

## CHAPTER 17

# INSTITUTIONAL AND BANK FINANCE

The Economic reform measures are gaining momentum in Kerala and efforts are on to boost the level of investment in the State. In this context, the role of financial institutions including banks is crucial. To get a comprehensive picture of the level of investment in the State it is necessary, therefore, to analyse the financial assistance disbursed by all India financial institutions in the State

### Institutional Finance

17.2 Importance given to agriculture sector as well as the stronger presence of co-operative sector in the State, makes the role of NABARD and NCDC significant in providing institutional finance to Kerala. During 2002-03, though the total disbursement of NABARD increased to Rs.7418.77 crore from Rs. 6682.91 crore in 2001-02 the share of Kerala declined over the previous year. The assistance received in 2001-02 was Rs.373.29 crore (5.59%) and that in 2002-03, Rs.307.70 crore (4.15%). But in the total disbursement by NCDC there has been a notable reduction during 2002-03. It declined to Rs.514.46 crore from Rs. 720.02 crore in 2001-02. Due to high interest rate, need for government guarantee and not-too-good recovery rate, it was not found attractive. However, the share of Kerala remained more or less the same, showing a negligible shortage, at Rs.50.18 crore (9.75%) in 2002-03, the share in 2001-02 being Rs. 51.61 crore. Taking NABARD and NCDC together, the total was Rs.357.88 crore, accounting for 4.50% of the total disbursements by the two institutions. However, this amount is less, by Rs. 67.02 crore, than that in the previous year. (See Appendix 17.1)

17.3 The details of state wise cumulative disbursement by NABARD and NCDC as at the end of March 2003 are shown in Appendix 17.2. Out of the cumulative disbursement of Rs. 72080.36 crore by these two institutions as at the end of March 2003, the major share of Rs. 64983.71 crore (90.15%) was accounted for by NABARD and Rs. 7096.65 crore (9.85%) by NCDC. Uttar Pradesh continued on top in credit absorption by availing of Rs. 10559.69 crore (14.65%) followed by Maharashtra, Rs .8176.24

crore (11.34%) and Andhra Pradesh, Rs.7063.17 crore (9.80%). Kerala received an amount of Rs.3330.02 crore from these two institutions, which is 4.62 per cent of the total (cumulative) disbursements.

17.4. There was a sharp decline in the total disbursement of financial assistance by all India financial institutions such as IDBI, IFCI, ICICI, UTI, GIC, LIC, NABARD and NCDC during 2001-02. The aggregate amount of assistance which was Rs.69731 crore in 2000-01 declined, by Rs.14491.10 crore to Rs.55239.90 crore in 2001-02. Accordingly the share of Kerala has also declined to Rs.648.6 crore in 2001-02 from Rs.817.2 crore in 2000-01. Details of state wise financial assistance disbursed by all India financial institutions during 2001-02 and disbursements as at the end of March 2002 are given in Appendix 17.3 and 17.4 respectively. A better picture on the level of activities of all India financial institutions in Kerala is provided by the per capita assistance disbursed by all these institutions in Kerala as against the all India level. For the last few years, per capita assistance disbursed in Kerala seems just less than half of per capita assistance disbursed at the all India level\*. The per capita assistance disbursed by all the above institutions except NABARD and NCDC are given in Appendix 17.5.

### Bank Finance

17.5 The number of branches, which stood at 8262 at the time of nationalisation, grew rapidly year after year. In March 2003 it was 66436 and by June 2003 it rose to 66692. Out of 66692 branches in June 2003, 32231 (48.33%) were in rural areas, 14875 (22.30%) in semi-urban areas, 10841 (16.26%) in urban areas and 8745 (13.11%) in metropolitan areas. A total number of 58841 branches are located in the 15 major states. In the midst of rapid expansion of bank branches, a specific feature can be noticed, that is the number of rural branches are steadily declining whereas the number of urban branches is increasing. Uttar Pradesh continues to remain in the top with largest number of branches, 8212 (12.31%) followed by Maharashtra with 6317 (9.47%) branches and

Andhra Pradesh with 5267 (7.9%) branches. The lowest number of bank branches is in Assam- 1220 (1.83%). Kerala stands tenth with 3370 (5.05%) branches.

17.6 Between July 2002 and June 2003, 337 branches were newly opened in the country. Of this, the highest number was in Andhra Pradesh (60) followed by Uttar Pradesh (43). The number of new branches opened in Kerala during this period was 36. Uttar Pradesh has the largest number of rural branches, 4858 (15.07%) followed by Bihar with 2495 (7.74%) and Andhra Pradesh with 2420 (7.51%). Kerala has the lowest number of rural branches and highest number of semi-urban branches. As of March 2003 there were 3351 bank branches in Kerala (accounting for 5 per cent of total number of bank branches in the country), of which, 351 (10.47%) are in rural areas, 2383

about 22000 and 21000 respectively. State-wise details of bank offices, in the country are shown in Table 17.1 and Appendix 17.6

17.7 The volume of bank deposits and credit has grown rapidly after nationalisation. The quantum of business of nationalised banks increased from Rs. 6932 crore in 1969 to Rs. 1481737 crore in June 2003 marking an increase of 214 times. During the period deposits increased by 246 times but credit only 172 times. It is clear that credit disbursements are not keeping pace with deposit mobilisation. The level of credit deployment in the state has been analysed in terms of a number of parameters, the most prominent being the Credit –Deposit ratio. It is a simple and a useful concept to measure the extent of deployment of credit relative to the deposits raised by banks from a particular region. However,

