Money and Banking
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Lecture - 40

In the previous class, we were talking about very general things about cooperative banks, they are not like commercial banks in many respect; although they maintain CRR, SLR, CRR is very low. They depend primarily upon their own funds, but own funds, member's money and they also mobilize some deposits, being in rural India for instance, and in urban India there are big commercial banks. So, urban commercial cooperative banks are also very not so important, they have to depend upon borrowed money a lot and the borrowed money primarily comes from RBI, Nabard, government sometimes, but if you look into the activities of cooperative banks like a commercial banks they mobilize deposits, they provide remittance facilities to send money to another city they give loans, but do not create credit, very important distinction.

They are not under the direct supervision RBI, they are under the direct supervision of the state government because every state government has a cooperative department, which registers cooperative societies all kinds of cooperative societies just not banks, all kinds and the thing is in a commercial bank you see the management, the manager, the personal banking manager, you know these people decide policies. These people decide whom to give loans, what mortgage to ask for, what the interests is going to be, but in case of a cooperative bank the management is some hired people who do the day to day functioning, running of the bank. They have no say in the policy issues regarding interest rate, whom to give loan, what security to be asked for, they do not, they are all these functions, important policy decisions are in the hands of the members of the society. Who form the society, but in case of a bank it is very different, the bank who form the bank, the share holders do not have day to, do not have a say in the policy issues usually.

Unless it is board of directors who meet once in a while and decide where the share holders also sit the majority shareholders, but in case of cooperative banks all are decided by the members of the society. Often there are guidelines given by the RBI or the state government and they are called what is known as bi laws, they pass a resolution called a bi law and they are documented in hard copies, they are found. They pass a resolution regarding something, some issue, what the interest rate is going to be, how

much money we should borrow from outside, what next steps we should take, who should get the loan. You see this bi laws mainly governed the functioning of cooperative banks, the clerical work is given to the management, who opens the bank sits in the cash counter, access deposits, gives cash etcetera, the day to day banking activities, so this is very important thing to know.

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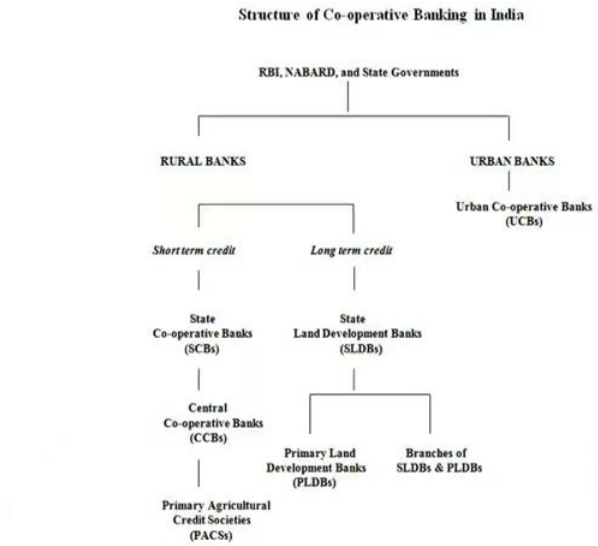

Now I come to another issue the first, it is not here, the first branch if you see there. The first branch that you see, rural credit that is the most the oldest and the most sophisticated branch of cooperative banks in India, the rural credit, where is the short term credit given, the short term rural credit. What happens here is that you have a state level bank called state cooperative bank, district level bank called central cooperative banks, village level banks called primary agriculture credit societies the interaction between them is very interesting.

For instance as I told you earlier the state cooperative banks and and the rural credit, usually they are unit banks they do not have branches, but however the state cooperative banks sometimes overlaps between two states, that can happen. Now the flow of funds between them is very interesting, the maximum amount of funds you can imagine, the real cooperative banks at the village level, who are in touch with the farmers and the borrowers. Now where do they get money, they are poor the farmers etcetera so they borrow money, how do they reach them. They come via state government or Nabard to

the state cooperative banks then they go to the central cooperative banks so the central cooperative banks they get distributed to the village level.

So that is the largest flow of funds you get, however there is a reverse flow of funds from primary agricultural credit societies to central cooperative banks and from central cooperative banks to the state cooperative banks. You know how it happens and sometimes from the state cooperative bank to the state governments. How it happens, suppose they have surplus funds some primary agriculture societies have surplus money. So, what they do they are asked to keep the surplus money (( )) the central cooperative banks and if there are surplus money with the central cooperative banks, after distributing all their money to primary agriculture credit societies, they in turn keep the money surplus with the state cooperative banks. Now as I told you they borrow a great deal from RBI, Nabard, so the downward flow is thicker than upward flow, but this is a very interesting obligation they maintain though they are separate unit banks.

So, your cooperative bank is not that cooperative bank or a branch it is absolutely different kind, different set of people who founded it. Your cooperative bank completely different set of people who founded them and government of India or RBI has given state cooperative banks the status of a scheduled commercial bank. This called as scheduled bank state cooperative banks and some central cooperative banks, they have a very respectable position now in India. Alright, but the usual story is that the reverse flow is very small, usual story and in case of short term loans and medium term loans, they are mostly meant for agriculture purposes, but there are whole lot of other problems sometimes and these loans are entirely for consumption purposes. Somebody's daughters has to get married the farmer does not have money he borrows from the cooperative bank, so it is purely a consumption loan and often there are defaults etcetera, but another important thing I want to mention about the cooperative banks is very much unlike commercial bank. A cooperative bank which has a name may be, it does not say it is a cooperative society or something, but may be sometimes after a name there is a cooperative written society. The banking activity sometimes can be only one of the activities.

Since, in the agricultural sector you have multi level of activities during harvesting you have some kind of activity like storage of harvest, alright and various kinds of storing facilities are required, machines extra labor. At the time of sowing season beginning of

agricultural crop you have another kind of activities, you have to have access to fertilizers you have to have access to seeds, you have to have access to money also. So often when you look into, closely into these cooperative banks, I have not really interact. What I have read is that they are multi level activities, they are on one part they are banks and another part they also supply seeds, they also supply sometimes storage facilities during harvest and marketing also facilities, whom to sell your produce. This so they are a support system to the farmers, they are supposed to be now how much they are able to perform these multilevel activities that one need to check, but they do that.

So, bank you go to a state bank, imagine you go to a bank on the one side you see there are cash counters on the other side you see huge sacks, you wonder what is going on, well that part is go down, or that port that part of the building store seeds, fertilizers. So, they become an outlet also for various kinds of things they sell. IIT Kanpur had a cooperative society, I used to buy many things here, it was a store selling retail goods one side was cloth, all kinds of cloth including bed sheets, bed covers etcetera and your, my shirts pants etcetera. All kinds of things on the other side there were house hold item, soaps and shampoo and you know food items also sometimes.

That building, that cooperative society when I joined has been converted into one of the commercial banks now, is another commercial bank in our shopping center, united commercial bank. United bank of India united bank of India opened it is branch in that space, they wind up the cooperative society wind up. They do not have that outlet anymore, it is a very interesting place they used to get things which are also available on other shops and something's which are not available in another shops. If you go to a rural semi urban India, please visit, you will see very interesting cooperative stores are there and they refer to there is one cooperative store, one cooperative store, come bank may be in one village or one town not more than that sometimes and everybody refers to as the coop, short form and people have a regular habit of going there okay.

So, they do take up noncredit activities also cooperative societies alright. I have a I have a data here, this is a very interesting why is this reverse flow there. The reverse flow is encouraged because if you can suppose the primary agriculture credit society village level, if they can save some money after giving out all the necessary loans. If they function properly that this, they recover loans properly, they collect interest payments properly. The savings, if they have and if they can put that savings in the central

cooperative banks, with the central cooperative banks; this is a proof that that unit is functioning properly; like you are trying to tell the central cooperatives we are doing alright, once you that signal goes that you are doing alright next time the central cooperative banks would advanced you more money. So, that acts as an incentive for the primary agricultural credit society to get more money in future, if they can save some money today and keep it with the central cooperative banks. The same thing with the central cooperative banks if they can save money today after distribution and put it with the state government, the state cooperative banks then the next time the state cooperative banks will use that as an incentive to give more to the central cooperative bank and sometimes they borrow more than ten times of their own money anyway.

