

## 7. BANKING

The Annual Policy statement of the Reserve Bank of India 2008-09 emphasised on the ways to bring the country out of the economic recession that was prevailing to bring the economy to better standards, to maintain the economic and financial stability in order to adjust the evolving and upcoming global development in the State. The policy statement for 2008-09 retained the Bank rate, Reverse Repo rate and gave high priority to price stability sustaining growth momentum. The Cash Reserve Ratio (CRR) for the scheduled banks had to be maintained at 8.25 percent. Banking activities should aim at bringing down inflation to 5.5 percent. The increase in Deposits has been projected at 17.0 percent. Housing sector was expected to get a fillip due to the policy to increase the limit of bank loans from Rs.20 to Rs.30 lakhs.

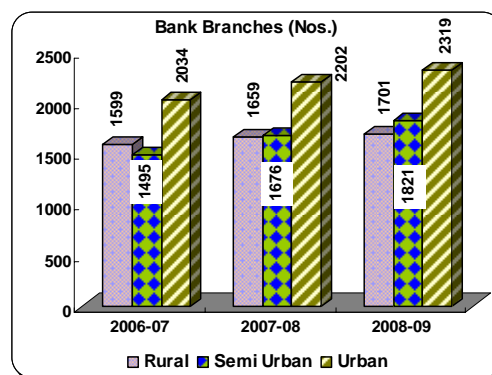
### Banking Policy 2008-09 :

The annual banking policy is the basis on which banks operate during any particular year. This is framed taking into account the financial scenario in the country and the financial needs of the country. The salient features of the Annual Policy 2008-09 are listed below.

- Bank rate, Reverse Repo rate kept unchanged.
- High priority to price stability, sustaining growth momentum.
- Scheduled banks required to maintain CRR of 8.25 per cent.
- GDP growth projections of 2008-09 in the range of 8.5 per cent.
- Inflation to be brought down to 5.5 per cent in 2008-09.
- Deposit projected to increase by 17.0 per cent at Rs.5,50,000 crores in 2008-09.
- Indian companies to be allowed to invest overseas in energy and natural resource sectors.
- The shortfall in lending to weaker section would be taken into account for contribution to RIDF.
- The limit of Bank loan to individual for housing having lower risk weight of 50 per cent is enhanced from Rs. 20 lakhs to Rs.30 lakhs.

### Banking Network in Tamil Nadu:

Tamil Nadu is one of the leading States in the financial service sector. Tamil Nadu banking statistics relate quite closely with the RBI's expectation and the all India achievement thus highlighting that Tamil Nadu is way ahead in its financial achievements.



**Table- 1: Number of Bank Branches**

Area	2006-07		2007-08		2008-09	
	Tamil Nadu	All India	Tamil Nadu	All India	Tamil Nadu	All India
Rural	1599	30409	1659	30955	1701	31489
Semi Urban	1495	16332	1676	17771	1821	18764
Urban	2034	24756	2202	27277	2319	28803
<b>Total</b>	<b>5128</b>	<b>71497</b>	<b>5534</b>	<b>76003</b>	<b>5841</b>	<b>79056</b>

Source: Quarterly Statistics and Credit of Scheduled Banks RBI June 2009.

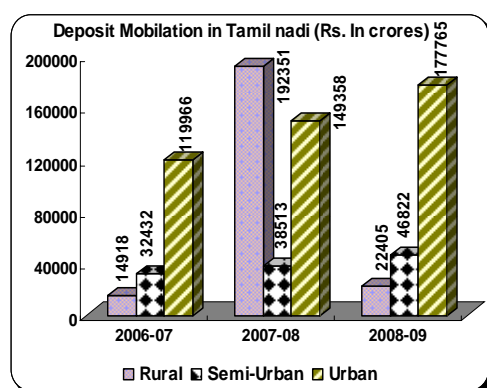
The number of branches is on the increase over the three year period and this increase is reflected in the rural, semi-urban and the urban areas both at the state and all India level.

