

# *BANKING SECTOR IN KERALA: GROWTH AND EMERGING TRENDS*

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## **CHAPTER IV**

### **BANKING SECTOR IN KERALA: GROWTH AND EMERGING TRENDS**

Kerala is a state which has a long history of formal and informal financial institutions. Among the provinces and States of Indian Union before independence, Travancore and Cochin topped the list in the range of area and population served by a commercial bank branch. The early institutions were predominantly of the unit banking type. Travancore had 275 joint stock banks in 1932-33 (Oommen, 1976<sup>1</sup>). Even in the present day banks, chit funds and money lenders co-exist in Kerala. But Banks occupy a predominant position among the financial intermediaries. They are the leaders in mobilizing deposits and dispersing credit. A review of the progress of commercial banks is relevant in the context of on going financial sector reforms. It is most appropriate to examine the impact of economic policy on the performance of banking sectors in Kerala before making any conclusions about the benefits and shortcomings of reforms.

Banking sector changes can be analyzed by a detailed study of major monetary variables in the economy. Major indicators of commercial banking developments are sought to be analyzed in this chapter. The crucial monetary constituents are deposits and credit. Another significant facet of banking development is the extent of branch expansion. An examination of the development in the above aspects is pursued here.

The first indicator of a bank's performance is its ability to mobilize deposits. The performance of commercial banks is gauged by studying the changes in the volume and pattern of deposits. The study seeks to examine the rate of growth of deposits in Kerala. This chapter includes the analysis of the following related aspects.

- Changes in the volume of NRI deposits
- Changes in the pattern of deposits.
- Comparative performance of different bank groups in mobilizing deposits
- Per capita deposits
- Changes in deposits per bank branch

Secondly credit advanced by commercial banks is another important variable. Size and growth of credit indicates not only the level of performance of commercial banks but also the level of progress of the economy. An analysis of credit advanced by commercial banks includes the study of following related aspects

- Comparative performance of different bank groups in advancing credit
- Changes in per capita credit
- Changes in the pattern of credit
- Credit per branch

Thirdly the present study seeks a detailed analysis of credit deposit ratio. Variations in credit deposits ratio indicates the changing attitude of commercial banks in advancing credit in the state. Whether our deposits benefit our state is a matter of debate. So the study seeks to look into the variations in credit deposits ratios in the last two decades.

Fourthly in this chapter, attempt is also made to examine the spread of bank branches and their geographical coverage. Indian Banking system has as its achievement, the large network of branches opening out to remote villages. The study looks into this aspect to understand the changes in the attitude of banks in expanding their physical reach in the post reform period.

Fifthly the analysis includes the study of interrelation between credit and economic growth in the State. For this purpose Granger causality test is applied. The direction of causality is also tested. This test explains the direction of causation between the variables selected for the analysis. If X causes Y and Y causes X then there is feed back effect or it is jointly determined. Other wise the relationship is uni directional.  $F = \frac{(ESS - ESSR)/q}{ESSR/(n-p-q)}$  ESSR- Explained Sum of Residuals, ESS— Explained Sum of Squares, q - d.f for numerator, n-p-q - d.f for denominator

After interpreting the variations in the above components of the monetary system, six important monetary ratios are worked out to get an aggregate picture of the banking sector in Kerala. These are related to credit, deposit and population coverage. Study includes an analysis of the compound growth rates of these ratios. An attempt is made to compare the performance of southern states on the basis of these ratios. These six indicators are standardized and condensed into a composite index.

The selected banking indicators have different units. The six indicators are standardized in the following manner  $Z_{ij} = \frac{X_{ij} - \bar{X}_i}{S_i}$  where

$X_{ij}$  refers to the value of the  $i^{\text{th}}$  indicator ( $I=1,2,3,\dots,6$ ), for the  $j^{\text{th}}$  state ( $j=1,2,3,4$ ).  $Z_{ij}$  is the standardized variate of the  $i^{\text{th}}$  indicator of the  $j^{\text{th}}$  state.  $\bar{X}_i$  is the mean value of the  $i^{\text{th}}$  indicator.  $S_i$  its standard deviation. The standardized variate has a mean zero and standard deviation one. With respect to the first indicator, a decreasing trend indicates progress. Therefore the standardized variate of first indicator has been compiled by taking its reciprocal values.

All the indicators were condensed and composite indices were obtained by assigning weights to each indicator. The weights have been calculated for each indicator, year wise with the help of principal component analysis. The composite scores are obtained as follows,

$$I_j = \sum w_i Z_{ij}$$

Where  $I_j$  is the composite weighed score of the  $j^{\text{th}}$  state and  $w_i$  refers to the weight assigned to the  $i^{\text{th}}$  indicator and  $z_{ij}$  is the value of the standardized variate of the  $i^{\text{th}}$  indicator of the  $j^{\text{th}}$  state. The four states are ranked according to this index. With the help of this index, the relative positions of four southern states are ascertained.

In order to understand the extent of disparity with respect to one particular indicator coefficient of variation and Herfindahl index are also used. Hirschman/ Herfindahl Index, a commonly accepted measure of market concentration is calculated by squaring the market share of each firm competing in the market and then summing the resulting numbers.

$$H = \sum_{i=1}^n (s_i^2)$$

where  $s_i$  is the market share of each in the group, and  $n$  is the total number of members in the group. The index ranges from  $1/N$  to one,

where N is the number of members in the group. There is also a normalised Herfindahl index. Whereas the Herfindahl index ranges from  $1/N$  to one, the normalized Herfindahl index ranges from 0 to 1. It is computed as:

$$H* = \frac{(H - 1/N)}{1 - 1/N}$$

where again, N is the number of members in the group, and H is the usual Herfindahl Index, as above. A H index below 0.1 (or 1,000) indicates an unconcentrated index. A H index between 0.1 to 0.18 (or 1,000 to 1,800) indicates moderate concentration. A H index above 0.18 (above 1,800) indicates high concentration. This index used to analyse the disparity or evenness of banking sector development among the southern states.

For the purpose of the present study four southern states are selected. The inter state differences in the performance of scheduled commercial banks are compared at three selected points of time 1985, 1995 and 2005. The analysis in this chapter is based on secondary data from various sources.

#### **4.1. DEPOSITS**

The foremost constituent of the monetary system is the variable deposit. The activities of commercial banks in Kerala were mainly focused on deposit mobilization in the past. There has been tremendous increase in bank deposits in the last two decades. Banks were offering various schemes to attract deposits. People in general considered bank deposits as a safe means of saving with a reliable return. Growth of deposits in the commercial banks in Kerala is depicted in table 4.1

**Table 4.1.****Compound Growth of Deposits**

| Period    | Kerala | India  |
|-----------|--------|--------|
| 1985-1994 | 15.8%  | 16.3%  |
| 1995-2004 | 14.1%  | 14.64% |

Source: Economic Review published by State Planning Board  
Handbook of statistics on Indian Economy, R.B.I Publication

The compound annual growth rate of deposits in the period 1995-2004 was slightly less than the growth rate in the period 1985-94. There is not much difference in the growth rate of deposits of India and Kerala in both time periods.