**Table - 17.1**  
**State wise Distribution of Scheduled Commercial Bank Offices as at the end of March2003.**

STATE / STATION	Rural	% Total	Semi Urban	% to Total	Urban	% to Total	Metropol itan	% to Total	Total no of Branche	% to Total
1	2	3	4	5	6	7	8	9	10	11
1. Andhra Pradesh	2420	7.5	1243	8.4	1043	9.7	537	6.2	5243	7.9
2. Assam	792	2.5	260	1.8	164	1.5			1216	1.8
3. Bihar	2495	7.7	662	4.5	404	3.8			3561	5.4
4. Gujarat	1530	4.7	832	5.6	468	4.4	831	9.6	3661	5.5
5. Haryana	701	2.2	411	2.8	465	4.3			1577	2.4
6. Karnataka	2175	6.7	1035	7.0	803	7.5	769	8.9	4782	7.2
7. Kerala	351	1.1	2383	16.1	617	5.8			3351	5.0
8. Madhya Pradesh	1880	5.8	783	5.3	427	4.0	350	4.0	3440	5.2
9. Maharashtra	2266	7.0	1095	7.4	907	8.5	2020	23.3	6288	9.5
10. Orissa	1591	4.9	319	2.2	312	2.9			2222	3.3
11. Punjab	1126	3.5	705	4.8	564	5.3	211	2.4	2606	3.9
12. Rajasthan	1860	5.8	741	5.0	484	4.5	248	2.9	3333	5.0
13. Tamil Nadu	1747	5.4	1217	8.2	993	9.3	770	8.9	4727	7.1
14. Uttar Pradesh	4858	15.1	1353	9.1	1438	13.4	535	6.2	8184	12.3
15. West Bengal	2270	7.0	561	3.8	610	5.7	990	11.4	4431	6.7
TOTAL	28062	87.0	13600	91.8	9699	90.5	7261	83.8	58622	88.2
All India Total	32244	100.0	14813	100.0	10715	100.0	8664	100.0	66436	100.0

Source: Banking Statistics Qly Handout March2003.

(71.11%) branches in semi-urban areas and 617 (18.41%) branches in urban areas. The average population per branch in the whole country was 65000 in 1969. It declined to 14000 in 1995. Since 2002 it has remained at 16000. The corresponding figures with respect to Kerala was 35000 in 1969 and from 1995, continued to remain at a level lower than 10000, which indicates extent of development of banking habits in the state. Assam and Bihar are the two states with larger population per branch with

CD ratio may not adequately capture the intensity of credit dispensation as the ratio is influenced by either the level of credit or the level of deposits. For example, high level of deposits underestimates CD ratio, even if there is no decrease in credit deployment. On the other hand, low deposit level overestimates the ratio even with the same level of credit. In the context of Kerala, huge inflow of non-resi-

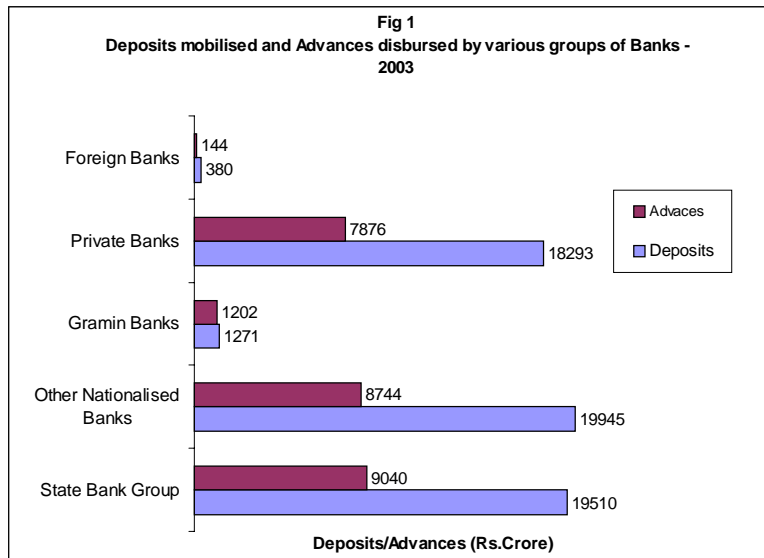
dent deposits without any corresponding economic activity undertaken in the state, underestimates CD ratio. Hence, there have been suggestions to exclude non-resident deposits from total deposits to arrive at the CD ratio more realistically. However, the exclusion of non-resident deposit may not be appropriate as it would defeat the very purpose of assessing credit deployment out of deposits available in a geographical area. Further, if non-resident deposits are to be excluded, then the credit availed by non-residents from banks need to be excluded to get a realistic picture. The credit deposit ratio at all India level in respect of Public Sector banks was 77.9% in June 1969. It sharply declined to 55.2% in June 2002 and further to 54.3% in June 2003. Among the fifteen major states, those with credit-deposit ratio above the all India level were: Maharashtra (83.0%), Tamil Nadu (80.91%), Karnataka (66.7%) and Andhra Pradesh (65.4%). The CD ratio of public sector banks in Kerala though increased slightly and reached 43.6% in 2003, is less by 10.70 than the national average. Improvement in CD ratio was also noted in states like Assam, Bihar, Haryana, Orissa, Rajasthan etc. As at the end of June 2003, out of aggregate credit disbursement of Rs. 521680 crore by the public sector banks at all India level, the share of Kerala was Rs. 16933 crore-3.25% only. Tamil Nadu accounted for Rs.48760 crore (9.35%), Karnataka, Rs.34485 crore(6.61%) and Andhra Pradesh Rs.37353 crore(7.16%). Details of State wise deposits, credits and credit-deposit ratios are presented in Appendix 17.7.

17.8 The activities of commercial banks in Kerala are focussed more on deposit mobilisation than on credit expansion as is evident from several factors. First, bank deposits in Kerala increased at an average annual rate of 18% over a period from 1993 to 2003, at the same period advances increased only at an average annual rate of 16%. Second, per capita deposit in the state was substantially higher at Rs.18679 as against Rs.12450 at all India level as at the end of March 2003. Likewise, deposits as per cent of state income at current prices, at 78.1 per cent were higher than the relevant proportion at the all India level at 57 per cent. Third, the average annual growth of deposits was higher than the growth of advances, especially during the 1990s\*. These show the declining trend of CD ratio in the State over the years. Taking all banks together, the CD ratio, which was 62.87% in 1990 declined to 42.71% in March 2002 and slightly moved up and reached 45.47% in March 2003. By end of September 2003, it became 46.69%. Among the various groups of banks, the

highest CD ratio was recorded by the Gramin Banks (94.58%) followed by State Bank Group (46.33%) other nationalised banks (43.84%), Private banks (43.65%) and Foreign banks (37.97%). Public sector banks including Gramin Banks put together recorded a CD ratio of 46.62% in March 2003.