**Table – 2: Deposit Mobilisation**

(Rs.in crores)

Area	2006-07		2007-08		2008-09	
	Tamil Nadu	All India	Tamil Nadu	All India	Tamil Nadu	All India
Rural	14918	254039	192351	307681	22405	365491
Semi-Urban	32432	366130	38513	436893	46822	531944
Urban	119966	2063348	149358	2529424	177765	3039900
<b>Total</b>	<b>167316</b>	<b>2683517</b>	<b>207106</b>	<b>3273998</b>	<b>246992</b>	<b>3937335</b>

Source: Quarterly Statistics and Credit of Scheduled Banks RBI June 2009.



The aggregate deposits in all the Scheduled Commercial Banks in the State increased from Rs.207106 crores in 2007-08 to Rs.246992 crores, registering a 19 per cent growth. Tamil nadu accounts for 6.27 percent of the all India aggregate deposit. Increase in deposit in Tamil Nadu can be attributed to the increase in the number of bank branches, growth in savings deposit and routing of all welfare scheme like SHG's, school scholarship, etc. through the banks.

**Deposit Per Bank Branch:**

The Deposits per Bank branch in rural Tamil Nadu has improved from 11.62 crores in 2007-08 to Rs.13.17 crores in 2008-09. This is higher than the all India. The aggregate Deposit per Bank in Tamil Nadu is Rs.42.28 level which is close to the all India level of Rs.49.80 crores. All these figures reflected the massive deposit mobilization measures adopted by the banks in Tamil Nadu.

**Table – 3 : Deposit Per Bank**

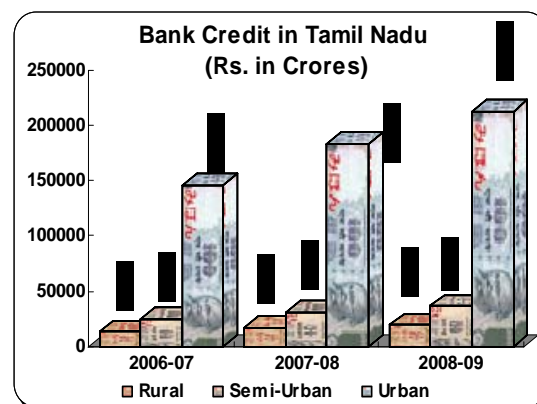
(Rs.in crores)

Area	2006-07		2007-08		2008-09	
	Tamil Nadu	All India	Tamil Nadu	All India	Tamil Nadu	All India
Rural	9.33	8.35	11.62	9.44	13.17	11.60
Semi-Urban	21.69	22.42	22.97	24.58	25.71	16.89
Urban	58.98	83.34	67.83	92.73	76.65	105.54
<b>Total</b>	<b>32.63</b>	<b>37.53</b>	<b>37.42</b>	<b>43.08</b>	<b>42.28</b>	<b>49.80</b>

Source: Quarterly Statistics and Credit of Scheduled Banks RBI June 2009.

**Credit Disbursement:**

The Credit Disbursement in Tamil Nadu has gone up from Rs.231551 crores in 2007-08 to Rs.268964 crores in the year 2008-09 recording an increase of 16.16 per cent. In absolute terms, the net increase in credit disbursement in 2008-09 was Rs.37413 crores, to which the rural bank branches accounted for 6.6 per cent, semi-urban bank branches 15.0 per cent and urban bank branches 78.4 per cent. However, in all the type of bank branches the net addition in 2008-09 was less than in 2007-08.

**Table – 4 : Bank Credit**

(Rs.in crores)

Area	2006-07		2007-08		2008-09	
	Tamil Nadu	All India	Tamil Nadu	All India	Tamil Nadu	All India
Rural	13494	154472	16893	184400	19375	208694
Semi-Urban	25143	189279	31238	230045	36835	266736
Urban	145666	1582948	183420	2025607	212754	2382095
<b>Total</b>	<b>184303</b>	<b>1926699</b>	<b>231551</b>	<b>2440052</b>	<b>268964</b>	<b>2857525</b>

Source: Quarterly Statistics and Credit of Scheduled Banks RBI June 2009.