**Composition of deposits****Table 4.2****Composition of deposits**

| Year    | Current Deposit | Term Deposit | Total Deposit |
|---------|-----------------|--------------|---------------|
| 1988-89 | 31.40           | 68.60        | 100           |
| 1989-90 | 30.53           | 69.47        | 100           |
| 1990-91 | 34.70           | 65.30        | 100           |
| 1991-92 | 34.29           | 65.71        | 100           |
| 1992-93 | 29.58           | 70.42        | 100           |
| 1993-94 | 29.27           | 70.73        | 100           |
| 1994-95 | 30.27           | 69.73        | 100           |
| 1995-96 | 27.91           | 72.09        | 100           |
| 1996-97 | 25.89           | 74.11        | 100           |
| 1997-98 | 25.24           | 74.76        | 100           |
| 1998-99 | 26.14           | 73.86        | 100           |
| 1999-00 | 26.20           | 73.80        | 100           |
| 2000-01 | 26.19           | 73.81        | 100           |
| 2001-02 | 25.62           | 74.38        | 100           |
| 2002-03 | 26.56           | 73.44        | 100           |
| 2003-04 | 29.29           | 70.71        | 100           |

Source: Money and Banking (Various issues), Centre for monitoring Indian Economy (CMIE)

Deposits are grouped as current deposits and term deposits. The table 4.2 shows that term deposits constituted a major share of deposits in Kerala. In 1988-89 term deposits formed 68.6 % of the total. In 2003-04, the share had increased to 70.71 % of total deposits. Higher rates of interest on term deposits explain the predominance of term deposit. Depositors are attracted by higher returns on their saving.

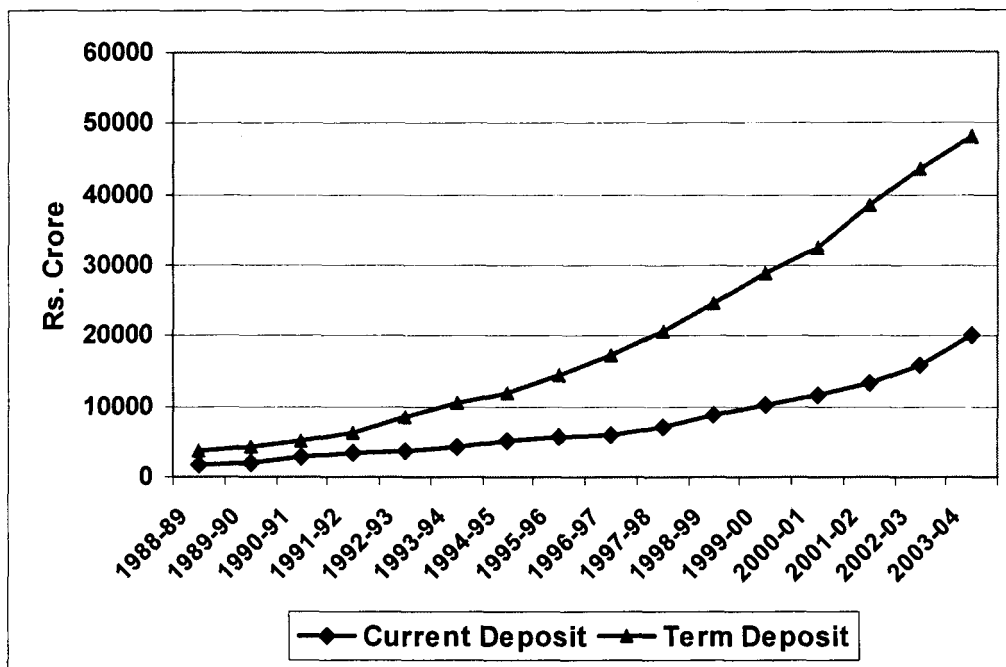


Fig 4.1. Composition of deposits

The graph shows the relative changes in Term deposits and current deposits in two time periods. The graph illustrates the predominance of term deposits. The rate of growth of term deposits is more than the rate of growth of current deposits as revealed by the slope of the curves representing the two types of deposits. Since 1995, there has been increase in the growth of term deposits and current deposits.

#### 4.1.1. Magnitude of NRI deposits

An important feature of deposits mobilized by banks in Kerala is the dominance of NRI deposits. The non resident Indians are responsible for the



swelling of deposits in the banks of Kerala. There is a quantum jump in the case of NRI deposits. It is a factor, which cannot be ignored. A detailed interpretation of growth of NRI deposits over the last decade is given in the table4.3.

**Table 4.3.**

**NRI deposits as a percentage of Total Deposits**

| Ending March                                  | Total Deposit<br>Rs(Crores) | NRI Deposits<br>Rs(Crores) | Percentage of NRI deposits to<br>total deposits |
|---|-----------------------------|----------------------------|---|
| 1985  | 3479.13                     | 844.15                     | 24.26   |
| 1986  | 3600.80                     | 894.35                     | 24.84   |
| 1987  | 4154.99                     | 1192.69                    | 28.71   |
| 1988  | 4811.31                     | 1369.23                    | 28.46   |
| 1989  | 5666.75                     | 1583.76                    | 27.95   |
| 1990  | 6659.56                     | 1932.92                    | 29.02   |
| 1991  | 7934.78                     | 2316.6                     | 29.20   |
| 1992  | 9786.75                     | 3116.00                    | 31.84   |
| 1993  | 12261.44                    | 4599.39                    | 37.51   |
| 1994  | 15138.34                    | 6152.36                    | 40.64   |
| 1995  | 17694.3                     | 7043.71                    | 39.81   |
| 1996  | 20418.96                    | 8256.33                    | 40.43   |
| 1997  | 23352.87                    | 10178.09                   | 43.58   |
| 1998  | 27572.06                    | 12734.98                   | 46.19   |
| 1999  | 31531.88                    | 13328.53                   | 42.27   |
| 2000  | 38618.79                    | 18723.61                   | 48.48   |
| 2001  | 44850.19                    | 21430.83                   | 47.78   |
| 2002  | 51655.74                    | 24533.71                   | 47.49   |
| 2003  | 59399.38                    | 28695.57                   | 48.31   |
| 2004  | 65961.08                    | 30100.39                   | 45.63   |
| Average of percentage during 1985-94 = 30.243 |                             |                            |   |
| Average of percentage during 1995-04 = 44.997 |                             |                            |   |

Source: Economic Review published by State Planning Board

The table shows that the share of NRI deposits in total deposits in the state has increased from 24.26% in 1985 to 40.64% in 1994. In 2003, it was 48.31% of the total deposits. In the post reform period, there is a visible increase in the share of NRI deposits in total deposits in Kerala. But in 2004 there is a fall in their share. This is possibly due to low rates of interest. The fund coming from abroad is increasingly being channeled to other sources of investment like stock markets, land and gold. Bank deposits have become less attractive due to the low rates of interest.

#### **4.1.2. Different Bank groups and NRI deposit.**

NRI deposits form a major content of financial resources of banks. The rate of growth of NRI deposits of different bank groups reveal the success of different bank groups in attracting the non resident Indians.

**Table 4.4.**

#### **Compound growth rate of NRI deposit of different bank groups**

| BANK                | 1985-94 | 1995-04 |
|---------------------|---------|---------|
| Public Sector Bank  | 20.1%   | 14.2%   |
| Private Sector Bank | 13.2%   | 20.8%   |
| Foreign Bank        | -----   | 3%      |
| Total Banks         | 22%     | 15%     |

Source: Economic Review published by State Planning Board

The rate of growth of NRI deposit in the post reform decade was less than that of the previous decade. Private sector banks were ahead of other banks in mobilizing external fund. In the case of Public Sector banks the compound rate of growth of NRI deposits was 14.2% in 1995-04 compared to 20% in 1985-94. In the case of Private Sector Banks

there has been an increase in the mobilization of NRI deposits since 1995. When the banking sector is considered in totality, the decade 1995-04 saw a decline in the compound rate of growth of NRI Deposits.