So, this is how the cooperative banks are looked after these reverse flow of funds and sometimes the state cooperative banks, state governments are also sometimes very poor. So, they love to have cash in the reverse direction all the way to the state government. So, from the top state cooperative banks, they can go all the way go to the state government (( )) cash that can also, that should also add as an encouraging factor for the state government to give money because they help me in the last financial year, in this financial year we should give and that report goes to an Nabard and really, this is how they doing they doing, well what else do they need, that encourages. If somebody is defaulting defaulting not returning any money, not collecting on money, what they becoming NPA's, are most of them is a discouraging factor. Tells you that you are not performing well your grade is d, but if you give some money upwards, leave some money there, save you, save and put some money, then you get a b or a a grade, that is what I am saying.

Now, in case of long term credit, you understand where the long term credit in rural area are required it will be construction of something, it will be required in tube wells (( )) well tube wells tractors, other machineries in western countries. There are harvesting or harvesters they are amazing machineries like the width of like this room nearly a harvester moves down or three fourth of this room. On the one side they cut the harvest, they cut the the right plants, then they separate the seed from the husk and through a funnel at a same time in a container your rice or wheat is ready to be to be packaged, unbelievable.

They do not come back after harvesting keep them there, by hand what we do we cut them, we (( )) them, then there are places where we hit them hard and the seeds come out the husk and we collect them alright. Various ways we do it manually in India, harvester I have seen on TV channels an amazing machine, they are the they are the wheel like with blades moving like a lawn mower they cut the plants and then they separate right there, when the machine is moving. It is like a big car big truck and do the thing continuous, simultaneously alright.

The last point I want to mention is that urban areas cooperative banks, I have seen urban areas cooperative banks. I have seen one cooperative bank whenever I go to city I do not take that route often, I used to go there take because I used to take IIT bus to go to the city. You come to a place called Chunniganj after you cross Sarup Nagar and all that place, you go to a place called Chunniganj there is a Sony service station there, there is bus terminal there too. To go to places like you know Jhansi etcetera you get buses. There is a cooperative bank, urban cooperative bank there I have seen.

Urban cooperative banks go into industrial credit also because they are in urban areas. So, they just do not concentrate on rural credits, well rural credit will be very little so they go into also urban I e this kind of the credit urban cooperative banks and in urban areas. This is also you should note I have not put it there, in urban areas some of the state cooperative banks were doing really well also operate in urban areas along with the urban cooperative banks, just not the urban cooperative banks, state bank, state cooperative banks also operate in urban areas. Alright and central cooperative banks also operate in urban areas because at the district level you have both the urban and the rural areas, if you doing well enough for the rural areas then you can go into urban semi urban areas also. Alright, but they do not have a federal structure like rural credit, you have seen here one lone fellow, one branch is there nobody else, no sub branches. Alright and for urban cooperative banks is very important, also to note that the licensing authority since they go into industrial credit the licensing authority is no longer the state cooperative department.

The licensing authority becomes the RBI, very different because they now go, can go into small scale, medium scale fin, industrial finance, urban cooperative banks. So, their licensing authority or supervision lies with RBI not state governments so that part is very separate from the last item. Here they go into retail trades and also urban cooperative

banks also retailers use, I want to open a shop, I want to increase my my stock of goods, I need some money alright. So, I can go to a cooperative bank and get loans if I am a member of that, if I am not a member then I do not know how it functions alright.

So now the last line is schedule banks, I started with this banking chapter. What is schedule bank, where you get some facilities from RBI is important to note that this cooperative banks are old not functioning properly, but state cooperative banks and some central cooperative banks have the status of a schedule bank and urban cooperative banks who are under the direct control of the RBI also have the status of a schedule bank. That means RBI would help them whenever they need funds directly.

Sometimes in case of rural credit they operate may be by Nabard because a Nabard after all is used to be an RBI part it became autonomous later. I think around seventies it became autonomous department of agriculture and something, something. It is called long term and short term credit. I had forgotten what is to be called so this is cooperative banks very different; I will send you my notes, very different from your commercial banks very, very different. I had been to cooperative societies, nothing no big deal, but is very friendly, very like the same people your neighboring people are running it and they all have a very close society. Also they grew up together from generations, probably they know each other, there is no question of bargaining.

This, this amazing it is, a different atmosphere well kind of a corner store concept, corner store you know whom you have seen, your parents have seen. If you are in the same neighborhood, the same people and their children are running it, like a corner store, but bigger than that usually occupies the large room of cooperative bank.

Now I want to show you some data and it will take may be little bit today and then on Monday, hopefully it will be done, so Thursday or Friday we can meet for some revision class if we want. Thursday we can meet for revision class, I would not take attendance after Monday, if I can come on Monday, unbelievable how much work piles up.

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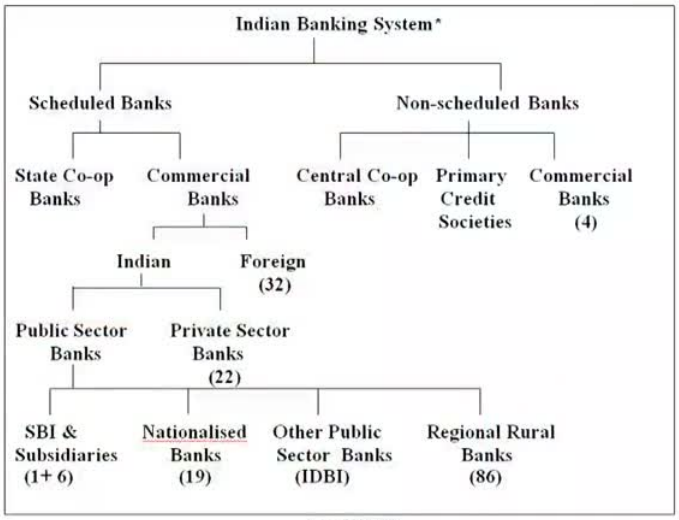

Figure V.1

Now, so what I am going to do I will show you some data this is the banks banking system you saw I have put one incorrect information schedule banks, I should have another thing, some central cooperative banks. Also, schedule banks there is one error in the diagram, some central cooperative banks also there central cooperative banks are also there. In case of non-schedule banks, but the village level once primarily agricultural credit society are all non scheduled banks. Okay, this you have seen then you have seen the liabilities, if you remember there are three items in the liabilities.

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LIABILITIES

1. LIABILITIES TO THE BANKING SYSTEM

(a) Demand and Time Liabilities from Banks

(b) Borrowings from Banks

(c) Other Demand and Time Liabilities from Banks

2. LIABILITIES TO OTHERS

(a) Aggregate Deposits
[Demand Deposits and Time Deposits]

(b) Borrowings from Others

(c) Other Demand and Time Liabilities

3. BORROWINGS FROM THE RBI

(a) Against Usance Bills/ Promissory Notes

(b) Others

Liabilities to the banking system, so banks borrow from banks, liabilities to others banks from borrowed from us and liability and borrowings from the RBI. Now let us look up the liabilities data first.

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Scheduled Commercial Banks
***Liabilities* (Rs crore)**

Year	Liabilities to Bank System	Liabilities to Others	Borrowings from RBI	Total Liabilities
1995-96	17648	462966	4847	485461
1996-97	21193	540789	560	562542
1997-98	32287	646443	395	679125
1998-99	45204	775238	2894	823336
1999-00	53838	894521	6491	954850
2000-01	77088	1056392	3896	1137376
2001-02	53902	1218272	3616	1275790
2002-03	62346	1218272	79	1280697
2003-04	54487	1677170	0	1731657
2004-05	67049	1962481	50	2029580
2005-06	75165	2380973	1488	2457626
2006-07	88545	2940003	6245	3034793
2007-08	98154	3601799	4000	3703953
2008-09	100116	4255566	11728	4367410
2009-10	103267	4926524	42	5029833
2010-11	110580	5681110	5030	5796720
2011-12	122310	6488920	8750	6619980

source: All Scheduled Commercial Banks - Business in India, RBI Bulletin

Now here is number game you clearly see that the middle column, middle here liabilities to others is a large number. Really see that and liabilities to the banking system is the miniscule and borrowing from RBI is hardly anything, sometime three digit hardly four digit, five digit. Once may be 2008 9 you can see, 2008 9 can you five digit.