**Credit Disbursal Per Branch:**

The credit disbursed by banks has increased from Rs.41.80 crores in 2007-08 to Rs.46.04 crores in 2008-09. Tamil Nadu's level of credit dispersal per bank was well ahead of all-India's level.

**Table – 5 : Credit Per Bank Branch**

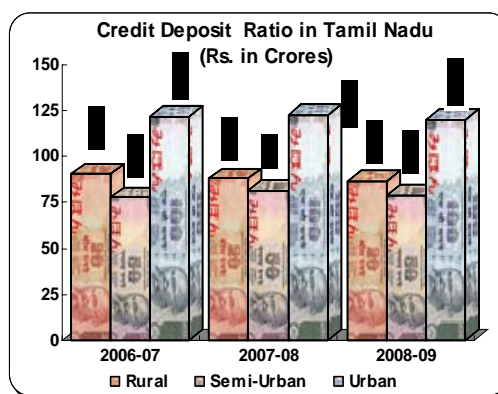
(Rs.in crores)

Area	2006-07		2007-08		2008-09	
	Tamil Nadu	All India	Tamil Nadu	All India	Tamil Nadu	All India
Rural	8.44	5.08	10.20	5.96	11.39	6.63
Semi-Urban	16.82	11.59	18.63	12.95	20.23	14.21
Urban	71.62	63.94	83.29	74.26	91.74	82.70
<b>Total</b>	<b>35.94</b>	<b>26.95</b>	<b>41.80</b>	<b>32.10</b>	<b>46.04</b>	<b>36.14</b>

Source: Quarterly Statistics and Credit of Scheduled Banks RBI June 2009.

### Credit Deposit Ratio:

The credit deposit ratio in Tamil Nadu is found to be the highest at 108.89 per cent which is higher than the all-India ratio (72.58%). This situation is attributed to the strong credit disbursement network prevalent in the State.



**Table – 6 : Credit Deposit Ratio**

(Rs.in crores)

Area	2006-07		2007-08		2008-09	
	Tamil Nadu	All India	Tamil Nadu	All India	Tamil Nadu	All India
Rural	90.45	60.81	87.82	59.93	86.48	57.09
Semi-Urban	77.53	51.70	81.11	52.65	78.67	50.4
Urban	121.42	76.72	122.81	80.08	119.68	78.36
<b>Total</b>	<b>110.15</b>	<b>71.80</b>	<b>111.80</b>	<b>134.17</b>	<b>108.89</b>	<b>72.58</b>

Source: Quarterly Statistics and Credit of Scheduled Banks RBI June 2009.

### Annual Credit Plan:

The Annual Credit Plan for banks in Tamil Nadu for the year 2008-09 portrayed the credit flow to farm sector at Rs.21093.26 crores which is higher than the plan allocation of Rs.19438.09 crores recording an achievement of 109 per cent. The farm sector's example has been followed by the other priority sector which has recorded a 112 per cent achievement and helped to maintain the overall achievement rate of 106 per cent.

**Table - 7 : Credit Allocation and Disbursement**

(Rs. crores)

Sector	April 2007 to March 2008			April 2008 to March 2009		
	Credit Allocation	Credit Disbursement	Achievement	Credit Allocation	Credit Disbursement	Achievement
Farm	17357.06	18591.62	107	19438.09	21093.26	109
Non-Farm	7578.98	7617.16	101	8734.08	8267.98	95
OPS	6546.38	7074.11	108	7645.43	8559.80	112
<b>Total</b>	<b>31482.42</b>	<b>33282.89</b>	<b>106</b>	<b>35817.60</b>	<b>37921.04</b>	<b>106</b>

OPS – Other Priority Sector

Source: Indian Overseas Bank, Lead Bank Department, Chennai.