#### **4.1.3. Deposit mobilization and Different bank groups**

When deposit mobilization is scrutinized, it is relevant to include the relative achievements of different bank groups. The comparative performance of different bank groups in deposit mobilization can be assessed by comparing the rate of growth of deposits of different bank groups. Scheduled commercial banks include public sector, private sector and foreign banks.

**Table 4.5.**

#### **Compound growth rate of deposits of different bank groups**

| BANK                | 1985-94 | 1995-04 |
|---------------------|---------|---------|
| Public sector Bank  | 15.5%   | 13.2%   |
| Private sector bank | 16.4%   | 16.5%   |
| Foreign bank        | 38%     | 4.6%    |

Source: Economic Review published by State Planning Board

As revealed by the table 4.5 ,private sector banks had a higher rate of growth of deposits in the time period 1995-04

The share of different bank groups in the total deposits of Kerala over the year can be looked into.

**Table 4.6****Deposits of different bank groups as a percentage of total deposits**

| Ending March | State Bank Group | Other Nationalized Banks | Gramin Bank | Private Banks | Foreign Banks | All Kerala |
|--------------|------------------|--------------------------|-------------|---------------|---------------|------------|
| 1985         | 34.57            | 41.12                    | 1.30        | 23.01         |               | 100        |
| 1986         | 36.58            | 40.26                    | 1.27        | 21.90         |               | 100        |
| 1987         | 35.74            | 40.62                    | 1.26        | 22.37         |               | 100        |
| 1988         | 36.12            | 40.66                    | 1.19        | 22.03         |               | 100        |
| 1989         | 35.86            | 40.91                    | 1.26        | 21.97         |               | 100        |
| 1990         | 36.14            | 40.81                    | 1.32        | 21.14         | 0.59          | 100        |
| 1991         | 35.98            | 40.40                    | 1.38        | 21.27         | 0.97          | 100        |
| 1992         | 34.85            | 39.50                    | 1.45        | 23.02         | 1.18          | 100        |
| 1993         | 34.95            | 38.68                    | 1.40        | 23.75         | 1.22          | 100        |
| 1994         | 35.09            | 38.00                    | 1.40        | 24.20         | 1.30          | 100        |
| 1995         | 34.78            | 36.83                    | 1.47        | 25.58         | 1.34          | 100        |
| 1996         | 33.97            | 35.56                    | 1.29        | 27.97         | 1.21          | 100        |
| 1997         | 33.13            | 35.89                    | 1.43        | 28.16         | 1.39          | 100        |
| 1998         | 32.52            | 35.28                    | 1.47        | 29.25         | 1.48          | 100        |
| 1999         | 33.29            | 32.16                    | 1.62        | 31.44         | 1.48          | 100        |
| 2000         | 32.67            | 35.05                    | 1.68        | 29.63         | 0.97          | 100        |
| 2001         | 32.69            | 33.84                    | 1.78        | 30.88         | 0.82          | 100        |
| 2002         | 32.71            | 33.07                    | 1.94        | 31.56         | 0.73          | 100        |
| 2003         | 32.85            | 33.58                    | 2.14        | 30.80         | 0.64          | 100        |
| 2004         | 32.55            | 32.92                    | 2.29        | 31.67         | 0.56          | 100        |

Source: Economic Review published by State Planning Board

The table 4.6 shows the changes in the share of different bank groups in the total deposits of Kerala. In 1985, the state bank group accounted for 34.57% of the total deposits. In 2004, the share of State Banks group was 32.55%. There was a fall in the share of nationalized banks in total deposits of Kerala. There was increase in the share of private sector banks and foreign banks in the total deposits of Kerala. There are more private sector banks in Kerala compared to public sector banks. This probably is the reason behind the increased share of private sector banks in deposit mobilization.

#### 4.1.4. Changes in Deposits per Branch in Kerala

Deposit per branch is a measure of efficiency of the banks. It is the success at the branch level that results in the success of the bank. The table 4.7 can give an assessment of the performance of banking sector in Kerala.

**Table 4.7**  
**Deposit per branch in Kerala**

| Ending March | Total Deposit<br>Rs(Crores) | Number of Branches | Deposit per branch<br>Rs(Crores) |
|--------------|-----------------------------|--------------------|----------------------------------|
| 1985         | 3479.13                     | 2718               | 1.28                             |
| 1986         | 3600.80                     | 2721               | 1.32                             |
| 1987         | 4154.99                     | 2722               | 1.53                             |
| 1988         | 4811.31                     | 2765               | 1.74                             |
| 1989         | 5666.75                     | 2801               | 2.02                             |
| 1990         | 6659.56                     | 2829               | 2.35                             |
| 1991         | 7934.78                     | 2839               | 2.79                             |
| 1992         | 9786.75                     | 2851               | 3.43                             |
| 1993         | 12261.44                    | 2887               | 4.25                             |
| 1994         | 15138.34                    | 2948               | 5.14                             |
| 1995         | 17694.3                     | 3009               | 5.88                             |
| 1996         | 20418.96                    | 3073               | 6.64                             |
| 1997         | 23352.87                    | 3121               | 7.48                             |
| 1998         | 27572.06                    | 3142               | 8.78                             |
| 1999         | 31531.88                    | 3184               | 9.90                             |
| 2000         | 38618.79                    | 3255               | 11.86                            |
| 2001         | 44850.19                    | 3298               | 13.60                            |
| 2002         | 51655.74                    | 3334               | 15.49                            |
| 2003         | 59399.38                    | 3370               | 17.63                            |
| 2004         | 65961.08                    | 3404               | 19.38                            |

Source: Economic Review published by State Planning Board,  
Money and Banking (Various issues), Centre for monitoring Indian  
Economy (CMIE)

The above table shows the changes in the deposits mobilized per branch. In 1985, the deposit mobilized per branch, in Kerala was Rs. 1.28 crores which rose to Rs.2.35 crores in 1990. The growth has been more rapid since then and increased Rs. 19.38 crores by 2004. This

shows the improvement in the performance at the branch level in mobilizing deposits.

#### 4.1.5. Per capita Deposits in Kerala

Per capita deposit is another important indicator of banking facility in the state. Average deposit per person in Kerala throws some light on the saving capacity and saving habit of the people in Kerala. There has been tremendous increase in this ratio.

**Table 4.8.**  
**Change in per capita deposit in Kerala (in Rs)**

| Year | Population<br>In 1000s | Total<br>Deposit<br>Rs (Crores) | Per Capita Deposit<br>In Rupees |
|------|------------------------|---------------------------------|---------------------------------|
| 1985 | 27527                  | 3479.13                         | 1264                            |
| 1986 | 28008                  | 3600.80                         | 1286                            |
| 1987 | 28475                  | 4154.99                         | 1459                            |
| 1988 | 28930                  | 4811.31                         | 1663                            |
| 1989 | 29373                  | 5666.75                         | 1929                            |
| 1990 | 29809                  | 6659.56                         | 2234                            |
| 1991 | 29219                  | 7934.78                         | 2716                            |
| 1992 | 29656                  | 9786.75                         | 3300                            |
| 1993 | 29955                  | 12261.44                        | 4093                            |
| 1994 | 30330                  | 15138.34                        | 4991                            |
| 1995 | 30709                  | 17694.3                         | 5762                            |
| 1996 | 31091                  | 20418.96                        | 6567                            |
| 1997 | 30969                  | 23352.87                        | 7541                            |
| 1998 | 31223                  | 27572.06                        | 8831                            |
| 1999 | 31466                  | 31531.88                        | 10021                           |
| 2000 | 31696                  | 38618.79                        | 12184                           |
| 2001 | 31913                  | 44850.19                        | 14054                           |
| 2002 | 32270                  | 51655.74                        | 16007                           |
| 2003 | 32620                  | 59399.38                        | 18209                           |
| 2004 | 32820                  | 65961.08                        | 20098                           |

Source: Economic Review published by State Planning Board

The 4.8 table shows the changes in per-capita deposit in Kerala. The per-capita deposit in 1985 was Rs. 1264 which increased to Rs. 20098 in 2004. It can be noted that the per capita deposit has increased many fold in the post reform period.