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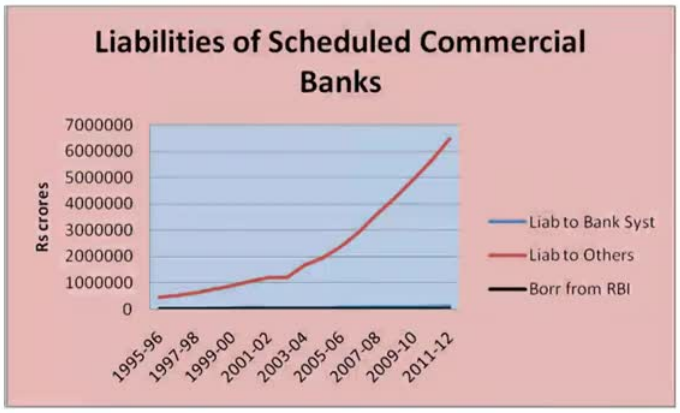

So, if you go into the percentage, if you go into a line, you see no line here. The red line the red line is liabilities to others, the other ones are lying flat on the ground sleeping there, if you go into a percentage number, I hope I have that and here is the percentage.

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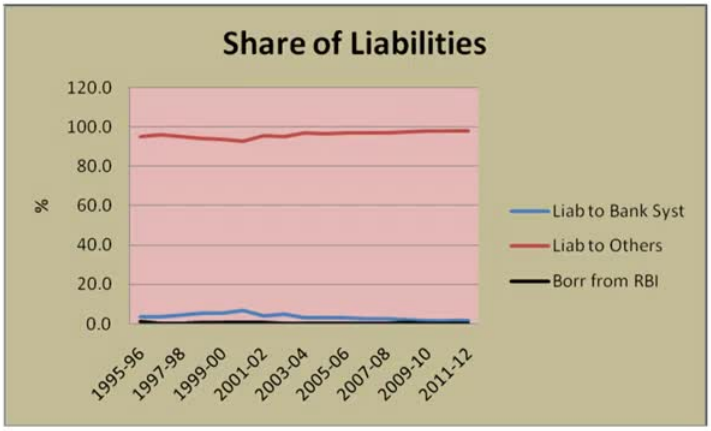

So, what do you have in a percentage is liabilities to others is nearly touching 100 percent and liabilities to the banking system and borrowings from RBI is hardly anything less than 1, may be 1, 0.1 etcetera less than 1 percent, so it is hardly anything.

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Scheduled Commercial Banks
Distribution of Liabilities (%)

Year	Liabilities to Banking System	Liabilities to Others	Borrowings from RBI
1995-96	3.6	95.4	1.0
1996-97	3.8	96.1	0.1
1997-98	4.8	95.2	0.1
1998-99	5.5	94.2	0.4
1999-00	5.6	93.7	0.7
2000-01	6.8	92.9	0.3
2001-02	4.2	95.5	0.3
2002-03	4.9	95.1	0.0
2003-04	3.1	96.9	0.0
2004-05	3.3	96.7	0.0
2005-06	3.1	96.9	0.1
2006-07	2.9	96.9	0.2
2007-08	2.6	97.2	0.1
2008-09	2.3	97.4	0.3
2009-10	2.1	97.9	0.0
2010-11	1.9	98.0	0.1
2011-12	1.8	98.0	0.1

So, the bulk is how bank runs banks runs on the basis of your and my money, which I have been telling you banks do not run on the basis of money they get from RBI, banks do not run on the basis of money they get from other banks. Banks run basis of money they get from you and me the public simple, over 90 percent is there in fact nearly 100 percent.

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Scheduled Commercial Banks
Liabilities to the Banking System (Rs Crore)

Year	Demand & Time Deposits from Banks	Borr from Banks & Other DTL	Liabilities to the Bank System
1995-96	12066	5582	17648
1996-97	17396	3797	21193
1997-98	23682	8605	32287
1998-99	32410	12794	45204
1999-00	36711	17127	53838
2000-01	50750	26338	77088
2001-02	31429	22473	53902
2002-03	40454	21892	62346
2003-04	36834	17653	54487
2004-05	36308	30741	67049
2005-06	37078	38087	75165
2006-07	40772	47773	88545
2007-08	46778	51376	98154
2008-09	48856	51260	100116
2009-10	64931	38336	103267
2010-11	73740	36840	110580
2011-12	84250	38060	122310

Now, after that liabilities to the banking system, what do you have, is a second column is seems to be quite thick column and the third one also borrowed from banks and other details, demand and time deposits of course. How do you borrow from banks you borrow in the form of demand and time deposits.

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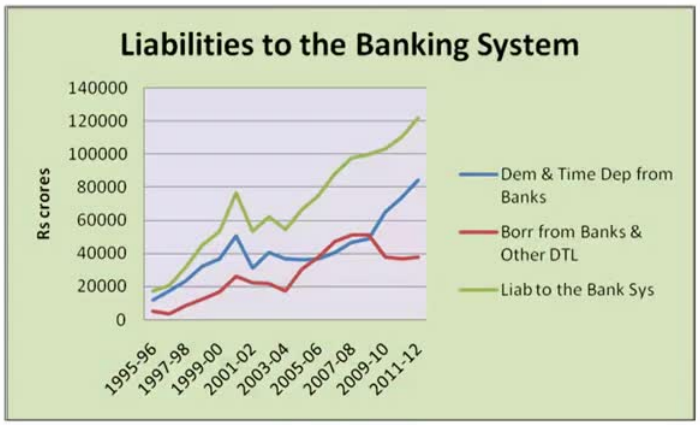

Figure V.4

So, this is the demand and time deposits and the liabilities to the banking system and borrowing from banks is the red one. Blue is the demand and time deposits from banks of course, banks keep savings account money and fixed deposit account money in other banks very interesting.

This is a way of earning something, just the way we put money in fixed deposit earn something. Do not keep the money idle at home, if banks do not have the cash they do not want to invest in long term things, you can put the money in another bank [FL] bank [FL] bank [FL] bank [FL] cash [FL]. As a as a public, as an individual, so this is what you see here the bulk is the blue line going up. The red has crossed once, but the blue line is going up and when did the red cross, around 2008 9. Why banks were borrowing a lot 2008 9 [FL] banks were borrowing a lot, red line cross [FL]. So, banks were borrowing a lot around that time, 2008 9 I guess 2008 9 [FL] then again [FL].

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Scheduled Commercial Banks
Distribution of Liabilities to the Banking System (%)

Year	Demand & Time Deposits from Banks	Borr from Bank & Other DTL
1995-96	68.4	31.6
1996-97	82.1	17.9
1997-98	73.3	26.7
1998-99	71.7	28.3
1999-00	68.2	31.8
2000-01	65.8	34.2
2001-02	58.3	41.7
2002-03	64.9	35.1
2003-04	67.6	32.4
2004-05	54.2	45.8
2005-06	49.3	50.7
2006-07	46.0	54.0
2007-08	47.7	52.3
2008-09	48.8	51.2
2009-10	62.9	37.1
2010-11	66.7	33.3
2011-12	68.9	31.1

Okay, so banks are having surplus cash. So, demand and time liabilities, if you look at the percentage, this is what the percentage is. This is roughly over above 70 percentage in demand and time liabilities now and 30 percent approximately is borrowing. Borrowing may be call market borrowing, c d whatever. That kind of borrowing from another bank call market c d, so you can see that what has happened only a few in the recent years 2005 6 6 7 and then 8 9 it was above fifty percent, but after that it has gone down again. Three years they are borrowing a lot in the call market okay.

