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9. A Study of the Developments of Indian Banking Industry and Trend of Agricultural Credit

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Abstract

Banking sector is the life line of the economy. This Industry stimulates the development of economy. After the independence banking sector has adopted tremendous changes in their practice and policy. Hence, agricultural which is the back bone of the economy has been affected both the sides. Those who cultivates commercial crops, have got benefits of developed banking industry but those are from backward area of the same region and following traditional cultivating crops such as cotton and pulses which is correlated with monsoon has suffered through suicides e.g. Vidharbha- Marathwada region in Maharashtra. It means that credit is the main reason of regional; Telangana Movement in Andra Pradesh, social; Patidar Movement of reservation in Gujrat, Gujar in Rajasthan and political issues; Maratha Kranti Morcha in Maharashtra. Therefore, this paper focuses on banking development and agricultura l finance.

Keywords: Banking Industry, Agricultural Credit, Development, Society.

Methodological Framework

This analysis is depends on the secondary data. The objectives are, firstly, to understand the development of banking system and secondly, to understand the status of agricultural credit supply through the organized sector since last four decades. Data is collected from various official websites of government and published reports of RBI. To carry this analysis purposive sample method has been used for this study. Excel is used for data analyses and graphical representation. This paper is concerns only with Indian Agricultural Credit and Banking Industry.

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Current Status and Development of the Indianbanking Industry

The Indian economy's liberalization in the early 1990s has resulted in the conception of various private sector banks. This has sparked a boom in the country's banking sector in the past two decades. The revenue of Indian banks grew four-fold from US$ 11.8 billion to US$ 46.9 billion, whereas the profit after tax rose nearly nine-fold from US$ 1.4 billion to US$ 12 billion over 2001-105. This growth was driven primarily by two factors. First, the influx of Foreign Direct Investment (FDI) of up to 74 per cent with certain restrictions and second, the conservative policies of the Reserve Bank of India (RBI), which have shielded Indian banks from recession and global economic turmoil compares the country's Banking Index (Bankex) with the Sensex. The Bankex is an index tracking the performance of important banking sector stocks, and has grown at a compounded annual growth rate (CAGR) of approximately 20 per cent over 2003-12. The Bankex and the Sensex have had similar growth trends over the past decade. The high CAGR exhibited by India's Bankex demonstrates the industry's resilience to recession and economic instability. This resilience primarily stems from two factors. First, the highly regulated Indian banking sector restricts exposure to high risk assets and excessive leveraging. Second, Indian economy's overall growth rate has been much higher than other economies worldwide. However, the crisis in the euro zone is likely to affect the Indian economy and in particular the country's banking sector. The RBI's Financial Stability Report estimates the claim of European Banks on India at approximately 8.6 per cent of the country's GDP, while some analysts estimate the figure to have reached 15 per cent of the GDP. Data from the International Monetary Fund (IMF) suggests that these banks will deleverage up to US$ 2.6 trillion by the end of 2013 especially from the sale of securities and non-core assets. This will see the credit supply to businesses shrinking by 1.7 per cent, thereby driving Indian companies to borrow from the Indian banks at a higher cost in times of inflation and in a period of depreciation in the value of rupee. The non performing assets (NPAs) of banks were pegged at 2.9 per cent in the fourth quarter of 2011, and are expected to rise to 3.5 per cent by 20129. All these factors might hamper the performance of the Indian banking sector.

However, amongst positive initiatives taken by the government, the RBI mandated banks to maintain 70 per cent of the provision coverage ratio of their bad loans as on September 2010, thereby mitigating the effect of NPAs to a certain extent10. The solace for Indian banks, however, lies in the fact that India has shown a comparatively robust growth in its GDP over past years, which analysts closely correlate to the performance of the banking industry. The report forecasts that India's GDP growth will take the size of the country's banking sector, to the third

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largest in the world by 2025. Another important parameter for assessing the performance of the banking industry is the domestic credit provided as a percentage of the GDP, as exhibited Banking in India is moderately consolidated, with the top 10 players accounting for approximately 60 per cent of the total industry. The Indian banking sector is majorly dominated by public sector banks. The State Bank of India (SBI), Punjab National Bank (PNB) and Bank of Baroda (BoB) had the first, second and third largest credit portfolios, respectively. HDFC emerged as among the best performers with a strong NIM ratio and the lowest NPA ratio, whereas, ICICI (with the fourth largest credit portfolio) reported a high NPA ratio in 2011. To address this problem of high NPAs, the Government introduced numerous measures through the Union Budget and other policy initiatives to strengthen the sector and raise capital.