#### 4.1.6. The geographical patterns of deposits

Rural, semi urban and urban and metropolitan areas differ in their contribution to deposits in commercial banks. Kerala is a state where semi urban areas are prominent. As a consequence their contribution to deposit mobilization is also significant.

**Table 4.9**

#### **Change in Geographical Pattern of deposit mobilization**

| Year    | Rural | Semi-Urban | Urban & Metropolitan | Total |
|---------|-------|------------|----------------------|-------|
| 1988-89 | 8.62  | 61.86      | 29.51                | 100   |
| 1989-90 | 8.03  | 62.40      | 29.57                | 100   |
| 1990-91 | 7.93  | 63.30      | 28.77                | 100   |
| 1991-92 | 8.11  | 64.04      | 27.85                | 100   |
| 1992-93 | 8.05  | 63.84      | 28.11                | 100   |
| 1993-94 | 8.04  | 63.97      | 27.99                | 100   |
| 1994-95 | 5.22  | 65.42      | 29.36                | 100   |
| 1995-96 | 5.20  | 65.54      | 29.26                | 100   |
| 1996-97 | 5.20  | 65.56      | 29.24                | 100   |
| 1997-98 | 5.14  | 64.93      | 29.93                | 100   |
| 1998-99 | 5.11  | 65.36      | 29.53                | 100   |
| 1999-00 | 5.11  | 65.75      | 29.14                | 100   |
| 2000-01 | 5.13  | 65.44      | 29.43                | 100   |
| 2001-02 | 5.10  | 65.63      | 29.27                | 100   |
| 2002-03 | 5.07  | 65.92      | 29.01                | 100   |
| 2003-04 | 5.00  | 65.78      | 29.23                | 100   |

Source: Money and Banking (Various issues), Centre for monitoring Indian Economy (CMIE)

The table 4.9 gives a comparison of rural, semi-urban and urban branches in mobilizing deposits. The share of rural branches in the

deposits in Kerala has come down. This reflects fall in income in the agricultural sector. The share of semi-urban branches has marginally increased. This is also due to the larger number of branches in the semi urban areas .There is not much difference in the share of urban and metropolitan branches in the post reform period. Semi urban areas are centers of foreign migration. The importance of NRI deposits has resulted in the improvement of semi urban areas. Kerala is yet to develop a full-fledged metropolitan urban city. Except for Cochin, we do not have an industrialized developed urban centre.

## **4.2. CREDIT**

### **4.2.1. Magnitude of credit**

The primary function of a commercial bank is financial intermediation. They are to collect funds from where it is in excess and supply funds to where it is in deficit. The performance of scheduled commercial banks in credit advancement is very important from the point of view of the economy since credit is the lifeblood of business. The growth of credit advanced by commercial banks in Kerala is analyzed below.

The table 4.10 reveals the fact that the growth of credit in the period 1995-04 is more than that of the previous decade. In 1985, the total advance of credit by all Banks in Kerala was Rs 2180.74 core. In 2004, it was Rs 31867.31 crore.



**Table 4.10.**

**Change in the volume of credit advanced by commercial banks in  
Kerala from 1985 to 2004**

| Year                        | Credit advanced<br>(crores) |
|-----------------------------|-----------------------------|
| 1985                        | 2180.74                     |
| 1990                        | 4187.13                     |
| 1995                        | 7842.56                     |
| 2004                        | 31867.31                    |
| growth rate over the period | 93.16                       |

Source: Economic Review published by State Planning Board

**4.2.2. Performance of different bank groups in credit disbursement**

Kerala is a state, which is not satisfied with the performance of commercial banks in providing credit. The reluctance on the part of commercial banks in extending credit to people in Kerala is a matter of debate. In this context, an attempt is made to compare the credit allocation by public sector and private sector banks during the period under study.

**Table 4.11.**

**Compound growth rate of credit of different bank groups.**

| Bank                | 1985-94 | 1995-04 |
|---------------------|---------|---------|
| Public sector bank  | 10.9%   | 15%     |
| Private sector bank | 13.2%   | 15.3%   |
| Foreign bank        | -----   | 13.9%   |
| All Banks           | 11.5%   | 15.1%   |

Source: Economic Review published by State Planning Board

The table 4.11 shows that the rate of growth of credit advanced during the period 1995-04 is higher for all groups of banks. There is not much difference in the rate of growth of credit of different bank groups. There is visible change in the volume of credit disbursed by commercial banks in Kerala . The compound rate of growth of credit in Kerala in 1995-04 was 15.1% compared to 11.5% in the previous decade.

**4.2.3. Composition of credit advanced**

Different sectors of the economy are credit thirsty. It is not a situation where everybody is getting as much as is required. Some sectors are able to extract more credit than others from the banks. The following table shows changes in the credit pattern in Kerala.

**Table 4.12.**

**Composition of credit**

|                                 | 1980-81 | 1984-85 | 1988-89 | 1989-90 | 1990-91 | 1991-92 | 1992-93 | 1993-94 | 1994-95 |
|---------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Total bank credit               | 100     | 100     | 100     | 100     | 100     | 100     | 100     | 100     | 100     |
| Agriculture                     | 18.10   | 17.14   | 17.96   | 17.51   | 17.25   | 16.98   | 15.99   | 14.97   | 14.66   |
| Industry                        | 39.32   | 36.74   | 33.50   | 35.51   | 35.29   | 34.70   | 33.50   | 32.73   | 31.20   |
| Mining & quarrying              | 0.04    | 0.16    | 0.11    | 0.06    | 0.10    | 0.27    | 0.32    | 0.20    | 0.16    |
| Vehicles, parts & trans. equip. | 1.22    | 1.23    | 0.64    | 0.46    | 0.49    | 0.36    | 0.33    | 0.33    | 0.43    |
| Construction                    | 0.99    | 1.25    | 0.92    | 1.05    | 1.09    | 1.08    | 1.00    | 1.11    | 0.72    |
| Professional & other services   | 10.82   | 11.65   | 15.47   | 15.42   | 16.26   | 17.30   | 18.43   | 19.37   | 19.76   |
| Personal loans                  | 0.00    | 0.00    | 0.00    | 0.00    | 0.00    | 0.00    | 0.00    | 0.00    | 0.00    |
| Loans for consumer durables     | 1.61    | 0.86    | 0.49    | 0.54    | 0.39    | 0.37    | 0.39    | 0.46    | 0.87    |
| Loans for housing               | 0.00    | 0.00    | 0.00    | 0.00    | 3.73    | 4.18    | 4.37    | 4.18    | 4.45    |
| Trade                           | 16.42   | 15.48   | 14.73   | 15.11   | 15.77   | 16.34   | 15.62   | 16.86   | 19.42   |
| Miscellaneous                   | 13.73   | 18.14   | 17.84   | 15.90   | 11.30   | 10.14   | 11.69   | 11.43   | 9.64    |

Source: Money and Banking (Various issues), Centre for monitoring Indian Economy (CMIE)