17.9 The total deposit mobilised as at the end of March 2003 by all the banks functioning in the State increased by Rs. 7743 crore (14.99%) from Rs. 51656 crore in 2002 to Rs. 59399 crore in 2003. Out of the total deposit of Rs. 59399 crore mobilised as at the end of March 2003, the largest share of Rs. 19945 crore (33.58%) was mobilised by the group of other nationalised banks, followed by the State Bank Group with Rs. 19511 crore (32.85%), Private banks with Rs. 18293 crore (30.80%), Gramin banks with Rs. 1271 crore (2.14%) and Foreign banks with Rs. 380 crore (0.64%). One peculiar feature of deposits mobilisation by banks in Kerala is the dominance of non-resident deposits. The share of non-resident deposits in the state rose steadily over the years from 27.4 per cent during the second half of the 80s to 35.5 per cent during the first half of the 1990s and further to 44.1 per cent during the second half of the 90s. During 2001-03, the average share reached 47.9 per cent. The growth of non-resident deposits was significantly higher than the growth of domestic deposits, especially so during the 90s\*.

17.10 The performance of the banks with respect to advances is much different from that with respect to deposit mobilisation. As of March 2003, while the State Bank Group accounted for 32.85% of the deposits and provided 33.47% of total advances. The group of nationalised banks accounted for 33.58% of deposits and 32.38% of advances. Gramin banks accounted for only 2.14% of deposits but contributed 4.45% of advances. Private banks on the other hand accounted for 30.80% of deposits and 29.16% of advances. Foreign banks collected 0.64% of deposits, while their share in advances was 0.53%. Advances of commercial banks in Kerala grew reasonably well with the average annual growth being 15.1 per cent during the 19 year period from 1985 to 2003. Data given in Table 17.2 indicate that the annual rate of growth improved considerably from 1993 onwards. The average annual rate of growth during 1996 to 2000 was higher at 15.4 per cent. During the last three years, the rate of growth further improved to 19.3 per cent. A better picture could be had from the incremental advances, which after remaining relatively low till 1994 improved



India rose by 16.1 per cent per annum, in Kerala the average growth was 15.1 per cent, ie 1.5 percentage points lower. Till the mid- nineties, the rate of growth of credit in Kerala was lower than all- India average, but during the subsequent period , the rate of growth was similar. The data from Table 17.2 shows that the credit increased from Rs. 2181Crore in 1985 to Rs.27007 Crore in 2003. To get a comparative perspective, the rate of growth of credit has been estimated for the neighbouring states. During 1997 to 2003, the rate of growth of credit in Tamil Nadu(14.7%), Karnataka (16%), Andhra Pradsh (14.8%) was

significantly from 1995 onwards. Average incremental advances during 2001-03 were at Rs. 3689 crore. A comparison shows that the rate of growth of credit in Kerala was very close to the rate of growth at the all- India level. While bank credit in

very close to that in Kerala(15.7%). Thus , the above analysis reveals that in absolute terms ,the growth of credit in Kerala was comparable to all-India and other southern states\*. For details of deposits, advances and CD ratio of various groups of banks see Appendix 17.8. The share of

**Table- 17.2**  
**Advances of Commercial Banks in Kerala**  
(Amount in Rs. Crore)

Year (end March)	Advances - Kerala		Incremental Advances- Kerala (Rs.)	Advances - India	
	Rs.	% of Growth		Rs.	% of Growth
1985	2181	-	-	48953	-
1986	2371	8.7	190	56067	14.4
1987	2769	16.8	585	63308	20.1
1988	3116	12.5	347	70536	11.4
1989	3701	18.8	585	84719	20.1
1990	4118	11.3	417	101453	19.8
1991	4638	12.6	520	116301	14.6
1992	5003	7.9	365	125592	8.0
1993	5818	16.3	815	151982	21.0
1994	6442	10.4	624	164418	8.2
1995	7797	21.0	1355	211560	28.7
1996	8961	14.9	1164	254015	20.1
1997	10482	17.0	1523	278401	9.6
1998	12274	17.1	1793	324079	16.4
1999	13577	10.6	1303	368837	13.8
2000	15941	17.4	2364	435958	18.2
2001	19180	20.3	3239	511434	17.3
2002	22062	15.0	2882	589723	15.3
2003	27007	22.4	4945	759210	28.7
<b>Average</b>					
1985-90	3043	13.6	387	70839	15.7
1991-95	5939	13.7	736	153971	16.1
1996-2000	12247	15.4	1629	332258	15.6
2001-03	22750	19.3	3689	620122	20.5
1988-2003	9339	15.1	1379	248239	16.6

Source : Bank credit in Kerala; an analysis of Trends and issues - RBI

various groups of banks in total deposits mobilised and advances disbursed in the state as at the end of March 2003 is shown in Figure -1

17.11 Since the concept of CD ratio has some limitations, the level of deployment of bank credit has to be assessed based on certain other parameters including credit as percentage to state income. As the growth of economy is one of the major objectives of credit deployment , the level of deployment of bank credit can be better assessed in relation to the growth of the state economy. The level of advances as a percentage of Net State Domestic Product (NSDP) can provide an indication about the extent of credit support for the growth of the economy. Data provided in Table 17.3 show that advances as a percentage of NSDP , at current prices,

ranged from around 25 to 40 per cent during 1985-2002. A comparison reveals that bank advances in Kerala as a percentage of NSDP was relatively higher than the same at the all India level. During 1985-02, the average proportion was higher at 32.2 per cent in Kerala as against 26.0 per cent at the all-India level. However, the problem is the decline in the proportion during the nineties in Kerala (from an average of 37.7 per cent during 1985-90 to 27.9 per cent during 1996-02), when it was rising at the

all India level (25.2 per cent to 27.6 per cent). The proportion of advances to NSDP at 31.7 per cent in 2002 was significantly lower than the same during the second half of the eighties. The proportion of bank credit to state income in neighbouring states like Tamil Nadu and Karnataka was higher than Kerala. During 1997 to 2000, the average proportion in Tamil Nadu was 40.8 per cent and 32.9 per cent in the case of Karnataka as against 27.0 per cent in Kerala. Another indicator of low level of deployment of credit in Kerala is the estimate of credit per account (CPA). The amount of outstanding CPA in Kerala in 2002 was Rs. 59661, the lowest among the major southern States, except Andhra Pradesh and all India average. The CPA of Tamil Nadu in 2002 (Rs. 108984) was almost the double of that in Kerala. A reflection of lower level of credit deployment in the State can also be found in the estimate of per capita credit (PCC). PCC in Kerala was lower than Tamil Nadu, Karnataka and all southern States taken together (Details in Table 17.4). At the same time the number of credit accounts per thousand population in Kerala was higher than other southern States. The number of credit accounts per thousand population in Kerala was around 118 in 2002 as against around 98 in other southern States (See Table 17.5). From the above facts, it could be inferred that banks are extending credit to relatively more number of people in Kerala, but the amount of credit provided per account was low. Small size of holdings, less number of medium and large scale industries, absence of bigger service providers etc could be the main reasons for the lower amount of credit disbursed per account.\*

