

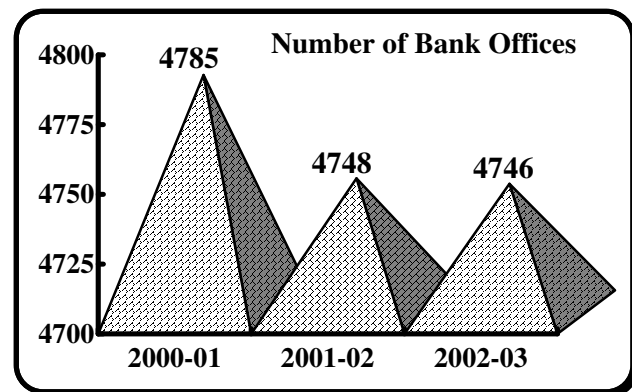
## 6. MONETARY AND BANKING DEVELOPMENT

Monetary and Credit Policies of the Reserve Bank of India, coupled with the fiscal policy of the Government of India influence the pace and direction of economic development. Comfortable liquidity, stable interest rate and timely flow of credit to productive economic activities induce investment and production with the result that the growth process gets a stimulus. The RBI has shifted its strategy from use of direct to indirect instruments of monetary policy. Changes in Bank Rate, Cash Reserve Ratio and Repo rates were such that they had telling effects on liquidity position of the banking system. The RBI has been adopting a soft interest rate stance which results in greater flexibility in interest rate structure. The Monetary and Credit policy of RBI 2002-03 is set out in Box below:

The on-going banking reforms are focusing on soft interest rate regime, enhancing the operational efficiency of the banks, strengthening the regulatory mechanism and insisting on technological upgradation. With the ushering in of "*Securitisation, Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002*" the incidence of non-performing assets has been showing a downward trend.

### 1. Banking Developments in Tamil Nadu:

For accelerating economic development the financial intermediaries should take deeper root in all areas - urban, semi-urban and rural areas. In step with the developments taking place in the primary, secondary and tertiary sectors, the establishment of banking institutions have been spreading through out the State. In 2002-03, the total number of banks in Tamil Nadu stood at 4746 as against 4748 in the preceding year. The urban and metropolitan areas constituted a significant share of 37.51 per cent to total 4746 branches in 2002-03.



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

Region	2000-01		2001-02		2002-03	
	Tamil Nadu	All-India	Tamil Nadu	All-India	Tamil Nadu	All-India
Rural	1823	32526	1774	32394	1745	32231
Semi urban	1212	14574	1213	14727	1221	14875
Urban/Metropolitan	1750	19019	1761	19234	1780	19586
<b>Total</b>	<b>4785</b>	<b>66119</b>	<b>4748</b>	<b>66355</b>	<b>4746</b>	<b>66692</b>

Source: Banking Statistics, Quarterly Handout, RBI, Mumbai.

### 2. Population Served per Bank:

Population served by bank is one of the indicators with which we can discern the extent of financial deepening that is taking place in the State. A glance at the table below

shows that the population served per bank is showing an increasing trend over a long time span. The population served per bank stood at 13258 in 2002-03.

**Table -2: Population Served Per Bank Branch**

Year	Tamil Nadu		All India	
	Population (000)	Population Per Bank Office	Population (000)	Population Per Bank Office
2000-01	61913	12939	1019000	15412
2001-02	62416	13146	1037000	15628
2002-03	62923	13258	1055000	15819

Source: Banking Statistics, Quarterly Handout, RBI, Mumbai.

**BOX**  
**Monetary and Credit Policy 2002-03**

**A Annual Policy Statement**

- Cash Reserve Ratio (CRR) reduced from 5.5 per cent to 5.0 per cent effective from June 15, 2002. (Later advanced to June 1, 2002), augmenting the lendable resources of banks by Rs.6.000 crore.
- Banks urged to switch over to 'All Cost' concept for borrowers by explicitly declaring processing and service charges.
- The ceiling rate on export credit in foreign currency reduced to Libor + 0.75 percentage point from the present Libor + 1.0 percentage point.
- Banks to report RBI, the maximum and minimum lending rates to exporters.
- Stipulation of minimum lending rate (MLR) withdrawn for all Cooperative banks and freedom to determine their lending rates.
- Ceiling rate on FCNR (B) deposits reduced from Libor / Swap rates to Libor / Swap rates for corresponding maturities minus 25 basis points.
- Banks allowed to increase the limit of dispensation of collateral requirement for loans to small scale industries from Rs.5 lakh to Rs.15 lakh.