**Table 4.13.**

**Composition of credit**

|                                 | 1995-96 | 1996-97 | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 | 2002-03 | 2003-04 |
|---------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Total bank credit               | 100     | 100     | 100     | 100     | 100     | 100     | 100     | 100     | 100     |
| Agriculture                     | 14.29   | 13.24   | 13.82   | 13.33   | 13.06   | 13.29   | 11.90   | 11.80   | 13.40   |
| Industry                        | 31.02   | 29.12   | 27.69   | 27.94   | 27.31   | 25.19   | 22.25   | 22.05   | 20.21   |
| Mining & quarrying              | 0.27    | 0.27    | 0.37    | 0.17    | 0.85    | 0.50    | 0.55    | 0.82    | 0.16    |
| Vehicles, parts & trans. equip. | 0.33    | 0.29    | 0.37    | 0.27    | 0.34    | 0.40    | 0.21    | 0.66    | 0.45    |
| Construction                    | 1.26    | 1.35    | 1.24    | 1.51    | 1.35    | 1.25    | 2.08    | 2.35    | 3.05    |
| Professional & other services   | 3.89    | 3.58    | 3.98    | 4.33    | 4.65    | 4.72    | 4.89    | 5.30    | 5.88    |
| Personal loans                  | 18.87   | 21.02   | 22.42   | 20.12   | 21.70   | 24.31   | 24.24   | 27.19   | 33.82   |
| Loans for consumer durables     | 1.16    | 1.28    | 1.32    | 1.13    | 1.13    | 1.20    | 0.72    | 0.57    | 0.62    |
| Loans for housing               | 5.08    | 5.88    | 6.61    | 7.48    | 9.10    | 10.42   | 10.95   | 13.12   | 17.09   |
| Trade                           | 18.07   | 18.08   | 18.23   | 18.76   | 17.87   | 18.90   | 20.44   | 19.66   | 14.89   |
| Miscellaneous                   | 7.61    | 7.80    | 5.94    | 6.90    | 5.18    | 1.98    | 4.61    | 0.30    | -5.90   |

Source: Money and Banking (Various issues), Centre for monitoring Indian Economy (CMIE)

As revealed by the data on the tables 4.12 and 4.13, the share of agricultural credit to total credit has decreased. The share of industrial credit to total credit has also come down. The most significant change in the pattern of credit is the increase in the share of personal loans. In the 1980's, the personal loans occupied a negligible portion of the total credit. In 2003-04, personal loans constituted 33.82 per cent of the total credit disbursed by all banks. The share of the construction sector has also increased. The share of the trade has decreased. The changing pattern of credit allocation reflects the fact that there is growth of consumerism in the state financed by credit.

The rate of growth of credit to different sectors is presented in the table4.14.

**Table 4.14**  
**Compound growth rate of credit to different sectors**

| Sector                          | 1984-1994 | 1995-2004 |
|---------------------------------|-----------|-----------|
| Total bank credit               | 12.5%     | 13.73%    |
| Agriculture                     | 10.92%    | 13.00%    |
| Industry                        | 10.84%    | 8.96%     |
| Mining & quarrying              | 12.23%    | 7.77%     |
| Vehicles, parts & trans. equip. | 2.32%     | 17.34%    |
| Construction                    | 7.07%     | 24.24%    |
| Professional & other services   | 18.04%    | 21.05%    |
| Personal loans                  |           | 18.52%    |
| Loans for consumer durables     | 12.67%    | 6.72%     |
| Loans for housing               |           | 28.39%    |
| Trade                           | 14.85%    | 11.55%    |

Source: Money and Banking (Various issues), Centre for monitoring Indian Economy (CMIE)

The table 4.14 gives the compound annual growth rate of credit to different sectors in Kerala. The compound annual growth rate of credit to agriculture has declined. The rate of growth of credit to industry also declined. The rate of growth of credit towards construction and personal loans has increased in the post reform period. The share of trade has also declined. There was sharp increase in loans for housing. The change in the pattern of credit reveals the turnaround in the direction of bank credit. Banks are concentrating more on retail credit than on corporate or agricultural credit. The credit expansion in Kerala takes the form of personal loans, housing and vehicle loans. Finance is flushed in to unproductive sectors. The change in the in the pattern of credit is not favourable as credit expansion takes place mostly in unproductive sector. Credit is easily available for consumption purposes. The state which is known for consumerism is receiving credit for the growth of conspicuous consumption. Credit expansion is not for income generation. Lured by colorful advertisements and easy availability of consumer credit, many families are trapped in huge debts. The rising number of suicides is a social consequence of this phenomenon. Credit should be the life blood of productive activities. Otherwise it will lead to undesirable consequences.

#### **4.2.4. Change in per capita credit**

Per capita credit shows the credit advanced in relation to the size of population in Kerala. Per capita credit is a ratio which throws light on the sufficiency of credit being received by the people.

**Table 4.15****Change in per capita credit in Kerala (in Rs.)**

| Year | Population<br>In 1000s | Total<br>Advance<br>Rs<br>(Crores) | Per capita advance<br>Rs |
|------|------------------------|------------------------------------|--------------------------|
| 1985 | 27527                  | 2180.74                            | 792                      |
| 1986 | 28008                  | 2371.00                            | 847                      |
| 1987 | 28475                  | 2768.68                            | 972                      |
| 1988 | 28930                  | 3116.05                            | 1077                     |
| 1989 | 29373                  | 3701.15                            | 1260                     |
| 1990 | 29809                  | 4187.13                            | 1405                     |
| 1991 | 29219                  | 4715.34                            | 1614                     |
| 1992 | 29656                  | 5093.39                            | 1717                     |
| 1993 | 29955                  | 5860.51                            | 1956                     |
| 1994 | 30330                  | 6484.86                            | 2138                     |
| 1995 | 30709                  | 7842.56                            | 2554                     |
| 1996 | 31091                  | 9006.66                            | 2897                     |
| 1997 | 30969                  | 10565.1                            | 3412                     |
| 1998 | 31223                  | 12364.24                           | 3960                     |
| 1999 | 31466                  | 13576.67                           | 4315                     |
| 2000 | 31696                  | 15940.86                           | 5029                     |
| 2001 | 31913                  | 19180.27                           | 6010                     |
| 2002 | 32270                  | 22061.94                           | 6837                     |
| 2003 | 32620                  | 27006.53                           | 8279                     |
| 2004 | 32820                  | 31867.31                           | 9710                     |

Source: Economic Review published by State Planning Board

Per capita credit in Kerala is very low. In 1985 it was Rs. 792 and in 2004 it was Rs. 9710. There has been some increase in the availability of credit per person. But the increase is not much if inflationary changes are taken into account. The per capita credit of Rs. 9,710 is insufficient to start any productive venture.

#### 4.2.5. Changes in credit advanced per branch

**Table 4.16**  
**Change in Credit per Branch in Kerala**

| Ending March | Total Advance<br>Rs (Crores) | Number of<br>Branches | Advance per<br>branch<br>Rs (Crores) |
|--------------|------------------------------|-----------------------|--------------------------------------|
| 1985         | 2180.74                      | 2718                  | 0.80                                 |
| 1986         | 2371.00                      | 2721                  | 0.87                                 |
| 1987         | 2768.68                      | 2722                  | 1.02                                 |
| 1988         | 3116.05                      | 2765                  | 1.13                                 |
| 1989         | 3701.15                      | 2801                  | 1.32                                 |
| 1990         | 4187.13                      | 2829                  | 1.48                                 |
| 1991         | 4715.34                      | 2839                  | 1.66                                 |
| 1992         | 5093.39                      | 2851                  | 1.79                                 |
| 1993         | 5860.51                      | 2887                  | 2.03                                 |
| 1994         | 6484.86                      | 2948                  | 2.20                                 |
| 1995         | 7842.56                      | 3009                  | 2.61                                 |
| 1996         | 9006.66                      | 3073                  | 2.93                                 |
| 1997         | 10565.1                      | 3121                  | 3.39                                 |
| 1998         | 12364.24                     | 3142                  | 3.94                                 |
| 1999         | 13576.67                     | 3184                  | 4.26                                 |
| 2000         | 15940.86                     | 3255                  | 4.90                                 |
| 2001         | 19180.27                     | 3298                  | 5.82                                 |
| 2002         | 22061.94                     | 3334                  | 6.62                                 |
| 2003         | 27006.53                     | 3370                  | 8.01                                 |
| 2004         | 31867.31                     | 3404                  | 9.36                                 |

Source: Economic Review published by State Planning Board, Money and Banking (Various issues), Centre for monitoring Indian Economy (CMIE)

The table 4.16 shows the change in advance of credit per branch during the period 1985 to 2004. The credit advance per branch was Rs. 0.80 crores in 1985. It has increased to Rs.9.36 crores in 2004. Branch level performance of banks has shown improvement in the post reform period.