**Table- 17.3**  
**Advances as Percentage of**  
**State Income**

YEAR	KERALA	INDIA
1985	35.5	24.4
1986	36.5	25.2
1987	37.7	25.5
1988	37.7	25.0
1989	40.3	25.5
1990	38.6	25.9
1991	38.1	25.4
1992	33.1	23.9
1993	33.9	25.4
1994	27.0	23.6
1995	26.9	25.8
1996	25.4	26.6
1997	25.8	25.1
1998	27.3	26.2
1999	26.6	25.4
2000	28.0	27.7
2001	30.4	30.1
2002	31.7	31.8
	Average	
1985-90	37.7	25.2
1991-95	31.8	24.8
1996-02	27.9	27.6
1985-02	32.2	26.0

Source: Bank Credit in Kerala:  
An Analysis of Trends And Issues.

17.12 Analysis of banking sector in Kerala shows differences between districts in respect of number of branches, amount of deposits and credits and even in CD ratios. As at the end of June 2003, there were 3370 bank branches in Kerala. Ernakulam district had the largest number of branches (497) and Wayanad the lowest number (73). During the period under review, Ernakulam district mobilised and disbursed the highest amount of deposit and credit, Rs. 1008024 lakh and Rs. 645199 lakh respectively. Though Wayanad district mobilised and disbursed the lowest amount of deposit and credit, Rs. 26948 lakh and Rs. 48332 lakh respectively, recorded the highest CD ratio in the State (179.4%). Pathanamthitta district continued to remain with the lowest CD ratio during the period under review also (16.6%). The CD ratio of Idukki increased to 90.3% from 86.5%

**Table.17.4**  
**Credit Per Account (CPA) and Per Capita Credit (PCC) in Southern States. (Rs. Crore)**

STATES	1988		1999		2000		2001		2002	
	CPA	PCC	CPA	PCC	CPA	PCC	CPA	PCC	CPA	PCC
All India	61575	3403	73114	3969	84620	4705	102824	5496	116336	6656
Southern States	47093	4343	53774	4871	59499	5551	73417	6440	73411	7303
Andhra Pradesh	36329	3092	40693	3485	45157	3916	55917	4507	55376	5188
Karnataka	52074	4286	57853	4745	57146	5365	75204	6257	69187	7212
Tamil Nadu	63644	6215	74150	7005	87511	7969	108237	9240	108984	10129
Kerala	33594	3802	39996	4270	45690	5104	51638	5987	59661	7020

Source: Bank Credit in Kerala: An Analysis of Trends and Issues.

**Table 17.5**

**Number of Accounts Per Thousand Population in Southern States- Scheduled Commercial Banks**

STATE	1998	1999	2000	2001	2002
Andhra Pradesh	85	86	87	83	94
Karnataka	83	84	98	84	106
Tamil Nadu	96	92	90	85	92
Kerala	115	108	110	116	118

Source: Bank Credit in Kerala:  
An Analysis of Trends and Issues.

of June, 2002. The CD ratio of Ernakulam was 64%. The district wise details of bank branches, deposits, credit and CD ratio are given in Appendix 17.9.

17.13 Credit deposit ratio of ten major banks operating in Kerala show wide variations among themselves. (See Table-17.6) CD ratio of State Bank of India declined from 54.20% in 1993 to 42.32% in March 2003. In the case of State Bank of Travancore, the CD ratio which was 49.50% in 1993

### Box -17.1

#### Borrowings by State Government

Suggestions have been made in recent times that instead of borrowing from outside, the State Government should borrow the required money from banks within the State. The bank deposits in the state worth close to Rs. 60,000 crore are deployed as follows:

- i) Statutory deposit with the Reserve Bank of India (Cash Reserve Ratio: 4.5%).
- ii) Statutory Liquidity Ratio (Investment in Government Securities – 25%)
- iii) Credit deployed in the State (around 46%) and
- iv) Investment in other Government securities (around 6%).

Thus, around four-fifth of the deposits mobilised from the State are utilised for statutory obligations, credit deployment and investment. The remaining deposits of around 20 per cent are left with the banks and could be utilised in the State. However, due to lack of investment avenues in the State, they are deployed elsewhere. There are limits on a State's borrowing from the internal markets imposed by the Central Government for reasons of fiscal stability and crowding out effect. Hence it is not possible for the State to borrow amounts from the banking sector beyond the limit fixed each year by the Central Government. From the point of view of banks only a certain portion could be lent to government, because given the short-term nature of deposits mobilised, providing long-term loan to Government will lead to asset-liability mismatch, which will make it difficult for them to pay back the deposits in time. The State Government have in this context pointed out to the Central Government and the Twelfth Finance Commission, that instead of channeling part of the market loan as Central assistance for the Plan, through the Central Government, the State could be permitted to borrow the total amount directly from banks, subject to prudent caps.

**Table -17.6**

**Credit- Deposit Ratio of Selected Major Banks Operating in Kerala (Credit- Deposit Ratio as at March end)**

NAME OF BANK	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
1	2	3	4	5	6	7	8	9	10	11	12	13	14
1. State Bank of India	67.50	59.90	54.20	45.30	44.70	47.00	48.00	47.53	41.95	39.8	46.68	42.64	42.32
2. State Bank of Travancore	60.00	50.60	49.50	44.50	48.00	43.50	45.20	44.82	44.93	45.97	46.00	46.13	48.06
3. Canara Bank	49.40	41.50	37.10	29.00	28.00	30.40	35.10	40.37	39.05	36.95	37.41	42.45	45.84
4. Indian Overseas Bank	35.60	28.00	25.20	21.80	24.00	25.80	25.00	25.22	26.03	26.25	28.00	33.14	32.33
5. Syndicate Bank	48.60	37.30	33.70	27.90	26.40	33.00	29.20	31.25	33.13	34.94	32.79	31.00	34.17
6. Indian Bank	74.90	72.00	69.70	61.00	51.50	61.30	47.50	41.13	34.21	32.59	35.53	29.80	31.78
7. Bank of India	36.90	36.00	39.30	37.30	35.90	39.20	34.00	34.21	28.80	32.83	34.08	31.20	59.31
8. Central Bank of India	62.60	58.00	58.80	46.00	53.00	50.30	44.00	42.38	42.84	35.48	37.03	35.00	35.26
9. Union Bank of India	69.70	57.00	47.60	44.50	45.00	45.70	47.30	47.30	51.47	51.36	45.00	49.97	53.54
10. Vijaya Bank	54.50	46.00	40.30	38.00	35.00	41.60	36.00	38.78	44.89	31.05	44.28	40.51	44.44
State Average	59.0	51.00	48.00	43.10	44.70	44.40	45.50	44.88	43.06	41.28	42.77	42.71	45.47