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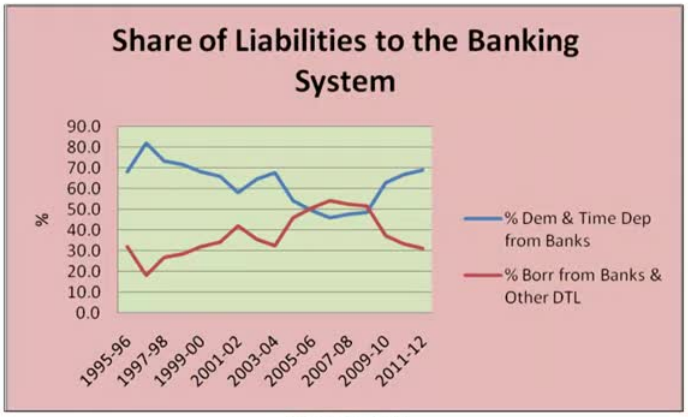

Figure V.5

So, this is what you have, like one of those Indian economy data, a fork like thing we used to have. The red line is percentage borrowing from banks and the blue line is the demand and time deposits from banks. They came down, they crossed each other and then going up, fork like thing and they are separate very separate.

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Scheduled Commercial Banks
Liabilities to Others (Rs Crore)

Year	Aggregate Deposits	Borrowings & Other DTL	Liabilities to Others
1995-96	433819	29147	462966
1996-97	505599	35190	540789
1997-98	598485	47958	646443
1998-99	714025	61213	775238
1999-00	813345	81176	894521
2000-01	962618	93774	1056392
2001-02	1103360	114912	1218272
2002-03	1103360	114912	1218272
2003-04	1504416	172754	1677170
2004-05	1700198	262283	1962481
2005-06	2109049	271924	2380973
2006-07	2611933	328070	2940003
2007-08	3196939	404860	3601799
2008-09	3834110	421456	4255566
2009-10	4492826	433698	4926524
2010-11	5207970	473140	5681110
2011-12	5909080	579840	6488920

Okay, now I go to the big stuff liabilities to others what do they have oh of course, the blue line.

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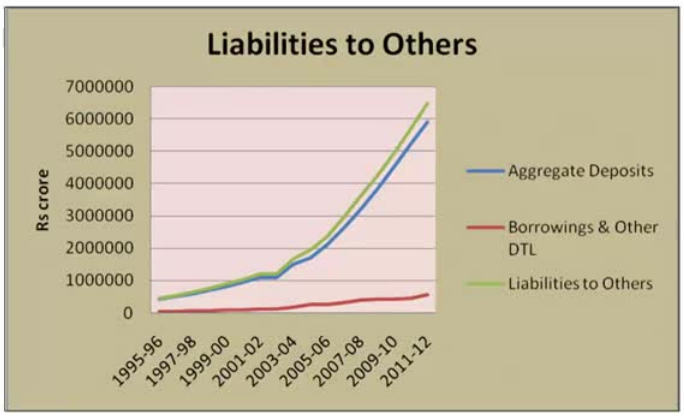

Figure V.6

Aggregate deposits again, alright borrowing from the public and other detail is very small aggregate deposits, so the percentage wise as you understand again.

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Scheduled Commercial Banks
Distribution of Liablities to Others (%)

Year	Aggregate Deposits	Borrowings & Other DTL
1995-96	93.7	6.3
1996-97	93.5	6.5
1997-98	92.6	7.4
1998-99	92.1	7.9
1999-00	90.9	9.1
2000-01	91.1	8.9
2001-02	90.6	9.4
2002-03	90.6	9.4
2003-04	89.7	10.3
2004-05	86.6	13.4
2005-06	88.6	11.4
2006-07	88.8	11.2
2007-08	88.8	11.2
2008-09	90.1	9.9
2009-10	91.2	8.8
2010-11	91.7	8.3
2011-12	91.1	8.9

Over 90 percent and borrowing another detail is about 8.9, 9 percent over 90 percent is nearly borrowing the demand and time deposits of the people. So, public at large companies etcetera buy very little cds and other things, banks do not borrow from them at all, very little and some other detail is there. Suspense account balances [FL] account holder [FL] account [FL] nominee [FL] account [FL] now liabilities to others [FL] let us see about the borrowing from RBI [FL].

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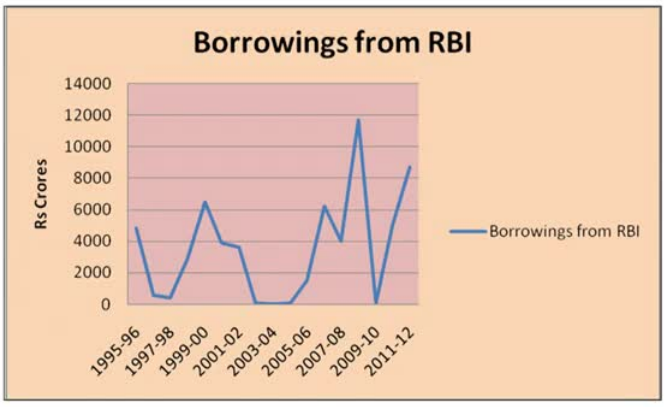

Figure V.8

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Scheduled Commercial banks
Borrowings from the RBI (Rs Crore)

Year	Borrowings from RBI
1995-96	4847
1996-97	560
1997-98	395
1998-99	2894
1999-00	6491
2000-01	3896
2001-02	3616
2002-03	79
2003-04	0
2004-05	50
2005-06	1488
2006-07	6245
2007-08	4000
2008-09	11728
2009-10	42
2010-11	5030
2011-12	8750

Borrowing from RBI [FL] 42 crores [FL] 2009 10 [FL] 11000 crores. 1001, 11000 crores [FL] 8, 9. So, suddenly it went up, if you look at the line the diagram is very clear, is very uneven and there was a sharp peak. Once it was about the end of the millennium there was a peak and then it went down nearly to zero and then went up from RBI then again went down and then went up. So it is very uneven, but 2008, 9 clearly shows that the banks were borrowing heavily from RBI. Suddenly the inflow of cash stopped, export market down, portfolio investment down, foreign diet investment down, dollars are not getting converted into cash, rupee is also down and banks holding. Alright

suddenly there was a shrinkage, it is very clear that when the inflow of money in the regular course, like monsoon rain. If the rain is not there you are not getting flow of cash and if it is too much of rain then you get the flood also, that is when the repo market of RBI gets very activate, reverse repo reverse repo market an open market.

What you call that sale of securities become very important to absorb the excess liquidity, so essentially what happens normally borrowings from RBI has become not so significant anymore. Banks are very independent they do not depend upon RBI funds much, but if there is a tightening because of external shocks, like the financial instability or whatever then they do go to RBI and borrow like old days [FL].

(Refer Slide Time: 29:08)

Scheduled Commercial Banks
***Assets* (Rs crore)**

Year	Cash & Balances with RBI	Assets with Banking System	Investment	Bank Credit	Total Assets
1995-96	53780	16570	164782	254016	489148
1996-97	53195	19891	190514	278400	542000
1997-98	61306	24242	218705	324078	628331
1998-99	67910	34787	254594	368837	726128
1999-00	62749	43448	308944	435958	851099
2000-01	65202	62355	370160	511434	1009151
2001-02	68647	52863	438269	589723	1149502
2002-03	65902	59020	547546	729214	1401682
2003-04	76895	48180	677588	840785	1643448
2004-05	96577	51297	739154	1100429	1987457
2005-06	140107	54392	717454	1507077	2419030
2006-07	196361	77442	791516	1931189	2996508
2007-08	275166	90877	971715	2361914	3699672
2008-09	258475	122571	1166410	2775549	4323005
2009-10	306968	134444	1384752	3244788	5070952
2010-11	349510	154390	1501620	3942080	5947600
2011-12	359400	177900	1737790	4611850	6886940

Source: All Scheduled Com Banks - Business in India, RBI Bulletin

Now, if you remember assets what are the 4 items in assets, cash and balances with the RBI, CRR etcetera assets with the banking system, the liabilities opposite, is the assets in the banking system. If you, I if, I have kept money with your bank then it is my assets, but your liability [FL]. Then investment, this is what I want to take up. Banks, how do they earn money, they just do not create credit and loan only or open an account in another bank. Bulk of the banks earning comes from, where banks make profit comes from investment activities and what kind of investment activities, we need to check that. That is a very important data, what kind of investment activities clearly if you look at the raw data what does it say.