### 4.3 Credit deposit ratio

An important ratio which indicates the progress of commercial banking anywhere is the credit deposit ratio. Credit deposit ratio is the scale to measure the flow of deposits to credit. Financial intermediation is the prime function of a bank. Credit deposit ratio indicates whether the performance of a bank is satisfying or not in this respect.

**Table 4.17**  
**Credit Deposit Ratio in Kerala**

| Ending March                       | CD Ratio | Incremental CD ratio |
|------------------------------------|----------|----------------------|
| 1985                               | 62.68    |                      |
| 1986                               | 63.98    | 156.37               |
| 1987                               | 66.64    | 71.76                |
| 1988                               | 64.77    | 52.93                |
| 1989                               | 65.31    | 68.40                |
| 1990                               | 62.87    | 48.95                |
| 1991                               | 59.43    | 41.42                |
| 1992                               | 52.04    | 20.41                |
| 1993                               | 47.80    | 31.00                |
| 1994                               | 42.84    | 21.70                |
| 1995                               | 44.32    | 53.12                |
| 1996                               | 44.11    | 42.72                |
| 1997                               | 45.24    | 53.12                |
| 1998                               | 44.84    | 42.64                |
| 1999                               | 43.06    | 30.62                |
| 2000                               | 41.28    | 33.36                |
| 2001                               | 42.77    | 51.99                |
| 2002                               | 42.71    | 42.34                |
| 2003                               | 45.47    | 63.85                |
| 2004                               | 48.31    | 74.08                |
| Average CD ratio 1985-1994 = 58.83 |          |                      |
| Average CD ratio 1995-2004 = 44.24 |          |                      |

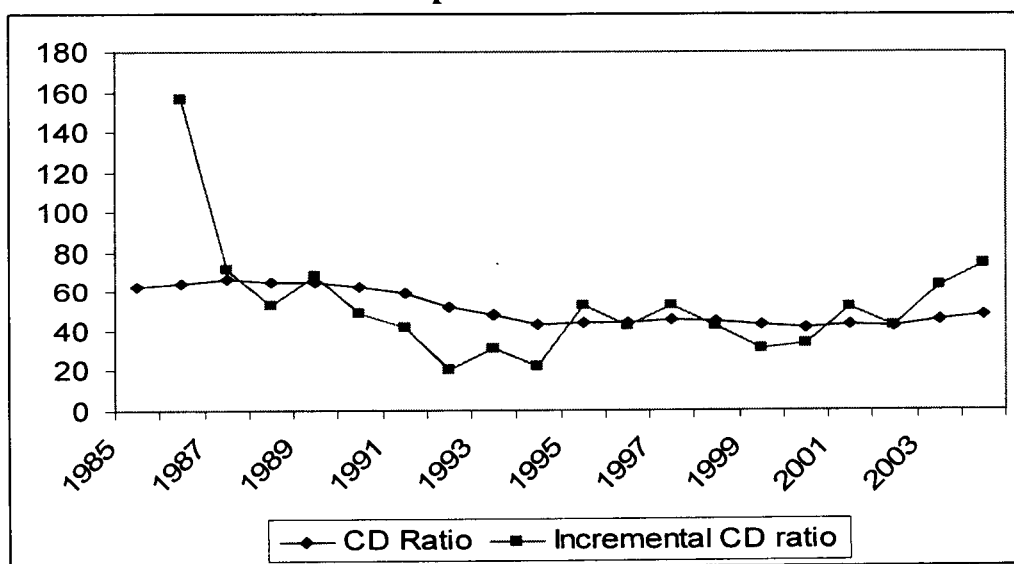
Source: Economic Review published by State Planning Board

The credit deposit ratio in Kerala was 62.68 in 1985. There was a decline in CD ratio especially in the immediate post-reform period. Later there were signs of improving the credit-deposit ratio. Incremental CD ratio is also looked into. This ratio shows how the increase in

deposits is matched by an increase in credit. Incremental CD ratio does not reveal any uniform pattern of changes. Incremental CD ratio was 43.34 in 2002 which increased to 63.85 in 2003.

The level of credit deposit ratio in Kerala is a matter of controversy. It is low in Kerala compared to many other states in India. The allegation is that commercial banks have swelling deposit accounts in Kerala and these funds are not ploughed into the states economy in the form of credit. The credit deposit ratio has declined since the inception of financial reforms. Various reasons have been given for the same. The highly developed service sector in Kerala has low credit absorption capacity. Industry and agriculture are in a backward state. Shortage of entrepreneurs and absence of viable projects are other reasons given for low credit disbursement. The over cautious and risk fearing managers are blamed for this low credit deposit ratio. High growth of deposits especially that of NRIs is considered as another explanation for this situation. The recent increase in the credit deposit ratio is partially due to increase in credit extension and partially due to the decrease in deposit growth.

**FIGUR 4.1**  
**Credit Deposit Ratio in Kerala**



The Graph illustrates the low level of credit deposit ratio in the state over the years. Credit deposit ratio remained at a low level in the last two decades. Since 2003 there are signs of improvement in the credit deposit ratio.

#### **4.3.1 Credit and Deposits Functional Relationship**

Functional relationship between certain variable were examined with a view to understand their economic significance. Credit advanced depends on the amount of deposits mobilized. There is strong fundamental relationship between these two variables.

**Table 4.18**

#### **Credit advanced in Kerala as a function of deposits**

| Period    | a        | b     | t-value<br>of b | R <sup>2</sup> |
|-----------|----------|-------|-----------------|----------------|
| 1985-1994 | 1357.38  | 0.366 | 12.68**         | 0.95           |
| 1995-2004 | -988.326 | 0.471 | 23.45**         | 0.99           |
| Combined  | 578.88   | 0.436 | 42.30**         | 0.99           |

Source: Economic Review published by State Planning Board

Total credit advanced in Kerala is functionally related to total deposits in Kerala. The estimated value of the coefficient is 0.436 for the period 1985-2004.. Credit advanced and deposits mobilized are related through simple regression. The amount of credit advanced and deposit collected during the period 1985 to 2004 is used to estimate the regression equation. The fitted regression is  $Y = 578.88 + 0.436X$ . t Value for testing the significance of co-efficient was found. R<sup>2</sup> for the regression was 0.99. These results imply strong positive impact of deposits on credit advanced

### 4.3.2 NRI Deposits and CD Ratio

It is the presence of the NRI Deposits that leads to low credit deposit ratio in Kerala. Changes in credit deposit ratio are examined after NRI deposits are excluded from the total deposit. CD ratio for different years worked out after deducting NRI deposits from total deposits.