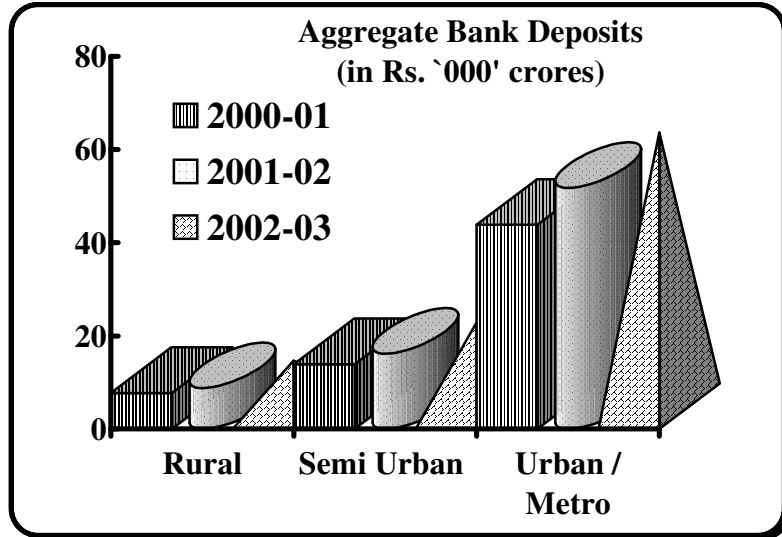
**B Mid-Term Review**

- Bank Rate reduced from 6.50 per cent to 6.25 per cent effective close of business on October 29, 2002.
- Repo Rate under liquidity adjustment facility to be available on October 30, 2002 reduced by 0.25 per cent.
- CRR reduced from 5.0 per cent to 4.75 per cent effective fortnight beginning November 16, 2002.
- Cooperative banks, regional rural banks and local area banks encouraged not to pay any additional interest on savings accounts over and above what is payable by commercial banks.
- Cooperative banks encouraged not to pay interest on current accounts.
- Interest rate on pre-shipment credit beyond 180 days and upto 270 days and post shipment credit beyond 90 days and upto 180 days to be deregulated from May 1, 2003.
- Credit limit of housing loans for repairing damaged houses raised.

Source: Economic Survey - 2002-03.

### 3. Total Bank Deposits:

Growing bank deposits indicate that the financial intermediaries are very efficient in mopping up the savings available at the command of the people. The quantum of total bank deposit is predicated by the following factors: increase in real income, thrift, attractive interest rate, propensity to save, etc.



The total bank deposit was at Rs.8634338 lakhs in 2002-03 compared to Rs.7670727 lakhs in 2002, percentage increase being 12.56 per cent.

**Table -3: Total Bank Deposits (Rs. in lakhs)**

Region	2000-01		2001-02		2002-03	
	Tamil Nadu	All-India	Tamil Nadu	All-India	Tamil Nadu	All-India
Rural	774991	14079957	876353	15900133	974583	17470983
Semi urban	1392313	19123822	1618509	21772179	1785564	24181714
Urban/Metropolitan	4383589	63720201	5175863	77120696	5874192	87946613
<b>Total</b>	<b>6550893</b>	<b>96923980</b>	<b>7670725</b>	<b>114793008</b>	<b>8634338</b>	<b>129599309</b>

Source: Banking Statistics, Quarterly Handout, RBI, Mumbai.

### 4. Deposit per Bank:

Deposit per bank was at Rs.1729 lakhs in 2002-03. The per bank deposit was at high Rs.4009.60- lakhs in urban banks compared to rural banks (Rs.490.84 lakhs) and semi-urban banks (Rs.1478.39 lakhs).