The fourth and the fifth column numbers are massive compared to the first, compared to the second and the third column numbers. Fourth and fifth column numbers are massive, much bigger than. So, the bulk of banks assets are created through investment activities and through loans cash credits and overdrafts bulk of the assets, but we would like to know the percentage distribution. The money that is kept with the RBI is very little, compared to that and the money that banks keep with other banks is also very little. Compared to that, compared compare to the other two so let us see in a simple absolute number plot.

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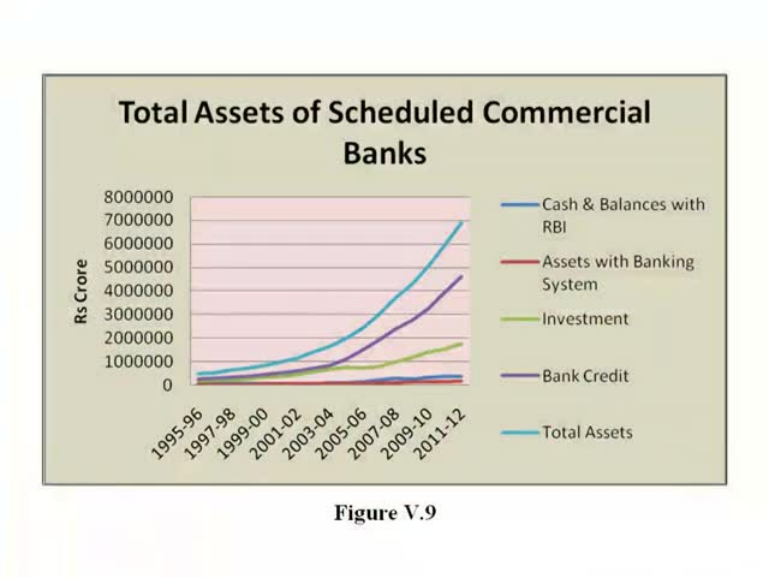

Figure V.9

You can see the total assets line is the blue one and then underneath there is a violet line. What is that violet line, the next most important line, the violet line the violet line is the loan and credits. Right after the violet line there is a green line, so the most important source of creating assets for banks and of course, NPA at the same time, when you give out loan part of that will be NPA, non-performing assets. Bulk of the assets of a commercial bank in India created by giving out loans, but the next most important is investment, the green line. The other items are less important cash and balances with RBI and assets with banking system, they are lying flat out there. The light blue line is the total asset line [FL] bank credits and loans and [FL] green [FL].

(Refer Slide Time: 31:56)

Scheduled Commercial banks
Distribution of Assets (%)

Year	Cash & Balances with RBI	Assets with Banking System	Investment	Bank Credit
1995-96	11.0	3.4	33.7	51.9
1996-97	9.8	3.7	35.2	51.4
1997-98	9.8	3.9	34.8	51.6
1998-99	9.4	4.8	35.1	50.8
1999-00	7.4	5.1	36.3	51.2
2000-01	6.5	6.2	36.7	50.7
2001-02	6.0	4.6	38.1	51.3
2002-03	4.7	4.2	39.1	52.0
2003-04	4.7	2.9	41.2	51.2
2004-05	4.9	2.6	37.2	55.4
2005-06	5.8	2.2	29.7	62.3
2006-07	6.6	2.6	26.4	64.4
2007-08	7.4	2.5	26.3	63.8
2008-09	6.0	2.8	27.0	64.2
2009-10	6.1	2.7	27.3	64.0
2010-11	5.9	2.6	25.2	66.3
2011-12	5.2	2.6	25.2	67.0

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The investment if you look into the percentage number you can clearly see what I told you, is less than 10 percent is cash balances, individually speaking and together assets with the banking system less than 10 percent. So, 90 percent of commercial bank assets are because of loans cash credits and investment activities.

Investment activities are to the tune of 29, 26, 27, 25 and the bank credit is a very steady number from 9, 2005, 6. 62, 64, 63, 64, 64, 66, so the investment percentage varies, bank credit is very steady. 64 percent of the total assets of a banking system lie with the loans, so Indian banks give out a lot of loans and they do also invest a lot, which is very safe because they cannot invest in stock market. So, where do they invest government securities, semi government organizations, securities called other approve securities, very safe. That number changes a little bit from 37 in 2004, 5 or 2003, 4, 41. Slowly it has come down, note one thing after 2003, 4 which was 41 percent, 41.2 2003, 4, 41.2 percent. It has steadily come down, it has gone up a little bit, 2008, 9 and 7, 9, why has it gone up can anybody tell me.

Banks are finding a safe route to invest basically and government is also down asking for selling more bills. Recession, immediately commercial banks investment activities government securities, another securities are gone up by a percentage point roughly speaking, but then it is coming down again and this is a very steady number more or less. Except the last year 67, it jumped so 2011, 12 now 2012, 13. We should expect Indian

economy to pick up because, you can see right here from 66 to 67 and earlier it was 64, 2010, 10, 2011, 12 banks are given out more credit in percentage terms and remember three percentage jump is a lot. Is a lot of jump in total amount of money so thousands of crores extra loans etcetera they have given, hopefully they have given to the not kingfishers.

Hopefully they are giving to where money would be returned and invested would take place, but you clearly, you see here not here. This last column tells you how economy is doing also it is clearly economy is reviving, but the effect once it contracts alright. In the initial stages you do not feel the contraction, when it has contracted sufficiently you feel, my goodness economy is not doing well there is a lag effect. Similarly, when it is expanding you would not feel the effect immediately within a couple of years you would feel the effect. We can expect Indian economy industrial sector to pick up because banks do invest a lot there, because you can see from 64, 2009, 10, 64, 2008, 9, 7 8, 63 it has jumped to 66 and it has jumped to 67 alright.

It is clearly saying it and with it what is adjusting. You can see 5.2 5.five point two five point nine what is he saying balances with the RBI have down, loans have gone up, what is he saying CRR has gone down definitely. So, when CRR reduction are there and look at the CRR reduction 7 8, look at CRR is a very high. Cash is, how cash is coming down now with RBI, CRR reductions are taking place. So you can see what this picture tell you lot more as to what happening in the Indian economy what the policies are and this is the line kind of you get this is just like our Indian economy.

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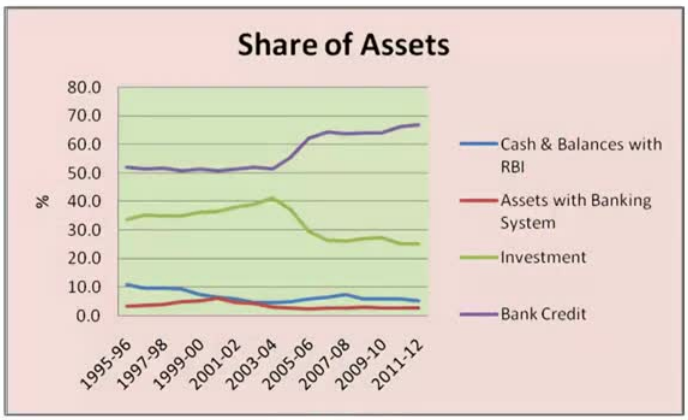

Figure V.10

Some of the data I showed you I remember once I taught a course to you. [FL] bank credit bank credit [FL] jump [FL] bank credit [FL] jump [FL]. an investment come down [FL]. So companies are borrowing again [FL] graduate [FL] economy have steadied again no problem what so ever. Banks are giving out more loans and they are not so scared about investing in government security so much. They do excess of SLR investment SLR requires them to invest mandatorily in beyond they do that also, the bank investments are going down.

