to increase the limit of dispensation of collateral requirement for loans from Rs. 5 lakh to Rs. 15 lakhs based on good track record and financial position of the units. Banks had also been advised to take a proactive stand in providing timely assistance for rehabilitation of SSI units affected by industrial downturn and

delays in payment against supplies made by them to large scale and other units. In the Mid-Term Review, RBI has increased the existing overall limit of Rs.10 lakh in respect of small business to Rs.20 lakh without any ceiling for working capital. Individual credit limit to artisans, village and cottage industries under the overall limit of advances to weaker sections, was increased to Rs. 50,000 from Rs. 25,000.

3.38 Commercial banks are required to deploy their shortfalls in priority sector/ agriculture lending in the Rural Infrastructure Development Fund (RIDF) set-up in 1995-96 at the instance of the Government of India. To ensure that the commercial banks meet their priority sector targets, interest rates earned by commercial banks on RIDF deposits are kept inversely related to the shortfall in lending to agricultural sector with effect from RIDF VII. In addition, credit risk weights assigned to priority sector lending and investments in RIDF have been 100 percent for ensuring parity. Despite these measures, there are shortfalls in advances to the agricultural sector.

Sensitive sectors

3.39 Advances by SCBs to sensitive sectors comprising of capital market, real estate and commodities (cash crops, edible oils and other sensitive commodities) amounted to Rs. 23,224 crore in 2001-02. This constituted 3.6 percent of the total loans and advances by SCBs as compared with 4.3 percent in 2000-01. While there is a reduction in the exposure of commercial banks to the capital market, there is an increase in their exposure to real estate and commodity sector.