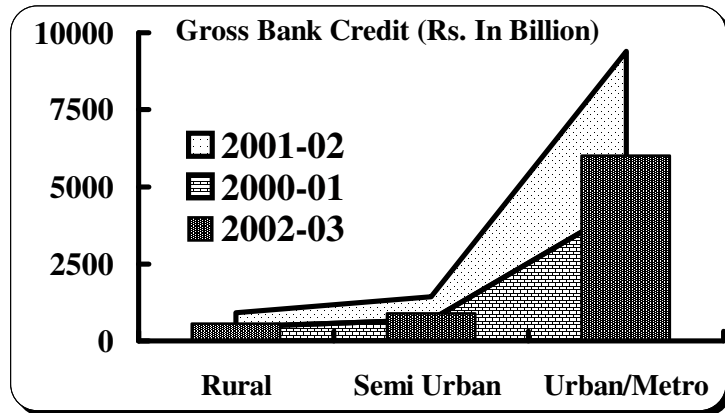
**Table -4: Deposit Per (Rs. in lakhs)**

Region	2000-01		2001-02		2002-03	
	Tamil Nadu	All-India	Tamil Nadu	All-India	Tamil Nadu	All-India
Rural	425.13	494.00	558.50	432.38	490.84	542.06
Semi urban	1148.78	1334.30	1462.38	1312.18	1478.39	1625.66
Urban/Metropolitan	2505.00	2939.16	3300.11	3350.34	4009.60	4490.28
<b>Total</b>	<b>1369.05</b>	<b>1615.57</b>	<b>1819.29</b>	<b>1465.90</b>	<b>1729.98</b>	<b>1943.25</b>

Source: Banking Statistics, Quarterly Handout, RBI, Mumbai.

## 5. Gross Bank Credit:

The total bank deposit accumulated should be channeled in to productive economic activities so that the credit-needing activities will not be starved of bank credit. The gross bank credit in 2001-02 increased from Rs.6232264 lakhs to Rs.7458743 lakhs in 2002-03, recording a growth rate of 19.68 per cent. Its may be mentioned that the quantum



of bank credit disbursed to various productive activities has been on the increase. In 2002-03 the urban / metro banks accounted for a larger share of 81 per cent of total disbursement of Rs.7458743 lakhs, followed by semi-urban (12 %) and rural areas (7 %).

**Table -5: Gross Bank Credit (Rs.in lakhs)**

Region	2000-01		2001-02		2002-03	
	Tamil Nadu	All-India	Tamil Nadu	All-India	Tamil Nadu	All-India
Rural	450860	5652076	465354	6541935	553582	7510161
Semi urban	681235	6148135	757555	7127708	894665	8335175
Urban/Metropolitan	4383209	42974436	5009355	52384169	6010496	58077302
<b>Total</b>	<b>5615304</b>	<b>54774647</b>	<b>6232264</b>	<b>66053812</b>	<b>7458743</b>	<b>73922638</b>

Source: Banking Statistics, Quarterly Handout, RBI, Mumbai.

## 6. Credit Per Bank:

Growing credit per bank is indicative of the fact that the off-take of credit by the various economic enterprises is found encouraging. In 2002-03 credit per bank stood at Rs.1571.59 lakhs compared to Rs.1312.61 lakhs in the preceding year, the growth in total disbursement being 19.7 per cent. It was relatively higher at Rs.3376.68 lakhs in metropolitan areas compared to semi-urban areas (Rs.732.73 lakhs) and rural areas banks (Rs.317.24 lakhs).

**Table -6: Credit per Bank (Rs. in lakhs)**

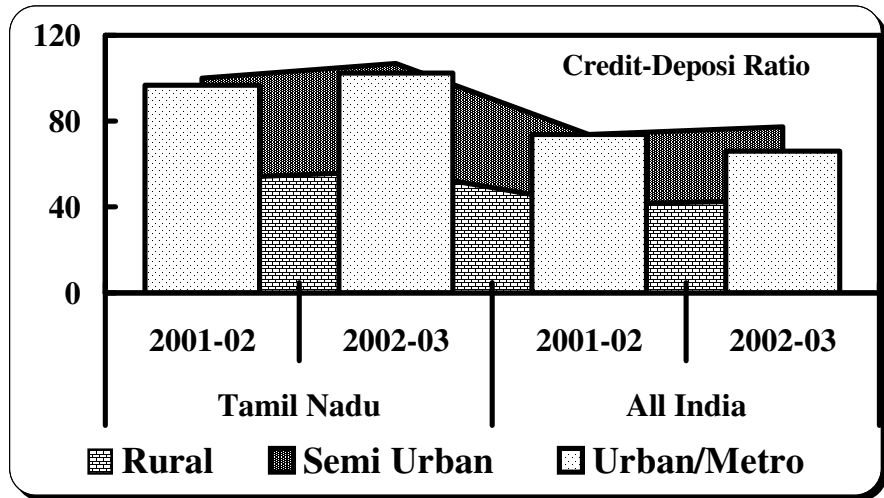
Region	2000-01		2001-02		2002-03	
	Tamil Nadu	All-India	Tamil Nadu	All-India	Tamil Nadu	All-India
Rural	247.32	173.77	262.32	201.95	317.24	233.01
Semi urban	562.08	421.86	624.53	483.99	732.73	560.35
Urban/Metropolitan	2504.69	2259.86	2844.61	2723.52	3376.68	2965.25
<b>Total</b>	<b>1173.52</b>	<b>828.43</b>	<b>1312.61</b>	<b>995.46</b>	<b>1571.59</b>	<b>1108.42</b>

Source: Banking Statistics, Quarterly Handout, RBI, Mumbai.