Source : Banking Statistics of Kerala ;Reported by State Level Banker's Committee.

**Table –17.7**  
**Growth of Bank Deposit in Kerala** (Rs .Crore)

Y E A R (M A R C H )	T O T A L D E P O S I T S		N R E D E P O S I T S		D O M E S T I C D E P O S I T S	
	A m o u n t	A n n u a l G r o w t h ( % )	A m o u n t	A n n u a l G r o w t h ( % )	A m o u n t	A n n u a l G r o w t h ( % )
1	2	3	4	5	6	7
1988	4811	-	1369	-	3442	-
1989	5667	17.8	1584	15.7	4083	18.6
1990	6660	17.5	2012	27.0	4608	12.9
1991	7935	19.1	2304	14.5	5554	20.5
1992	9787	23.3	3039	31.9	6632	19.4
1993	12261	25.3	4499	48.0	7613	14.8
1994	15138	23.5	6015	33.7	8926	17.2
1995	17694	16.9	6886	14.5	10572	18.4
1996	20419	15.4	8103	17.7	12068	14.2
1997	23354	14.4	10178	25.6	13176	9.2
1998	27552	18.0	12735	25.1	14817	12.5
1999	31532	14.4	13329	4.7	18203	22.9
2000	38619	22.5	18724	40.5	19895	9.3
2001	44850	16.1	21431	14.5	23419	17.7
2002	51656	15.2	24534	14.5	27122	15.8
2003	59399	15.0	28696	17.0	30703	13.3
Sept 2002	54585	15.8	26001	17.2	28584	14.6
Sept 2003	61119	12.0	28998	11.5	32121	12.4

*Source: Banking Statistics of Kerala , Reported by State Level Banker's Committee.*

### Box -17.2

#### Credit Policy

The new credit policy has led to contradictions, first, the Central bank's interest rate objectives and what happens in reality and, second, the commitment to ensure adequate credit availability to the productive sectors and the growing neglect of agriculture and small and medium enterprises in actual credit dispensation. On both the issues, the new credit policy statement holds out credible actions and innovative measures. The refusal to reduce the bank rate and repo rate, combined with the insistence on a bench mark prime lending rate for commercial lendings with scope for considerable repricing of bank loans, has sought to address the first disjunction. The Reserve Bank of India has to accept that in the present scheme of things the bank rate has lost its relevance. The benefits of significant reductions in the Reserve Bank of India's bench mark rates have stopped at gilt-edged rates and of late, at deposit rates offered by the banks, but hardly touched their lending rates for the bulk of bank borrowers. On the gilt-edged front, the yield rates for ten year or even for 20 year loans have touched 5.50 – 6.0 per cent levels both at secondary and primary levels. Further reduction in the bank rate and repo rate would have pushed down further to unsustainable levels. Such downward revisions have also occurred in bank's term deposit rates, though many structural factors – long duration nature of deposits, high levels of operating expenses, large NPAs, regulated rates of interest on small savings and provident funds and persistent and large government market borrowings – were said to prevent flexibility in bank deposit rates and hence in lending rates. Reforms have taken place in all these areas but reductions in bank deposit rates have been affected much more drastically. Today the top six public sector banks offer 5.50 per cent to 5.75 per cent rate of interest on term deposits for over three year's maturity.

In the lending rates of banks the rigidity has to be broken. Bank's NPAs have said to have come down, operating costs have been arrested and the incremental costs of funds have been reduced; banks have even declared lower PLRs in the range of 9 to 12.25 per cent. A number of public sector banks are doing 60 per cent of business at rates of interest of 10 to 14.50 per cent, with higher rates charged for term loans. The Reserve Bank of India ought to have a rethink on the subject of asset-liability mismatches at least when it concerns investment credit.

Distribution of bank credit has arisen a wide gap between policy objectives and reality. It requires urgent address to achieve objectives of growth and employment generation. The credit policy statement has proposed advisory committees and working groups on flow of bank credit for agriculture and small scale industries sector. A number of committees were similarly appointed for speeding up credit delivery in the respective sectors. But the data suggest that the share of agriculture in total credit has steadily declined from about 15 per cent in the early 1990s to less than 10 per cent as of March 2002 and that of SSI units from 13 per cent to as low as 5.5 per cent. Public sector banks claim that they have fulfilled their priority sector targets, but these banks have moved away from the productive sectors in their lending programmes. As per the latest data, the share of the SSI sector in total credit of public sector banks has drastically come down from 15 per cent in March 2000 to 11 per cent in March 2003. A conducive credit culture can be achieved in letter and spirit only if a foolproof arrangement is made to monitor the credit delivery system amongst banks.

fluctuated to reach 48.06% in March 2003. The CD ratio of lead bank of the State- Canara Bank, has shown an increasing trend. The CD ratio of Canara Bank which has never leapt above the State average since 1993, crossed the mark for the first time and reached 45.84% in 2003, the State average being 43.84%.

17.14. The banks are flush with loanable funds and are resorting to Loan Melas for lending to housing, purchase of vehicles and household durables. There has been criticism from even within banking circles

**Table -17. 8**  
**Share of Non-Resident Deposits and CD Ratio of Major banks in Kerala-March 2003**

Name of bank	Share of total non-resident deposits in Kerala	CD ratio
1. State Bank of Travancore	22.7	48.1
2. Federal Bank	14.3	45.8
3 .State Bank of India	12.4	42.3
4 .Canara Bank	12.1	45.8

Source : State Level Bankers' Committee.