### Performance of Commercial Banks in Tamil Nadu:

The Commercial Banks in Tamil Nadu have been performing under the Stipulated National norms. An analysis of their performance reveals that the share of priority sector advances as of March 2009 stands at 42.65 per cent well above the National norm of 40 per cent.

**Table - 8 : National Norms and Achievement**

(Per cent)

Particulars	National Norms	Achievement March 2008	Achievement March 2009
1. Priority Sector advances to total advances	40	49.18	42.65
2. Agricultural advances to total advances	18	18.96	17.15
3. Advances to Weaker section to total Advances	10	9.71	9.00
4. DRI advances to total Advances of previous years	1	0.03	0.03

Source: Indian Overseas Bank, Lead Bank Department, Chennai.

The matter of concern is that the ratio of Agricultural advances and advances to weaker section has not decreased from the last year's level. DRI advances also continue to remain below the National norm of one per cent. The fall in interest rates might be one of the reasons. Member Banks have been requested by the Lead Bank to take immediate corrective steps to increase advances to these vital segments.

### Co-operative Banking:

Co-operative Banks in India started functioning almost 100 years ago. Co-operative Banking is an important constituent of the Indian financial system. Though the co-operative movement originated in the west, the importance that these have assumed in India cannot be paralleled to anywhere else in the world. Co-operative Banking plays an important role even today in rural financing. The businesses of Co-operative Banks in the urban areas has also increased phenomenally due to the sharp increase in the number of primary co-operative banks. Co-operative Banks in India are registered under the Co-operative Societies act and regulated by the Reserve Bank of India.

In the rural areas, the co-operative Banks in India finance for activities such as farming, cattle, milk, matchery and personal finance and in the urban areas for self-employment, industries, small scale units, home finance, consumer finance and personal finance. The exponential growth of Co-operative banks in India is attributed mainly to their much better local reach, personal interaction with customers and their ability to catch the nerve of the local clientele.

Tamil Nadu is one of the States where Co-operative banks are playing a leading and vital role in credit disbursement and mobilization of rural deposits. As at the end of March 2009, there were 784 branches of Co-operative banks including District Central Co-operative Banks and State Agricultural and Rural Development Banks in Tamil Nadu.

**Table - 9 : Number of Co-operative Banks**

Classification of Branches	March 2008	March 2009
Rural	279	259
Semi Urban	194	205
Urban	201	187
Metro	108	133
<b>Total</b>	<b>782</b>	<b>784</b>

Source: IOB, Lead Bank, SLBC Agenda Paper.

The Deposit, advances and Investment of the Co-operative Banks in Tamil Nadu have gone up this year over the previous year.

**Table - 10 : Performance of Co-operative banks**

(Rs. in Crores)

<b>Particulars</b>	<b>March 2008</b>	<b>March 2009</b>
Deposit	12602.19	14822.19
Advances	14981.44	16292.80
Investment	4553.89	5241.99

*Source: IOB, Lead Bank, SLBC Agenda Paper.*

The Credit Institutions in the State belong to two distinct structures known as Short term Co-operative Credit Structure and Long-term Co-operative Credit Structure.

The Short term Co-operative Credit Structure consists of Primary Agricultural Co-operative Credit Societies at the village level, district Central co-operative banks at the district level and the State co-operative bank at the apex level.

The Long term Co-operative Credit Structure consists of State Co-operative Agricultural and Rural Development Bank at the State level; and Primary Co-operative Agriculture and Rural Development Bank at the block level. The Urban Co-operative Credit Structure consists of Co-operative Urban Banks located in the urban and semi urban areas.

**The Tamil Nadu State Apex Co-operative Bank (TNSACB):**

This TNSACB has 45 branches at the State level, 23 District Central Co-operative Banks with 734 branches at the district level and 4522 Primary Agricultural Co-operative Credit Society at the grass root level.