**Table 4.19.**

**Credit Deposits ratio of Kerala (Excluding NRI deposits)**

| Year | CD Ratio |
|------|----------|
| 1985 | 83       |
| 1990 | 89       |
| 1995 | 74       |
| 2004 | 89       |

Source: Economic Review published by State Planning Board

When NRI deposits are not included in the total deposits the credit deposit ratio was 83% in 1985. In 2004, credit deposit ratio without NRI deposits was 89%. This implies that when only domestic deposits are considered credit deposit ratio is not very low.

**Table 4.20**

**NRI deposit and CD value**

| Period  | Annual average growth rate of NRI deposit | Average CD ratio (%) | Change in CD ratio (%) |
|---------|---|----------------------|------------------------|
| 1985-94 | 62.88                                     | 58.83                | -31.65                 |
| 1994-04 | 32.73                                     | 44.21                | 9.0                    |

Source: Economic Review published by State Planning Board

The average CD ratio in 1985-94 was 58.83. It has come down to 44.21 in the period 1995-04. There was a negative change in CD ratio in the period 1985-94. In the post-reform period the percentage changes in CD ratio is 9.

The fall in the CD ratio in the decade 1985-94 is associated with fast growing NRI deposits. In the period 1995-04 the growth rate of NRI deposits has decreased. In this period there are signals of improving credit deposit ratio

#### 4.4 Branch Expansion

Branch banking is slowly giving way to centralized banking in the context of adoption of new technology. In this context, it is relevant to look into the pattern of branch expansion in rural, Semi urban and urban areas in the state. The known policy at present is to wind up unviable and uneconomic branches. The tables 4.21 and 4.22 show the changes in pattern of branch expansion of commercial banks in the post reform period.

**Table 4.21**  
**Percentage distribution of the geographical pattern of branch expansion**

| Year      | Rural | Semi-Urban | Urban | Total |
|-----------|-------|------------|-------|-------|
| 1990-91   | 18.99 | 63.60      | 17.41 | 100   |
| 1991-92   | 18.84 | 63.49      | 17.68 | 100   |
| 1992-93   | 18.48 | 63.25      | 18.27 | 100   |
| 1993-94   | 18.07 | 63.62      | 18.30 | 100   |
| 1994-95   | 11.03 | 70.05      | 18.92 | 100   |
| 1995-96   | 10.88 | 70.20      | 18.92 | 100   |
| 1996-97   | 10.82 | 70.07      | 19.11 | 100   |
| 1997-98   | 10.68 | 69.97      | 19.35 | 100   |
| 1998-99   | 11.64 | 69.26      | 19.10 | 100   |
| 1999-2000 | 10.46 | 70.15      | 19.38 | 100   |
| 2000-01   | 10.32 | 70.22      | 19.46 | 100   |
| 2001-02   | 10.18 | 70.24      | 19.58 | 100   |
| 2002-03   | 9.99  | 70.20      | 19.81 | 100   |

Source: Money and Banking (Various issues), Centre for monitoring Indian Economy (CMIE)

The table 4.25 shows that the percentage of rural branches has come down. In 1990-91, about 19% of the branches were in the rural area where as in 2003, it was only less than 10% of the total . In Kerala, new branches are opened mainly in semi urban areas. There is also a slight increase in the percentage of urban branches to total number of branches.

Branch expansion is relative to the size of population. Population covered per branch is shown in the table 4.26. It will throw light on the expansion of banking facilities in the state.

**Table 4.22**

**Ratio of population to number of Bank Branches in Kerala**

| Year | Population<br>In 1000s | Number of<br>Branches | Population in<br>1000s per branch |
|------|------------------------|-----------------------|-----------------------------------|
| 1985 | 27527                  | 2718                  | 10.13                             |
| 1986 | 28008                  | 2721                  | 10.29                             |
| 1987 | 28475                  | 2722                  | 10.46                             |
| 1988 | 28930                  | 2765                  | 10.46                             |
| 1989 | 29373                  | 2801                  | 10.49                             |
| 1990 | 29809                  | 2829                  | 10.54                             |
| 1991 | 29219                  | 2839                  | 10.29                             |
| 1992 | 29656                  | 2851                  | 10.40                             |
| 1993 | 29955                  | 2887                  | 10.38                             |
| 1994 | 30330                  | 2948                  | 10.29                             |
| 1995 | 30709                  | 3009                  | 10.21                             |
| 1996 | 31091                  | 3073                  | 10.12                             |
| 1997 | 30969                  | 3121                  | 9.92                              |
| 1998 | 31223                  | 3142                  | 9.94                              |
| 1999 | 31466                  | 3184                  | 9.88                              |
| 2000 | 31696                  | 3255                  | 9.74                              |
| 2001 | 31913                  | 3298                  | 9.68                              |
| 2002 | 32270                  | 3334                  | 9.68                              |
| 2003 | 32620                  | 3370                  | 9.68                              |
| 2004 | 32820                  | 3404                  | 9.64                              |

Source: Money and Banking (Various issues), Centre for monitoring Indian Economy (CMIE)

The above tables reveal changes in population coverage by a branch over the years. In 1985, the average population covered by one

branch was 10.13 thousands. In 1994, it was 10.29 thousands. In 2004, the ratio is 9.64 thousands per branch.

### 4.5 Credit and Economic Growth

The causal relationship between state per capita income at constant prices and per capita credit for the period 1985-2004 is examined. The relationship between state income and bank credit can be unidirectional or bi-directional. Empirically the relationship was estimated by conducting Granger causality test.

**Table 4.23.**

**Per capita income and Per capita credit**

| Null Hypothesis                                    | Obs | F-statistics | Probability |
|--|-----|--------------|-------------|
| State per capita income does not Granger cause PCC | 17  | 0.18565      | 0.83290     |
| PCC does not Granger cause SPCY                    | 17  | 0.72031      | 0.50649     |

Source: Computed from statistics obtained from Economic Review published by state planning board.

Since the computed F-statistics is less than the probability we accept the Null hypothesis that state per capita income does not granger cause per capita credit. In the case of the second hypothesis the ‘F’ statistic is more than the probability. Hence we reject the null hypothesis that Per capita credit does Granger cause State per capita income.

In other words it is the growth in credit that leads to growth in per capita income and not vice versa. This explains the increased income in the post reforms period with low credit deposit ratio. In the post reform period there has been a turn around in the growth of income in the state. But during that period there was no corresponding increase in credit deployment. Credit deposit ratio was declining during that period. The

growth of the economy did not lead to credit expansion. Fund for the growth of the economy came from other sources.

#### **4.5.2 Functional relationship between per capita net state domestic product and per capita credit**

Per capita output and per capita credit are related through simple regression. Per capita output and per capita credit of the period 1985 to 2004 is used to estimate the regression equation. The fitted regression is  $Y = 2030.315 + 30692.475 X$ . t-value for testing the significant of slope coefficient (16.764) was found to be significant and  $R^2$  for the regression was 0.943. . The results imply strong positive impact of per capita credit on per capita output.

#### **4.6 IMPORTANT RATIOS IN BANKING SECTOR**

Six important ratios are selected to assess the capabilities of banking system in Kerala. The compound rate of growth of these ratios will throw light into the progress of commercial banking in Kerala. The ratios are

- Population per branch
- Per capita deposit
- Per capita credit
- Deposit per branch
- Credit per branch
- Credit deposit ratio.