## 7. Credit - Deposit Ratio:

Credit-deposit ratio is one of the measures which gauges the effectiveness of the banks in disbursing credit to the needy sectors. It may be mentioned that credit-deposit ratio in Tamil Nadu was at 86.38 per cent which is higher than that at all-India (57.05%). This

ratio has been seesawing between the years - it was 85.7 per cent in 2000-01, 81.37 per cent in 2000-02 and 86.38 per cent in 2002-03. Credit-deposit ratio is found to be 102.32 in banks located in urban and metropolitan areas compared to 56.87 per cent in rural areas and 50.11 per cent in semi-urban areas in 2002-03. One notable feature is that credit-deposit ratio in Tamil Nadu, though relatively higher, has been showing a mixed pattern.



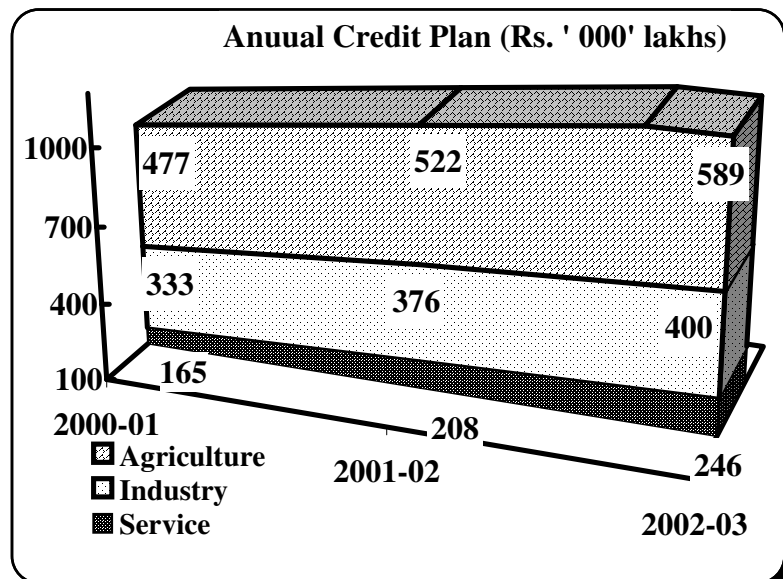
**Table -7: Credit - Deposit Ratio**

Region	2000-01		2001-02		2002-03	
	Tamil Nadu	All-India	Tamil Nadu	All-India	Tamil Nadu	All-India
Rural	58.2	40.1	53.1	41.1	56.8	42.99
Semi urban	48.9	32.1	46.8	32.7	50.11	34.47
Urban/Metropolitan	99.9	67.4	96.8	73.6	102.32	66.04
<b>Total</b>	<b>85.7</b>	<b>56.5</b>	<b>81.3</b>	<b>57.5</b>	<b>86.38</b>	<b>57.04</b>

Source: Compiled by DEAR.

## 8. Annual Credit Plan:

The Indian Overseas Bank is a nodal agency which prepares Annual Credit Plan for the State by aggregating total fund requirements of the various economic activities. After sizing up the total fund requirements for the State, the Bank allocates scarce resources among various sectors, based on prioritization. In 2002-03, the total annual credit



allocation was at Rs.12350 crores against Rs.11056 crores in 2001-02. Out of the total allocation of Rs.12350.14 crores in 2002-03, the financial achievements was at Rs.12825 crores, indicating an over-achievement by 4 per cent. Between sectors, agriculture has been assigned priority over other two sectors viz., industries and services. Out of Rs.12825 crores sized up agriculture accounted for Rs.5960 crores (46.4%), Industries Rs.4100 crores (32%) and Services Rs.2765 crores (21.6%).