**Box -17. 3**

**Non Banking Financial Companies (NBFCs)**

There are 23 public deposit accepting NBFCs in Kerala. The aggregate assets of these companies which stood at around Rs.140 crore in 2000 , increased to Rs. 163 crore in the next year and further jumped up to nearly 200 crore as at the end of 2002. The major improvement in asset size can be attributed to the proportion of hire purchase lending which has gone up to 62%.

The public deposit acceptance by NBFCs is subdued. During 1999-2000, it was Rs.32.56 crore, which increased to Rs.35.80 crore in 2000-01 and further to Rs.50.27 crore in 2002. Only four NBFCs have obtained credit rating from approved agencies. The recent trend has been to shift from hire purchase to lending against gold mainly due to the low risk perceptions associated with gold loans. It is interesting to note that NBFCs in general have relatively low non- performing assets.

that banks are resorting to 'narrow', safe banking (also called 'lazy' banking) and are not proactive in lending to newly emerging needs in agriculture, industry and other sectors.

**NRE Deposits**

17.15 The NRE deposits mobilised by the banks in Kerala showed an appreciable growth rate in the year 2003. The rate of growth registered in NRE deposits was 14.5% in 2002; it increased to 17% in 2003. The amount of deposit increased by Rs. 4162 crore from Rs. 24534 crore in March 2002 to Rs. 28696 crore in March 2003. The amount of total deposits increased from Rs. 51656 crore in March 2002 to Rs. 59399 crore in March 2003 and the domestic deposit which was Rs. 27112 crore in 2002 increased to Rs. 30703 crore in March 2003 recording a growth rate of 13.3%. Out of the total NRE deposits of Rs. 28696 crore, the major share of Rs. 10124 crore (37.49%) was mobilised by the State

Bank Group, followed by the group of other nationalised banks with Rs. 9507 crore (35.20%) and Private Banks Rs. 8641 crore (32%). Gramin banks could mobilise Rs. 166 crore and Foreign banks, Rs. 258 crore. See Table 17.7 for the details of growth of bank deposits for the period from 1988 to 2003.

17. 16 Questions are often raised whether the predominance of non-resident deposits caused the lower CD ratio. See Table 17.8 which provides data on share of non- resident deposits by major banks and their respective CD ratios. It may be observed therefrom that four banks, viz- State Bank of Travancore, Federal Bank, State Bank of India and Canara Bank together accounted for 61.5 per cent of non-resident deposits in the state. All the four banks are having CD ratio greater than / closer to state average. In other words, bank which are rais-

ing higher non-resident deposits extended more credit than other banks\*.

**AGRICULTURAL FINANCE**

**Priority Sector Advance**

17.17 Priority sector advance as a percentage of net advance shows a declining trend in recent years. Priority sector advance which was 46.4% in 2001 declined to 45.9% in 2002 and further to 43.9% by the end of March, 2003. Out of the total bank advances of Rs. 22062 crore as at the end of March 2002, Rs. 10132 crore (45.9%) was to the priority sector. In 2003, total bank advances was Rs. 27007 crore and priority sector advance Rs. 11867 crore (43.9%). The priority sector advance as a proportion of total deposits was only 19.98%, in 2003, the total deposit being Rs. 59399 crore.

17.18 Out of the total advances of Rs. 27007 crore in 2003, Rs. 3507 crore (13%) was for agriculture sector and Rs. 2562 crore (9.5%) for SSI Sector. Table 17.9 shows the details of priority sector advance.

17.19. The district wise analysis of the flow of credit to the priority sector reveals that out of the total disbursement, Kollam district advanced the major share of Rs.1596.42 crores followed by Ernakulam (Rs.1366.72 crores) and Thrissur (Rs.951.68 crores). In the case of disbursement in ag-

ricultural advances Malappuram shared Rs. 326.38 crores followed by Wayanad (Rs.312.01 crores) and Kozhikode (Rs.305.03 crores) . The details of district wise credit flow to priority sector and agriculture sector are furnished in Appendix 17.10

17.20 In agriculture, both direct and indirect advances were clubbed together for meeting the agricultural sub target of 18 per cent of net bank credit in 1993, subject to the stipulation that indirect lending to agriculture must not exceed one-fourth of total lending sub target or 4.5 per cent of net bank credit. The delineation of priority sector itself was widened to include financing and distribution of inputs for agriculture and allied sectors. The scope of direct agricultural advances under priority sector lending was widened so as to include all short term advances in traditional plantations including tea, coffee, rubber and spices, irrespective of the size of holdings. In 1991, 40.9 per cent of net bank credit was advanced to priority sectors and total credit to agriculture even though remaining below the prescribed level of 18 per cent was 16.4 per cent at the national level. In India, advance to agriculture declined from 16.4 per cent in 1991 to 15.3 per cent in 2002-03, while the fall is much sharper in the state, from 17.4 per cent to 12.99 percent during the period, well below the target of 18 per cent of net bank credit.

17.21. The fall in the ratio of priority sector lending to

**Table -17.9**  
**Priority Sector Advance Disbursed by Commercial Banks -Kerala**  
(Rs .Crore)

YEAR(March)	TOTAL ADVANCE	TOTAL PRIORITY SECTOR ADVANCE		AGRICULTURE SECTOR		SSI SECTOR	
		Amount	%to to total advance	Amount	%to total advance	Amount	%to total advance
1	2	3	4	5	6	7	8
1992	5093	2151	42.2	821	16.1	-	-
1993	5861	2380	40.6	914	15.6	-	-
1994	6485	2590	39.9	953	14.7	811	12.5
1995	7843	3407	43.4	1199	15.3	1090	13.9
1996	9007	3994	44.3	1364	15.1	1223	13.6
1997	10565	4539	43.0	1597	15.1	1445	13.7
1998	12364	5214	42.2	1814	14.7	1558	12.6
1999	13577	5997	44.2	1951	14.4	1783	13.1
2000	15941	6840	42.9	2231	14.0	1991	12.5
2001	19180	8894	46.4	2747	14.3	2262	11.8
2002	22062	10132	45.9	3035	13.8	2540	11.5
2003	27007	11867	43.9	3507	13.0	2562	9.5

Source :Banking Statistics of Kerala ,Reported by State Level Banker's Committee .

deposits from 25.6 per cent in 1991 to 19.98 per cent in 2003 in Kerala was partly due to the decline in the overall credit deposit ratio of banks.