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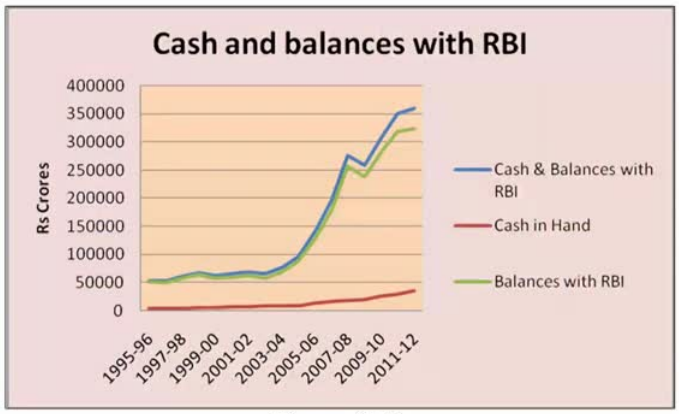

Figure V.11

Next is cash and balances with RBI [FL]. Cash and balances with the RBI green line [FL], cash in hand [FL] RBI [FL] cash [FL] because of CRR etcetera. Cash in hand and balances with RBI bank [FL] is like 90 percent is there with [FL] percentage [FL].

(Refer Slide Time: 38:07)

Scheduled Commercial banks

Distribution of Cash and Balances with RBI (%)

Year	Cash in Hand	Balances with RBI
1995-96	5.8	94.2
1996-97	6.3	93.7
1997-98	5.9	94.1
1998-99	6.4	93.6
1999-00	8.5	91.5
2000-01	8.7	91.3
2001-02	9.1	90.9
2002-03	11.5	88.5
2003-04	10.3	89.7
2004-05	8.8	91.2
2005-06	9.3	90.7
2006-07	8.2	91.8
2007-08	6.6	93.4
2008-09	7.8	92.2
2009-10	8.3	91.7
2010-11	8.7	91.3
2011-12	10.1	89.9

Nearly 90 percent is balancing with the RBI [FL] cash [FL]. About 10 percent, less than 10 percent. So [FL] bank [FL] deposit [FL] cash [FL].

(Refer Slide Time: 38:26)

Table V.13
Scheduled Commercial Banks
Assets with Banking System (Rs crore)

Year	In Current Account	In Other Accounts	Money at Call and Short Notice	Advances to Banks	Other Assets	Assets with Banking System
1995-96	3046	5015	5154	1642	1713	16570
1996-97	3327	5042	7959	1876	1687	19891
1997-98	3404	8148	8861	2163	1666	24242
1998-99	4123	8966	18172	2104	1422	34787
1999-00	4301	12006	21680	3542	1919	43448
2000-01	4460	15397	35628	4933	1937	62355
2001-02	4740	13253	26624	5572	2674	52863
2002-03	6140	11048	32135	7147	2550	59020
2003-04	6392	10570	18058	10523	2637	48180
2004-05	7673	11647	19861	9691	2425	51297
2005-06	12974	13488	13619	4191	10120	54392
2006-07	13268	16201	18267	6203	23503	77442
2007-08	14871	21145	19925	3779	31156	90877
2008-09	11810	41099	15038	2904	51721	122571
2009-10	13210	49211	17668	9892	44463	134444
2010-11	10100	46040	16610	12570	69070	154390
2011-12	10320	60330	23280	13580	70390	177900

Now assets with the banking system. I have made all in current account, in other accounts money at call and short banks advance to banks. Other assets [FL] diagram [FL] except [FL] blue line [FL] other assets [FL]. Other accounts green [FL] money at call and short goes up and down call money market [FL] participation [FL] advances [FL] and the lilac advanced to bank.

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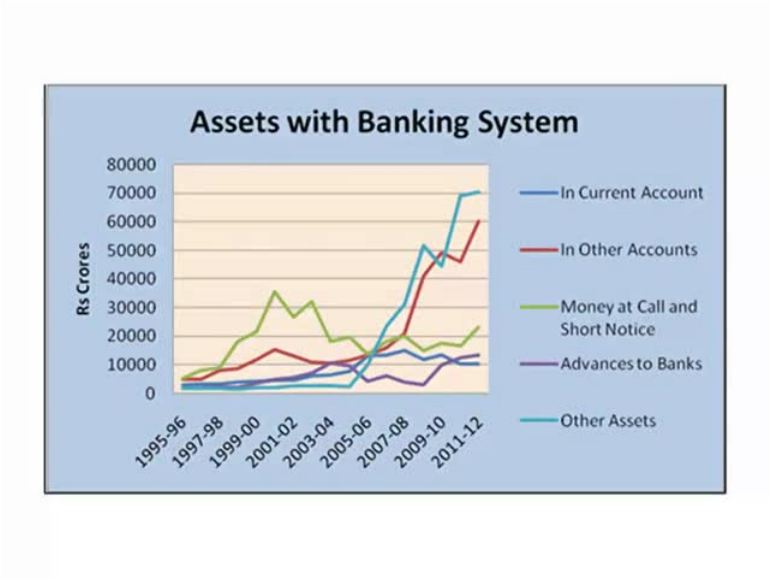

What is important significant line is in other accounts, that means savings account and fixed deposit account. Savings account and fixed deposit because current account [FL].

So bank [FL] account [FL] current account [FL] bank [FL] account [FL] savings [FL] fixed deposit account [FL]. Just like people, people also do the same thing they open savings account usually you will see and when they have some more cash, which they can part with which they can put in fixed deposit accounts. Banks are behaving just like people here what it is saying percentage wise [FL] in other accounts percentage [FL] and other assets [FL] [FL].

(Refer Slide Time: 39:46)

Table V.14
Scheduled Commercial Banks
Distribution of Assets with Banking System (%)

Year	In Current Account	In Other Accounts	Money at Call and Short Notice	Advances to Banks	Other Assets
1995-96	18.4	30.3	31.1	9.9	10.3
1996-97	16.7	25.3	40.0	9.4	8.5
1997-98	14.0	33.6	36.6	8.9	6.9
1998-99	11.9	25.8	52.2	6.0	4.1
1999-00	9.9	27.6	49.9	8.2	4.4
2000-01	7.2	24.7	57.1	7.9	3.1
2001-02	9.0	25.1	50.4	10.5	5.1
2002-03	10.4	18.7	54.4	12.1	4.3
2003-04	13.3	21.9	37.5	21.8	5.5
2004-05	15.0	22.7	38.7	18.9	4.7
2005-06	23.9	24.8	25.0	7.7	18.6
2006-07	17.1	20.9	23.6	8.0	30.3
2007-08	16.4	23.3	21.9	4.2	34.3
2008-09	9.6	33.5	12.3	2.4	42.2
2009-10	9.8	36.6	13.1	7.4	33.1
2010-11	6.5	29.8	10.8	8.1	44.7
2011-12	5.8	33.9	13.1	7.6	39.6

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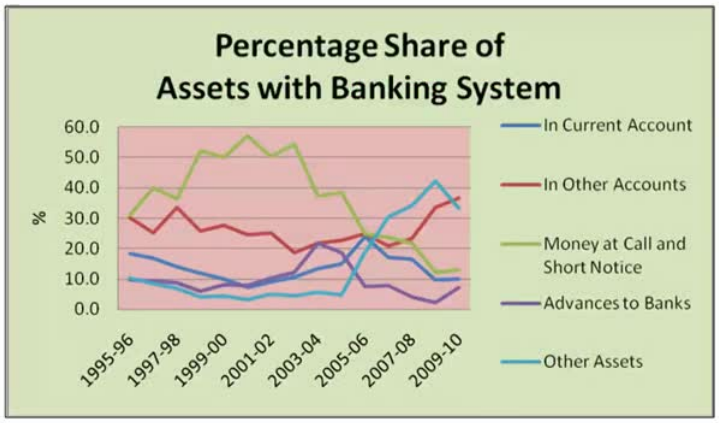

Figure V.14

[FL] diagram [FL] complete figure from 1995 96 [FL] 1995 96 to 2010 [FL] figure [FL].