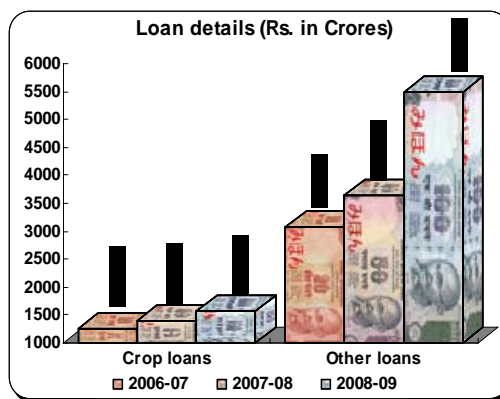
The TNSACB is a federation of the district Central Co-operative Bank raising resources from public deposit, refinance from NABARD, loans from National Co-operative Development Corporation and channelising them through the District Central Co-operative Banks for both agricultural and non-agricultural purposes. The financial status of the TNSACB as on 31.3.2009 is as follows:

Share Capital	-	Rs.61.07 crores
Reserve	-	Rs.718.54 crores
Deposit	-	Rs.4465.23 crores
Net Profit in 2007-08	-	Rs.15.12 crores
Tentative Profit for 2008-09	-	Rs.45.92 crores

The TNSACB has signed a Memorandum of Understanding (MoU) with the NABARD for the period from 2007-08 to 2011-12.

### Primary Agricultural Co-operative Credit Societies (PACC's):

A total of 4522 PACC's are functioning in the State, of which 1290 are running on profit and another 604 are expecting to earn a profit during this year. Crop loan is the prominent item of credit support extended to farmers by the PACC's. Crop loan disbursement over the last five years has gone up by 50 per cent. Details of loans are given below.



**Table - 11 : Loan Details** (Rs. in Crores)

Year	Crop loans	Other loans
2006-07	1250.62	3082.20
2007-08	1393.07	3641.45
2008-09	1570.99	5485.50

Source: Policy Note 2008-09.

### Primary Co-operative Agriculture and Rural Development Bank (PCARDB):

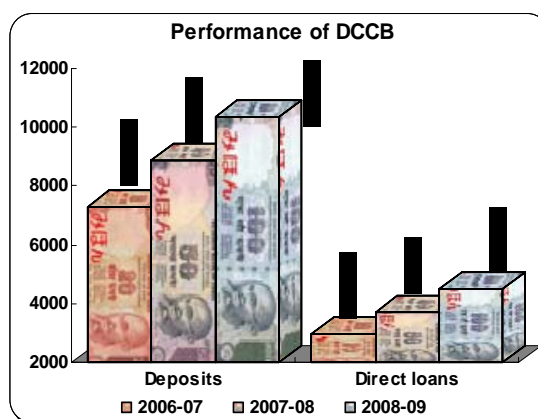
These banks are 180 in number in the State and they provide long-term credit for agricultural purposes like minor irrigation, land development, farm mechanism, horticulture, animal husbandry and other allied activities. Most of these Banks are defunct due to non-availability of refinances from NABARD.

### Micro Credit Scheme:

This is initiated by providing group lending to petty vendors in urban and semi urban areas. Under this scheme Rs.1000/- is given to every member as loan amount without security to do petty business for their livelihood.

### District Central Co-operative Bank (DCCB):

These banks meet the credit needs of the PACC's and the other Co-operatives. The performance of the DCCB's in the form of deposit and direct loans reveals the marked increase.



**Table - 12 : Performance of DCCB** (Rs. in Crores)

Year	Deposits	Direct loans
2006-07	7286.62	2973.02
2007-08	8849.44	3711.17
2008-09	10317.31	4531.65

Source: Policy Note Co-operative.

### Urban C-operative Banks:

There are 120 Urban Co-operative Banks in the State and have issued loans to the extent of Rs.3071.32 crores. Deposit position in these Banks improved by 17 per cent from Rs.2655.47 crores as on 31.03.2008 to Rs.3113.07 crores as on 31.3.2009.