17.22. The measures taken by RBI to improve credit delivery to agriculture like enhanced limit of advances granted to dealers in drip irrigation/sprinkler irrigation system/agricultural machinery from Rs. 10 lakhs to Rs. 20 lakhs under Priority sector for agriculture, inclusion of loans to the Agri-clinics and Agribusiness centre under direct finance to agriculture under priority sector are positive steps which need to be exploited in the State.

17.23. Since 1994-95, Public sector banks prepare Special Agricultural Credit Plans (SACP) on an annual basis, under which banks are required to fix self set targets. With the introduction of SACP, the flow of credit to the agricultural sector by Public sector banks improved slightly at the national level while it showed dismal performance in the State which warrants a re-examination of the SACPs prepared in the State.

17.24. The tendency of the shift of the disbursement from farm to non-farm sector is increasing reportedly due to less risks, lower transaction costs and better returns in the non-farm sector. The major findings of macro level analysis of credit flow to agriculture at the national level is shown in Box.17.4

17.25 Another important area that needs attention is

to make agricultural credit available at lower rates of interest. The benefit of declining rates of interest has not been passed on to the agricultural borrowers. The recent decision of the Finance Ministry to reduce interests on farm loans upto Rs. 50,000/- to 9 per cent may perhaps help the growers. The current PLR of most of the banks is in the range of 11-12 per cent.

**Performance of State Co-operative banks and District Co-operative banks**

17.26 State Co-operative banks and District Co-operative banks channelise their own fund and fund of NABARD for disbursal . The total deposits of State Co-operative Bank increased to 2318.30 crores in 2002-03, which was Rs.1915.02 crores in 2001-02, showing an increase of 21 per cent. The total NPAs during 2001-02 of SCB was Rs. 7818.49 lakhs which formed 6.38 per cent of loans outstanding. The recovery reported as on June 2002 was 92.70 per cent, which is higher than the national average of 80.89 per cent of SCBs. The interest spread has increased from 0.98 per cent in 2000-01 to 1.46 per cent in 2002-03.

17.27 The working results of SCB shows a fall in borrowings from other institutions. During 2001-02 the borrowing was Rs.209.74 crores which was reduced to Rs. 81.66 crores in 2002-03. The net profit of the institution increased from Rs.0.71 crores to Rs.8.24 crores. The details are shown in Appendix 17.11. The purpose wise cumulative loan disbursed by the State

**Box -17. 4**

**Major observation of a macro level study at national level on Credit flow to agriculture**

- The proportion of accounts for the credit limit of Rs. 25000 and less in agriculture sector declined from 49.30% in December 1983 to 40.90% in March 1992 and further down to 37.83% in March 1998, while in the non-agricultural sector it increased from 46.28% to 54.07% and down to 49.56% in the corresponding period.
- The proportion of loan accounts above Rs. 25,000 in agriculture sector increased from 1.13% in December 1983 to 1.21% in March 1992 and further to 2.71% in March 1998.
- Banks tended to adopt non-price credit rationing and minimizing the lending risk.
- Proportion of accounts and amounts in agricultural lending is being done in the post reform period.
- Banks are concentrating more in the non-agricultural sector due to less transaction costs, less risks and better returns compared to agriculture sector.

ISEC, 2002

Co-operative Bank is furnished in Appendix 17.12. The cumulative outstanding loan by the bank during 2002-03 was slightly lower from Rs.1226.43 crores to Rs. 1225.31 crores. The credit disbursement during 2002-03 includes Procurement, Marketing Consumer activities, Cottage and Small Scale Industries, Housing etc. The total mobilised resources of the State Co-operative Bank was Rs.247482.00 lakhs. Out of which Rs.6817.00 lakhs (2.75%) was disbursed for agricultural purposes.

17.28 A substantial decline was noted in the credit flow to agriculture. The disbursement for agriculture which was to the tune of Rs. 175.72 crores in 1999 -00 had declined to Rs. 79.88 crores in 2001-02 and further down to Rs. 68.17 crores in 2002-03, where as the loan to the housing sector had increased from Rs. 23.58 crores to Rs. 128.82 crores and Rs. 139.15 crores during this period.

17.29 During 2002-03 total deposit of District Co-operative Bank had increased to Rs.5617.74 crores as against Rs.4975 crores in 2001-02. The amount dispensed as Loan and Advances was Rs.3697.53 crores, which was 66 per cent of total deposits. The average overdue to the demand was Rs. 3412 lakhs. The district wise operational indicators of District Co-operative banks are given in Appendix: 17.13.

17.30 During 2002-03, 13 District Co-operative Banks were on profit and the Trichur District Co-operative Bank was on loss and the average NPA was 19.95 per cent to loan outstanding of all DCBs which was higher than the national average of DCBs (18.98%) during 2001-02. The average recovery percentage as on June 2002 was 74.16 per cent which is slightly higher than the national average of 66.41 per cent for DCBs.

### Short Term and Medium Term Loans

17.31 Adequate credit plays a crucial role in augmenting private sector capital formation. The annual compound growth rate of direct institutional credit (disbursements) to agriculture and allied activities improved from 12.0 per cent during 1980s to 12.7 per cent during the 1990s at national level. However, the credit delivery scenario at the disaggregated level in the 1990s showed a decelerating trend for credit disbursement of scheduled commercial banks of direct finance to small farmers from 13.1 per cent in the 1980s to 11.0 per cent in the 1990s. Similarly the annual

compound growth rate of direct finance to marginal farmers, decelerated to 13.0 per cent from 18.1 per cent during the same period. The compound growth rates of medium/long term loans disbursed to agriculture and allied activities which are important for private sector capital formation in agriculture have shown deceleration to 9.7 per cent in the 1990s from 11.5 per cent in the preceding decade. However, the disbursements of short term loan have accelerated from 12.2 per cent to 14.5 per cent during the same period. The shift in the composition of agricultural loans in favor of short term advances is a matter of concern, as it is likely to further accentuate the declining private sector capital formation in agriculture.