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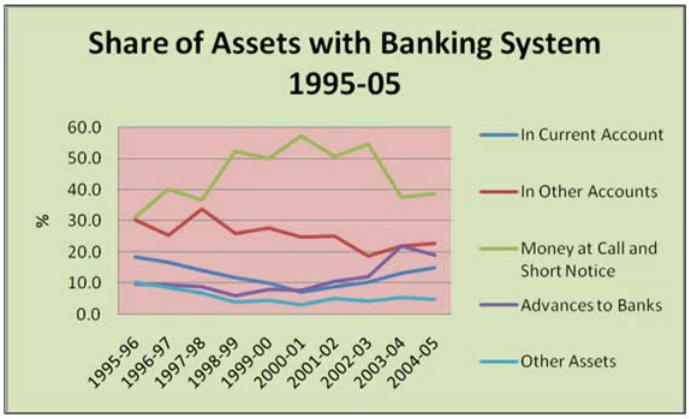

Figure V.14a

1995 to 2005 [FL] green line [FL] money at call and short notice was very high. In other accounts [FL] [FL] data [FL] picture [FL]. 1995 96 to 2004 5, which is roughly a 10 year period. In this 10 year period you see there is a lot of call money investment call market and bank was not keeping so much money with other banks. Red line [FL] in other accounts.

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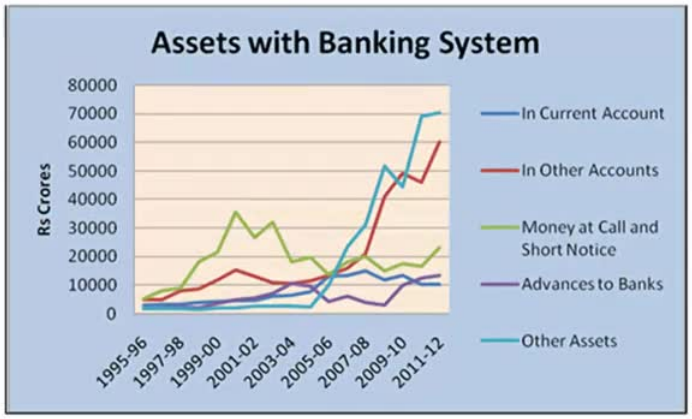

So what I am saying if you go back to the original diagram [FL] red line [FL] call money [FL]. So there is a demarcation called a structural break, a structural break in the data up to some point it was behaving in one way. After that point of time it is behaving in another fashion, so I decided to break it up the data set.

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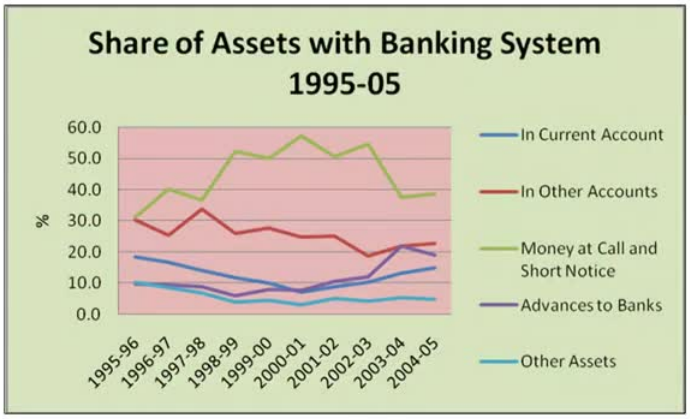

Figure V.14a

.

So what I have done, next two slides that what you see here [FL] 2000 [FL] green [FL] 2000 [FL] green [FL] current account [FL] other assets [FL] current other accounts very different pattern.

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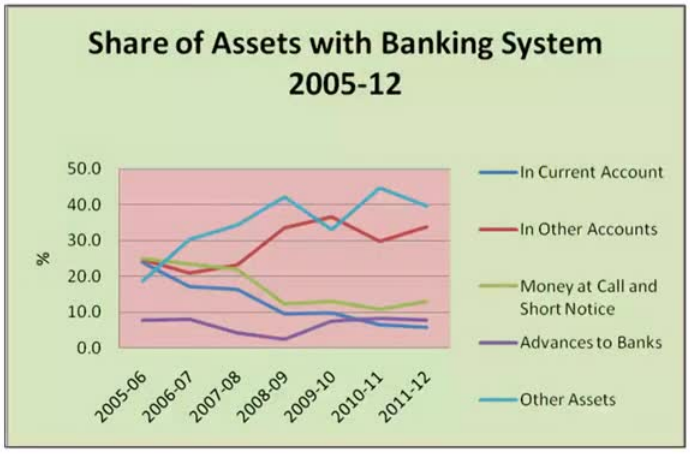

Figure V.14b

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Banks are not requiring a lot of call money that means call rates [FL] banks are not requiring a lot of call money. So they are not giving call money to other banks so banks what they doing. They are putting in other assets, whatever kinds of assets they can find in c d's, whatever they are holding and in accounts of banks. That is where they are putting the money, if it is not demanding call money [FL] savings [FL] fixed deposits [FL] of other banks is a very different data. Call money [FL] after 2005 [FL]. Other accounts, two part figure, that one data you have not seen such two part figure a lot okay.

(Refer Slide Time: 43:01)

Scheduled Commercial Banks
***Investments* (Rs crore)**

Year	Investment	*Govt Securities*	*Other Approved Securities*
1995-96	164782	132227	32555
1996-97	190514	158890	31624
1997-98	218705	186957	31748
1998-99	254594	223217	31377
1999-00	308944	278456	30488
2000-01	370160	340035	30125
2001-02	438269	411176	27093
2002-03	547546	523417	24129
2003-04	677588	654758	22830
2004-05	739154	718982	20172
2005-06	717454	700742	16712
2006-07	791516	776058	15458
2007-08	971715	958661	13053
2008-09	1166410	1155786	10624
2009-10	1384752	1378394	6358
2010-11	1501620	1497150	4470
2011-12	1737790	1735020	2770

Now investment [FL] line [FL].

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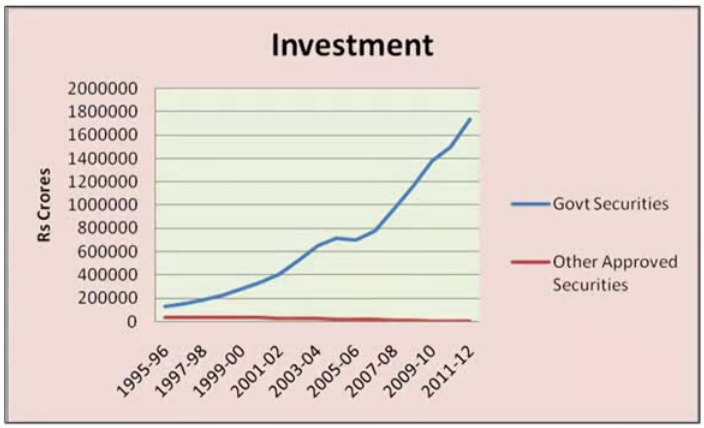

Figure V.15

Diagram [FL] government security [FL] other [FL] the infrastructure bonds and the railway bonds.

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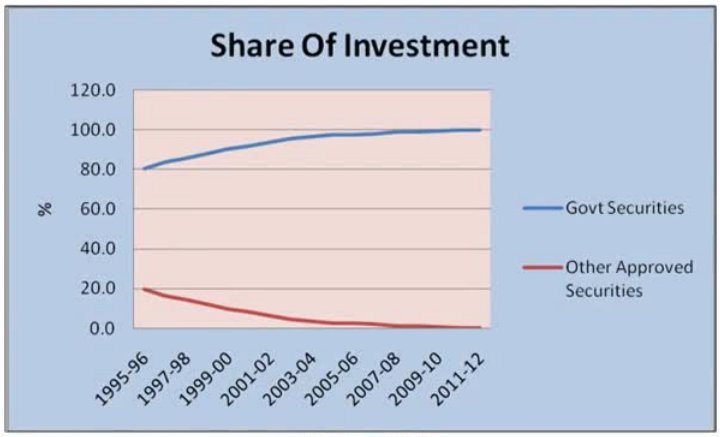

Figure V.16

And god knows what bonds non-government, semi government department bonds or government department electricity bonds. Very little in their investment portfolio or they have government bills, government securities, treasury bills. This is what they have [FL] percentage number [FL] government security [FL] percentage number nearly touching

100. [FL] department [FL] bonds banks are only interested these days in government securities. Other approve securities [FL] nearly hundred percent is has touched [FL] data [FL] 99.8 percent, 0.2 [FL].