Agricultural Credit

DIRECT INSTITUTIONAL CREDIT FOR AGRICULTURE AND ALLIED ACTIVITES-TOTAL (Short-term and Long-term) in Rs. Billion

Year	Loans Issued					Loans Outstanding				Grand
	Co-operatives	State Governments	SCBs	RRBs	Total (2 to 5)	Co-operatives	SCBs	RRBs	Total (7 to 9)	Total (6 + 10)
1	2	3	4	5	6	7	8	9	10	11
1981-82	24.79	1.53	14.96	1.68	42.96	48.21	35.41	2.73	86.35	**129.31**
1982-83	27.17	1.88	12.25	2.22	43.52	51.55	41.43	3.82	96.8	**140.32**
1983-84	29.38	1.85	18.58	2.63	52.44	57.35	52.8	5.09	115.24	**167.68**
1984-85	31.54	2.41	24.61	3.1	61.66	63.37	66.13	6.96	136.46	**198.12**
1985-86	36.74	3.54	27.29	4.02	71.59	69.47	84.16	8.71	162.34	**233.93**
1986-87	37.01	2.1	33.32	4.77	77.2	74.65	93.55	10.61	178.81	**256.01**
1987-88	47.1	4.78	35.26	4.83	91.97	83.47	114.24	13.13	210.84	**302.81**
1988-89	48.73	2.75	38.13	4.2	93.81	94.08	128.4	15.52	238	**331.81**

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1989-90	54.07	2.92	42.82	6.47	106.28	105.66	152.83	18.38	276.87	**383.15**
1990-91	48.19	3.59	46.76	3.35	101.89	105.31	170.32	17.53	293.16	**395.05**
1991-92	57.97	3.39	48.06	5.96	115.38	121.76	169.81	19.84	311.41	**426.79**
1992-93	64.84	3.89	49.6	6.98	125.31	137.69	182.88	22.06	342.63	**467.94**
1993-94	84.84	3.77	54	7.52	150.13	153.16	191.13	25.6	369.89	**520.02**
1994-95	98.76	4.07	74.08	10.83	187.74	168.1	209.2	30.09	407.39	**595.13**
1995-96	124.83	5.54	92.74	13.81	236.92	191.26	234.27	34.67	460.2	**697.12**
1996-97	132.54	6.68	106.75	17.48	1163.45	205.56	263.27	40.38	509.21	**1672.66**
1997-98	141.59	8.58	115.37	21.03	286.57	213.9	284.45	46.83	545.18	**831.75**
1998-99	150.99	4.2	146.63	25.15	326.97	221.99	298.19	53.89	574.07	**901.04**
1999-00	256.78	5.2	163.5	29.85	455.33	419.5	334.42	59.91	813.83	**1269.16**
2000-01	272.95	4.87	164.4	39.66	481.88	461.35	382.7	72.49	916.54	**1398.42**
2001-02	305.69	4.43	186.38	45.46	541.96	521.1	451.06	82.86	1055.02	**1596.98**
2002-03	340.4	.	252.56	58.79	651.75	590.64	538.04	102.61	1231.29	**1883.04**
2003-04	400.49	.	362.03	71.75	834.27	714.03	681.03	117.21	1512.27	**2346.54**
2004-05	450.09	.	483.67	119.27	1053.03	788.22	955.19	167.09	1910.5	**2963.53**
2005-06	481.23	.	805.99	153	1440.22	823.27	1356.03	215.1	2394.4	**3834.62**
2006-07	540.19	.	1152.66	202.28	1895.13	894.43	1690.18	274.52	2859.13	**4754.26**