Some of the banks under the Co-operative do not function on a profitable basis. With a view to improve this situation the Government has enabled the Co-operative Credit Societies to implement Special Scheme like waiver of agricultural loans to farmers. Details of government's contribution to the banks to clear the debts of the farmers is highlighted below:

**Table - 13 : Government Contribution for Waiver**

(Rs. in Crores)

Details	2007-08	2008-09
Payment to Co-operative Banks	976.05	891.11
Payment to NABARD	645.11	298.53
Payment to Govt. of India	9.06	8.36
<b>Total</b>	<b>1630.22</b>	<b>1198.00</b>

Source: IOB, Lead Bank, SLBC Agenda Paper.

The details of payment given to the banks to waive the loans taken by the farmers show that the waiver was higher in the year 2007-08 compared to 2008-09.

### Assistance to Self-help Groups:

Loans to the Self Help Groups in the year closing March 2009 was Rs.284.88 crores which exhibited a record of 57 per cent increase over the loans disbursed in 2008.

### NABARD'S Association:

NABARD through its refinance operations has been facilitating the banking sector to augment credit support for production and investment purposes in the rural and agricultural sectors in addition to its continued involvement in developing rural infrastructure by providing loans under RIDF to State Government for such project.

### Credit Flow to Women:

Government of India and Reserve Bank of India have been very keen on strengthening the credit flow to women in India as the rate of return is considerably good and also the previous examples of how credit flow to women has improved their livelihood status. The visible impact of this development has been reflected on the society. The Nationalized Banks follow the instruction of the Government of India and Reserve Bank of India which have asked for the increase of credit by 5 per cent. At the level of Rs.11,707.25 crores, advances to women in Tamil Nadu constitute 4.47 per cent of the total bank credit. The credit flow has to be further maximized to reach 5 per cent of the total bank credits.

## District-wise Performance of Commercial Banks in Tamil Nadu:

A comparative analysis of the performance of Commercial Banks in Tamil Nadu showed that

- Virudhunagar district has the highest credit deposit ratio at 172 per cent followed by Coimbatore recording 154 per cent and Theni at 146 per cent.
- Of the 30 lead districts, the credit deposit ratio of 29 districts is above the RBI norm of 60 per cent.
- Kancheepuram district recorded a credit deposit ratio of 52 per cent which is less than the national norm of 60 per cent.
- Proportion of Agricultural advances to the total advances in the following district is below 18 per cent.
  - o Coimbatore - 11.05 per cent
  - o Virudhunagar - 15.67 per cent

## Bank Finance under Housing:

In tune with the National Agenda 'Housing for All', credit flow to Housing sector is identified as one of the major thrust areas by the Bank. As per the RBI guidelines each bank should attain a share of 3 per cent of their incremental deposit of the previous year under housing finance. Accordingly, it is estimated that around Rs.1125.10 crores of credit should be extended to the Housing sector from the banking system in 2008-09. It is a matter of achievement to state that all the Banks together have extended tremendous support in surpassing the Credit Linkage target of Rs.1858.00 crores and have achieved Rs.2174.57 crores for the year 2008-09.

## Small Savings:

Small savings helps in promoting the habit of saving among the people and small investors and thus helps in the acceleration of the financial resources of the government. The healthy feature noticed is that the Gross Collection that went down in 2007-08 compared to the previous year 2006-07 has been revived in 2008-09 which increased from Rs.7791.11 crore in 2007-08 to Rs.8486.64 cores in 2008-09.

**Table - 14 : Small Savings Collection in Tamil Nadu**

(Rs. Crores)

Year	Gross Collection	Net Collection	Net to Gross Ratio %
2006-07	10353.9	3069.25	28.26
2007-08	7791.11	(-) 965.98	12.40
2008-09	8486.64	(-)1216.71	14.34

Source: Directorate of small Savings, Chennai.

It is expected that the positive trend in the gross collection would continue in the next years also.