(Refer Slide Time: 44:11)

Table V.16
Scheduled Commercial Banks
Distribution of Investments (%)

Year	Govt Securities	Other Approved Securities
1995-96	80.2	19.8
1996-97	83.4	16.6
1997-98	85.5	14.5
1998-99	87.7	12.3
1999-00	90.1	9.9
2000-01	91.9	8.1
2001-02	93.8	6.2
2002-03	95.6	4.4
2003-04	96.6	3.4
2004-05	97.3	2.7
2005-06	97.7	2.3
2006-07	98.0	2.0
2007-08	98.7	1.3
2008-09	99.1	0.9
2009-10	99.5	0.5
2010-11	99.7	0.3
2011-12	99.8	0.2

Nothing they are not interested in putting money in other approve securities government security [FL]. Share of investment very interesting data [FL] x axis [FL].

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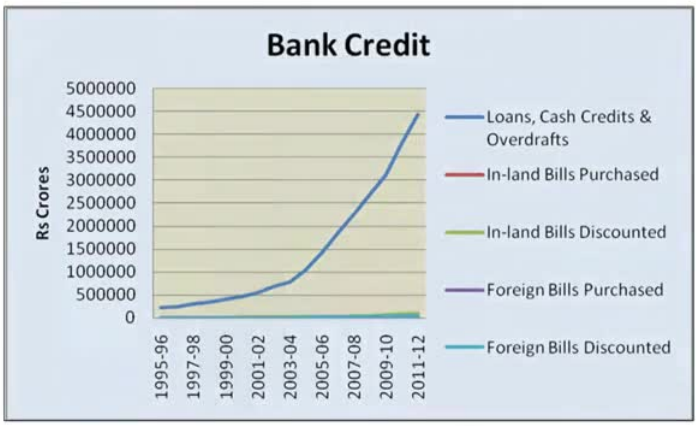

Figure V.17

Now you come to this of course, you know bank credit [FL] cash credits of course, bills [FL] loans cash credits & overdrafts bills [FL].

(Refer Slide Time: 44:45)

Scheduled Commercial Banks
Distribution of Bank Credit (%)

Year	Loans, Cash Credits & Overdrafts	In-land Bills Purchased	In-land Bills Discounted	Foreign Bills Purchased	Foreign Bills Discounted
1995-96	88.4	1.7	3.7	3.6	2.5
1996-97	90.4	1.5	3.1	2.7	2.3
1997-98	90.9	1.4	3.0	2.4	2.2
1998-99	91.5	1.3	2.9	2.2	2.0
1999-00	92.0	1.1	2.9	2.0	2.0
2000-01	91.9	1.0	3.6	1.8	1.6
2001-02	92.9	0.9	3.1	1.5	1.6
2002-03	93.5	0.8	2.8	1.3	1.6
2003-04	93.9	0.8	2.6	1.2	1.5
2004-05	94.5	0.7	2.3	1.0	1.5
2005-06	94.9	0.9	2.0	0.9	1.3
2006-07	95.5	0.8	1.6	0.8	1.2
2007-08	95.8	0.5	1.7	0.7	1.3
2008-09	96.4	0.4	1.6	0.7	1.0
2009-10	96.2	0.4	1.9	0.5	1.0
2010-11	96.2	0.3	2.0	0.5	0.9
2011-12	96.2	0.4	2.1	0.5	0.9

So if you look into the percentage over 90's loan cash credits bills [FL].

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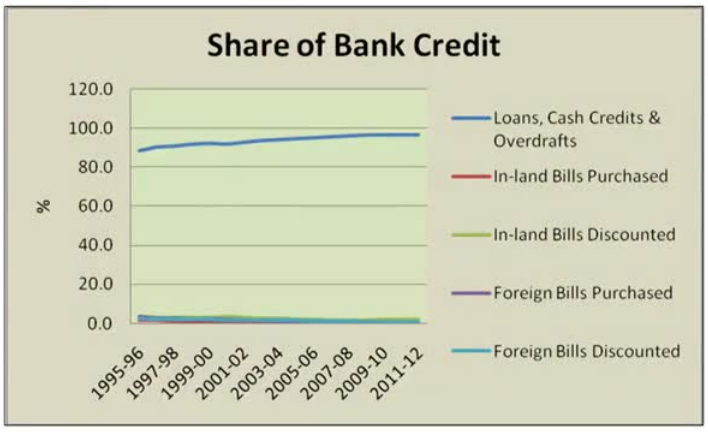

Figure V.18

So layer share of loan [FL] inline bill purchase, inline bill discounted, foreign bill purchase, foreign bills [FL] friend [FL], is no body there with them and this one guy standing up there and doing all the job loans cash credits and overdrafts. [FL] important [FL] you have seen this as percentage of total credits bills as a commercial [FL] money market [FL] as a purchase of total bills [FL].

(Refer Slide Time: 45:24)

Scheduled Commercial Banks
Some Parameters

YEAR	% Credit – Deposit Ratio	% Investment – Deposit Ratio	% Cash – Deposit Ratio
1997-98	54.1	36.5	10.2
1998-99	51.7	35.7	9.5
1999-00	53.3	36.6	9.8
2000-01	53.5	37.1	8.4
2001-02	53.8	38.7	7.1
2002-03	56.9	41.3	6.3
2003-04	56.1	43.8	5.6
2004-05	64.9	41.6	6.9
2005-06	71.5	35.5	6.6
2006-07	73.9	30.3	7.5
2007-08	73.9	30.4	8.6
2008-09	72.4	30.4	6.7
2009-10	72.2	30.8	6.8
2010-11	75.7	28.8	6.7
2011-12	78	29.4	6.1

source: Progress of Commercial Banks

Here I have some final. I have some schedule commercial banks, some parameters credit deposit ratio [FL]. So deposits [FL] credit is about 78 percent these days, investment deposit ratio [FL], cash deposit ratio [FL]. Now I am having a problem here if it is investment deposit ratio they should add up to 100 is not it, but this, the number I did not check this. It crosses 100, so how is it that cash deposit ratio, credit credit not loans sorry they can cross 100. Credit is where this money you give out, credit of this amount. So credit creation is a multiplier effect.

Investment deposit ratio 29.4, cash deposit ratio 6.1. So 29.4 and 6.1, is 35.5 35.5. If 35.5 is there, then 65, 64.5 cash remains, percentage 64.5. Say they may deduct something and then they create a credit and credit. Deposit ratio comes to this is the number from 2005 6 over 70 earlier it was lower.

So they are creating more credit, very confident banks, they are creating more credits. Credit multiplier has gone up, they are creating more credit from the deposits. Deposits are also increasing credit as a share of the deposits. The total credit is also increasing a lot, very interesting. Banks are much more confident they creating bigger credit larger multipliers. I found that data somewhere so I thought I show that to you, not what I have taught you so far, but just to get a feel for a little bit how banks are behaving these days.

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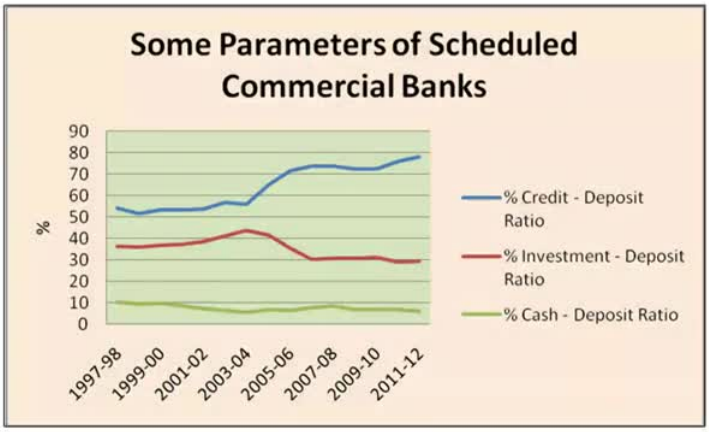

Figure V.19

So this is the kind of line you will get credit deposit ratio like a fork going up, investment deposit ratio going down and then cooperative banks.