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2007-08	576.43	.	1134.72	238.38	1949.53	656.66	2027.96	332.16	3016.78	**4966.31**
2008-09	587.87	.	1606.9	264.99	2459.76	640.45	2561.19	373.67	3575.31	**6035.07**
2009-10	634.97	.	1882.53	346.4	2863.9	597.91	3154.36	462.82	4215.09	**7078.99**
2010-11	781.21	.	2227.92	439.65	3448.78	766.74	3575.84	550.67	4893.25	**8342.03**
2011-12	879.63	.	3128.77	544.55	4552.95	725.45	4432.98	703.84	5862.27	**10415.22**
2012-13	1112.03	.	4844.99	636.81	6593.83	1197.75	5224.78	794.99	7217.52	**13811.35**
2013-14	1199.64	.	.	826.52	2026.16	1352.45	5035.32	982.06	7369.83	**9395.99**
2014-15	1384.69	.	.	1024.82	2409.51	1542.86	6839.69	1126.03	9508.58	**11918.09**
2015-16	1532.94	.	.	1192.6	2725.54	1561.2	8148.41	1334.01	11043.62	**13769.16**
2016-17	1427.58	.	.	1232.16	2659.74	2266.97	6681.09	1534.16	10482.22	**13141.96**
2017-18	1503.89	.	.	1409.59	2913.48	2466.99	.	1710.62	4177.61	**7091.09**
Total	**15911.78**	**84.97**	**20282.23**	**9027.56**	**45298.54**	**21161.51**	**56850.74**	**11381.66**	**89379.91**	**134673.5**

Source: ***HANDBOOK OF STATISTICS ON THE INDIAN ECONOMY-2017 18***(https://dbie.rbi.org.in)

The above table shows that the trend of institutional lending to the agricultural sector has been increasing. It also shows that **Loans Issued** and **Loans Outstanding amount. The difference between both is constant. It means that this is one of the reasons of growing Non performing asset of the commercial bank.**

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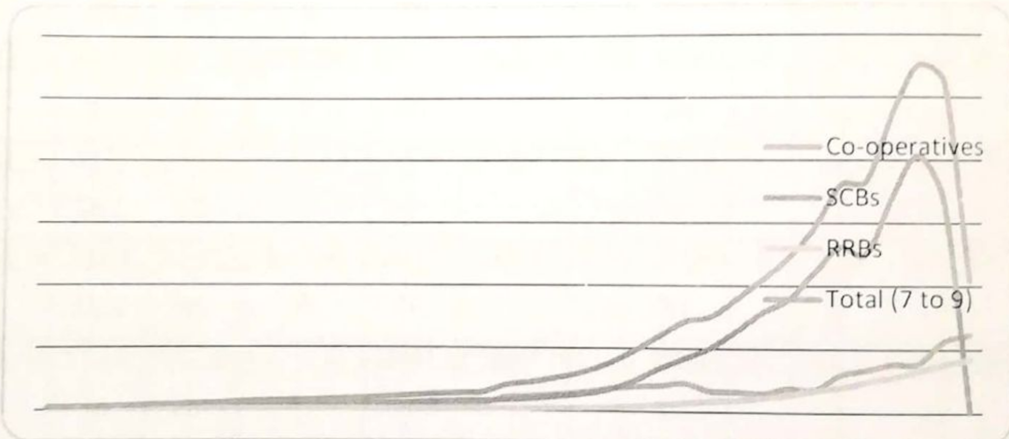
The above graph clears that after 2001 to 2002 there is tremendous change in agricultural supply and main reason behind it is scheduled commercial banks have increased more lending to Agricultural sector. It also needs to understand the share of cooperative sector banks is comparatively declined.



The above graph shows that when bank started lending more to the agricultural sector the total outstanding amount increasing very fast.

Conc'usion

The economic growth of the country is an apt indicator for the growth of the banking sector. The Indian economy is projected to grow at a rate of 5-6 per cent and the country's banking industry is expected to reflect this growth. The onus for this lies in the capabilities of the Reserve Bank of India as an able central regulatory authority, whose policies have shielded Indian banks from excessive leveraging and making high risk investments. The competitive scenario in India is strong, with the landscape primarily dominated by government banks. Market entry at the country level is expected to be tough for new players due to the moderately consolidated nature of the industry and extremely high competition. The key challenges for the industry are to reduce NPAs, increase financial inclusion and raise capital for the Basel III compliance. According to the top consulting firms, the growth of Indian banks, especially in the

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public sector, can be optimized through increasing productivity and efficient human resource management. Banks need to hire employees with both core and specialist skills, while simultaneously working to control attrition. Further, banks need to optimize the time and cost of performing non consumer activities with the help of special tools and revamping existing knowledge processes. Sustained government support and a careful re-evaluation of existing business strategies can help the Indian banks achieve strong growth. Sustained government support and a careful re-evaluation of existing business strategies can set the stage for Indian banks to become bigger and stronger, thereby etting the stage for expansions into a global consumer base.

The absolute agriculture credit supply is increased, but as camper to industry and service sector, there is more need to invest in agricultural sector. Agriculture required credit supply in area of irrigation, processing industry, training and workshops for farmers, basic infrastructure and marketing facility.

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