### Credit flow to Agriculture in Kerala

17.32 The credit flow per hectare of net cropped area increased from about Rs. 3300 in 1993-94 to about 15966 per hectare during 2002-03. More than two-thirds of this credit has been for production credit for supporting agricultural operations. The production credit has increased from Rs. 547.82 crore in 1993 to Rs. 2901 crore during 2002-03 (see Table 17.10). During this period the production credit per ha of gross cropped area has increased from Rs. 1800 to Rs. 9579.

17.33 At the all India level also disbursement of short term loans to agriculture and allied sectors registered a higher trend growth in the 1990s than during 1980s. The trend growth rate of medium/long term loans which are important for capital formation in agriculture has shown only a marginal improvement. The shift in the composition of the agricultural loans towards short term loans reflects a growing 'risk aversion' among banks in respect of medium/long term loans which entail higher credit and market risk as observed by RBI.

17.34 A purpose wise analysis of the credit flow to the investment sector reveals that reduction in disbursement was mainly on plantation crops.

17.35 The major portion of short term and medium term credit requirements in the state are met by Co-operative banking sector consisting of the State Co-operative Banks, District Co-operative banks and Primary Agriculture Credit Societies which covers 1/5<sup>th</sup> of the activities and Commercial Banking sector.

### Long term Credit

17.36 A net work consisting of Kerala State Co-op-

**Table 17.10**  
**Flow of Credit to Agriculture Sector** (Rs. Crores)

Sl.no.	Year	Production credit	Investment credit	Total
1.	1999-2000	1911.49 (79%)	509.08 (21%)	2420.57
2.	2000-2001	2311.99 (80%)	595.75 (20%)	2907.74
3.	2001-2002	2310.97 (81%)	550.39 (19%)	2861.36
4.	2002-2003	2900.96(83%)	612.93 (17%)	3519.89

erative Agricultural and Rural Development Bank at the apex and 44 Primary Co-operative Agricultural and Rural Development Bank at the Taluk level is responsible for long term credit disbursement for rural development. The various activities covered by the KSCARDB's lending include minor irrigation, Plantation/Horticulture, Agricultural machinery, Land Development etc. unlike other financial institutions, KSCARDB raises funds through flotation of debentures issued against Government Guarantee on land security provided by loanees. NABARD, Central and State Governments, NHB, LIC, SBI, and SBT are the financial institutions, which invested in the debentures floated by the KSCARDB. The total loan disbursement during 2002-03 was Rs.293.31 where as it was Rs.319-07 during 2001-02. Under this disbursement Rs.106.44 crores was for Agriculture (36%) crores and Rs.121.15 crores for Rural Housing (41%) and Rs.65.72 crores for Non Farm Sector (23%). The details of loan issue and debentures of PCARDB is given in Appendix 17.14 and 17.15 respectively.

17.37 As on March 2002, 15 PCARDBs were on profit and 29 were on loss and the loss amount estimated at Rs. 21.53 crores. The NPAs as percent to loan outstanding as on March 2002 was 24.64 per cent. The recovery reported as on June 2002 was 56.03 per cent to demand while recovery was 62 per cent in Haryana, 66 per cent in Punjab and 60 per cent in West Bengal.

17.38 NABARD has initiated action on the recommendations of Expert Committee on Rural Credit under the Chairmanship of Prof. V.S. Vyas relating to

financing asset less poor, small farmers/tenants, dry land agriculture, agriculture sub sectors, private capital formation and steps to strengthen RRBs.

**Regional Rural Banks**

17.39 Two Regional Rural Banks, viz. North Malabar Gramin Bank (NMGB), Kannur and South Malabar Gramin Bank (SMGB), Malappuram are working in Kerala under the sponsorship of Syndicate Bank and Canara Bank respectively, covering 10 districts in the State. The average percentage of recovery to demand increased from 68.2 as on June 2000 to 71.4 in June 2002 at the national level. In the State the recovery reported as on March 2003 was 82 per cent, while it was 89 per cent in June 2001.

17.40 Key parameters of RRBs in Kerala are given in the Table: 17.11.

**Refinance by NABARD**

17.41 NABARD provides refinance support to both co-

**Table: 17.11**  
**Key Parameters of RRBs in Kerala as on 31.03.2003** (Rs. Crores)

Items	Nmgb	Smgb	Total
No. of branches	152	202	354
Deposits	519.67	752.55	1272.22
Borrowings	133.42	190.84	324.26
Investment	192.71	242.72	435.43
Loans outstanding	449.85	754.42	1204.27
Loans issued	327.13	662.84	989.97
CD Ratio	86.5 %	100 %	93.25 %
NPA	65.84	51.00	116.84
Average % of NPA loans outstanding	14.63	6.77	10.7
Profit	11.30	18.54	29.84
Average % of recovery	75.8	88.95	82.37

Source: NABARD

operatives and Commercial Banks. Data on agency-wise and purpose-wise disbursement is furnished in Appendix: 17.16. and Appendix: 17.17. The total refinance from NABARD as on 03/2003 was Rs.307.70 crores against Rs.373.29 crores in the previous year, showing a decline of 17%. The Kerala State Co-operative Agricultural and rural Development Bank Limited continued to avail the largest share of (86%) of refinance followed by Regional Rural Banks (7%) and State Co-operative Bank (4%)

17.42 The low intake of refinance by Co-operative sector was due to the denial of the concessional financial facility to the sector in lieu of minimum involvement of 40 per cent in the agriculture sector out of the own funds of the co-operatives insisted by NABARD as a criteria for eligibility.

17.43 Purpose-wise refinance assistance reveals that the non-farm sector availed 61 per cent of the total amount. Under farm sector Plantation and Horticulture availed 10 per cent followed by Land Development (9.6%) and Minor Irrigation (6.3%). The refinance availed by Commercial banks became negligible and it declined from 34 per cent in 1994-95 to 3 per cent in 2002-03. For State Co-operative bank it declined from 15 per cent to 4 per cent. There is a steady increase in the refinance of non-farm sector, which increased from 40 per cent in 1994-95 to 61 per cent in 2002-03. The poor disbursal of refinance to the sectors like Fisheries, Poultry and Agro processing which are very important in rural sector of Kerala, for income and employment generation calls for intervention.

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\* Extracts from “Bank Credit in Kerala: An Analysis of Trends and Issues”, a paper presented by Shri P.D. Jeromi, Assistant Adviser in the Department of Economic Analysis and Policy in the RBI, at the 85<sup>th</sup> Annual Conference of the Indian Economic Association held at University of Kerala- 2002.