**Table- 9: Annual Credit Plan – Fund Allocation and Achievement**

Sector	Allocation (Rs. Crores)		Achievement (Rs. Crores)	
	2001-02	2002-03	2001-02	2002-03
Agriculture	5215.51	5888.15	5283.60 (101)	5960.43 (101)
Industries	3761.04	3999.92	3904.98 (104)	4099.70 (102)
Services	2079.09	2462.07	2243.51 (108)	2765.18 (112)
<b>Total</b>	<b>11055.64</b>	<b>12350.14</b>	<b>11432.09 (103)</b>	<b>12825.31 (104)</b>

*Note : Figures in brackets denotes percentages.*

*Source: State Level Review Meeting, 2003, Lead Bank Department, IOB, Chennai -2.*

## **9. Network of Agricultural Primary Cooperative Societies:**

In addition to the credit disbursements made by the commercial banks, the Tamil Nadu State Apex Cooperative Bank is also extending credit facilities to farm sector in order to finance the farm activities. The co-operative sector has a three-tier structure - State Apex Cooperative Banks at the State level, District Cooperative Banks at the district level and Primary Agricultural Cooperative Banks at the village level. This cooperative network which has taken deep root throughout the State is providing short- term, medium-term and long -term credit to the farm community.

In 2002-03, the farm sector received a sum of Rs.1348 crores as medium term agricultural loan and Rs.6053 crores as short term agricultural credit. One of the factors that thwart the credit movement is high incidence of non-performing assets. This problem affects not only recycling of funds but also results in uncomfortable liquidity position of the financial institutions. Considering the severity of droughts prevailing in the State in three consecutive years, the Government also have announced waivers and write-off of loans to lighten the financial burden of the farming community.

## **10. Small Savings:**

Small savings are being mopped up from the public and collections are canalized into productive economic activities in terms of investment. Since the saving rate is at a sub-optimal level, the Government have been encouraging mobilization of small savings through financial intermediaries by way of offering package of incentives both to savers and mobilisers. The State Governments are entitled to get a share in four-fifths of the net collections of small savings from GOI to finance the development process.

The gross saving collections in the State was at Rs.5988.08 crores in 2002-03 compared to Rs.4323.14 crores in the preceding year. In 2002, Chennai district accounted for 28.42 per cent of the total small savings collections (Net) of Rs.2902.99 crores,

followed by Coimbatore 9.20 per cent, Salem 5.30 per cent and Tirunelveli 5.0 per cent. Accrual of small savings take the following forms: National Saving Scheme (NSS), Monthly Income Scheme (MIS 5 Years), Cumulative Time Deposit (CTD), Recurring Deposit (RD), National Saving Certificate (NSC), Indira Vikas Patra (IVP), Kisan Vikas Patra (KVP), Public Provident Fund (PPF PO), PPF (B) & DSRGE. With respect to net saving collections, the respective figures were Rs.2902.99 crores and Rs.1854.40 crores. The net saving as percentage of gross saving worked out to 48.48 in 2002 compared to 43 in 2001-02.

**Table -8: Small Savings Collections**

(Rs. in crores)

Year	Gross Collections	Net Collections	Net to Gross Ratio (%)	% change over Previous Year (Net Collections)
2000-01	4227.37	1818.04	43.01	13.29
2001-02	4323.14	1854.40	42.89	2.00
2002-03	5988.08	2902.99	48.48	56.55

Source: Director of Small Savings, Chennai - 6.

## 11. Sum-up:

The overall priority sector lending target is fixed at 40 per cent of net bank credit. The sub-target of 18 per cent of net bank credit is stipulated for lending to the agricultural sector by domestic scheduled commercial banks. The public and private sector banks' shortfall in lending to priority sector are contributed to the Rural Infrastructure Development Fund (RIDF) established with the NABARD 1995-96. The RIDF focuses on improvement in infrastructure like rural roads and bridges, soil conservation, watershed development, drainage improvement, flood protection, rural market yards, forest management, rural drinking water, buildings for PHCs and primary school, system improvement in power sector, tribal welfare, etc. A sum of Rs.5500/- crores was released towards the RIDF at the national level in 2002-03 bringing the total amount of Rs.28500/- crores in eight branches.

Kissan Credit Cards are being issued since 1998-99 on the basis of farmer's land holdings with the results that farmers can use them to purchase agricultural inputs such as seeds, fertilisers, pesticides to step up agricultural production. This scheme has emerged as an effective tool for catering to the short-term credit requirements of the farmers.