**Table 4.24****Compound growth rate of Important Monetary Ratios**

|                          | 1985-1994 | 1995-2004 |
|--------------------------|-----------|-----------|
| 1. Population per branch | 0.16%     | -0.57%    |
| 2. Per capita deposit    | 14.72%    | 13.31%    |
| 3. Per capita credit     | 10.44%    | 14.29%    |
| 4. Deposit per branch    | 14.91%    | 12.67%    |
| 5. credit per branch     | 10.65%    | 13.62%    |
| 6. credit deposit ratio  | -3.73%    | 0.87%     |

Source: Economic Review published by State Planning Board, Money and Banking (Various issues), Centre for monitoring Indian Economy (CMIE)

There is decrease in population covered per branch in the post-reform period. Per capita credit and per branch credit has grown faster in the period 1995-2004. The rate of growth of per capita deposits and deposit per branch has come down in the period 1995-04 compared to 1985-94.

There is positive rate of growth of credit deposit ratio in the period 1995-04 compared to 1985-94. This throws light into the increasing interest shown by commercial banks in providing credit to the needy. Credit per branch and per capita credit have shown an increase in their rate of growth.

The rate of growth of deposits however does not match the rate of growth of credit. The rates of growth of per capita deposit and deposit per branch have decreased marginally in the period of 1995-2004 compared to the previous decade. The compound growth rate of per

capita credit and credit per branch has increased in the 2<sup>nd</sup> decade under study.

On the whole in the post reform period there was advancement achieved by commercial banks in Kerala with respect to important monetary factors.

#### **4.7 Inter State Comparison of Banking Sector Progress**

Achievements of banking sector in Kerala are compared with the attainments of other southern states in same area. The golden south is on a fast track to progress and prosperity. The relative performance of four south Indian States in the financial sector is analyzed here. The following six indicators are used

- (a) Population served per branch.
- (b) Per Capita deposit.
- (c) Deposit per branch.
- (d) Per Capita credit
- (d) Credit per branch.
- (e) Credit Deposit Ratio.

##### **4.7.2 Population served per branch**

Post nationalization period witnessed increase in the number of bank branches at a high rate. As a result of branch expansion programme, population served per branch declined in India. However branch expansion is losing prominence in the strategy of banking development in recent days.

**Table 4.25****Index of disparity in population served per branch**

| Southern States                     | 1985          | 1995          | 2005          | Growth rate in % |
|-------------------------------------|---------------|---------------|---------------|------------------|
| Andhra Pradesh                      | 14079         | 14582         | 14522         | 0.16             |
| Karnataka                           | 10460         | 10625         | 10916         | 0.22             |
| Kerala                              | 10087         | 9909          | 9167          | -0.46            |
| Tamil Nadu                          | 13128         | 12527         | 12906         | -0.08            |
| <b>Mean</b>                         | <b>11939</b>  | <b>11911</b>  | <b>11878</b>  | <b>-0.03</b>     |
| <b>Coefficient of variation (%)</b> | <b>16.48</b>  | <b>17.59</b>  | <b>19.64</b>  |                  |
| <b>Herfindahl index</b>             | <b>0.0068</b> | <b>0.0077</b> | <b>0.0096</b> |                  |

Source: Basic Statistical Returns- RBI

Population served per branch has declined for Kerala and Tamilnadu over the years. The coefficient of variation has increased. But the Herfindahl Index value is less than 0.1. This indicates an unconcentrated index. This implies that the disparity among the sector with respect to this indicator is not considerable.

### 4.7.3 Per Capita deposit

Per Capita deposit in Kerala is compared with Per Capita deposit of other Southern States. The Per Capita deposits of south Indian states are showing a rising trend. The percentage growth is highest in Karnataka. The C.V.value in 2005 is lower than in 1995. The Herfindahl Index is less than 0.1. This also indicates regional equality with respect to this indicator.

**Table 4.26**  
**Index of Disparity in Per capita Deposits in Rupees**

| Southern States                     | 1985          | 1995          | 2005          | Growth rate in % |
|-------------------------------------|---------------|---------------|---------------|------------------|
| Andhra Pradesh                      | 775.0         | 2813.7        | 12255.6       | 74.07            |
| Karnataka                           | 947.5         | 4099.3        | 19290.5       | 96.80            |
| Kerala                              | 1132.7        | 5581.3        | 20874.3       | 87.15            |
| Tamil Nadu                          | 989.7         | 4427.5        | 16911.3       | 80.44            |
| <b>Mean</b>                         | <b>961</b>    | <b>4230</b>   | <b>17333</b>  | <b>85.16</b>     |
| <b>Coefficient of variation (%)</b> | <b>15.32</b>  | <b>26.91</b>  | <b>21.67</b>  |                  |
| <b>Herfindahl index</b>             | <b>0.0059</b> | <b>0.0181</b> | <b>0.0117</b> |                  |

Source: Basic Statistical Returns - RBI

#### 4.7.4 Deposit per branch

There has been considerable increase in Deposit per branch, in all the four southern states, especially in the post reform period. There was a decline in Coefficient of Variation from 11.37 % in 1988 to 9.17 % in 2005. The Herfindahl Index, takes a value of less than 0.1, indicates equal progress among the four states with respect to this indicator. The table 4.27 shows the progress made by the four states in the above indicator.

**Table 4.27**  
**Index of disparity in Deposit per branch**

**(Rs. In lakhs)**

| Southern States                     | 1985          | 1995          | 2005          | Growth rate in % |
|-------------------------------------|---------------|---------------|---------------|------------------|
| Andhra Pradesh                      | 109.1         | 410.3         | 1779.8        | 76.56            |
| Karnataka                           | 99.1          | 435.5         | 2105.7        | 101.23           |
| Kerala                              | 114.3         | 553.1         | 1913.5        | 78.74            |
| Tamil Nadu                          | 129.9         | 554.6         | 2182.5        | 78.99            |
| <b>Mean</b>                         | <b>113</b>    | <b>488</b>    | <b>1995</b>   | <b>83.21</b>     |
| <b>Coefficient of variation (%)</b> | <b>11.37</b>  | <b>15.62</b>  | <b>9.17</b>   |                  |
| <b>Herfindahl index</b>             | <b>0.0032</b> | <b>0.0061</b> | <b>0.0021</b> |                  |

Source: Basic Statistical Return – RBI

#### **4.7.5 Per Capita credit**

There has been tremendous increase in Per Capita credit in the last two decades. The table 4.28 shows the relative progress of the four south Indian states in the above indicator. The rate of growth of Per Capita credit is lowest in Kerala. Tamilnadu has the highest rate of growth of Per Capita credit. The Herfindahl Index takes a value of less than 0.1. South Indian states are exhibiting less disparity with respect to the availability of Per capita credit.

**Table 4.28****Index of Disparity in per capita credit in Rupees**

| Southern States                     | 1985          | 1995          | 2005          | Growth rate in % |
|-------------------------------------|---------------|---------------|---------------|------------------|
| Andhra Pradesh                      | 589.4         | 2098.1        | 10213.4       | 81.64            |
| Karnataka                           | 766.5         | 2669.0        | 15522.3       | 96.26            |
| Kerala                              | 774.2         | 2523.0        | 12004.6       | 72.53            |
| Tamil Nadu                          | 838.8         | 3842.0        | 17827.1       | 101.26           |
| <b>Mean</b>                         | <b>742</b>    | <b>2783</b>   | <b>13892</b>  | <b>88.58</b>     |
| <b>Coefficient of variation (%)</b> | <b>14.40</b>  | <b>26.82</b>  | <b>24.67</b>  |                  |
| <b>Herfindahl index</b>             | <b>0.0052</b> | <b>0.0180</b> | <b>0.0152</b> |                  |

Source: Basic Statistical Returns – RBI

**4.7.6 Credit per branch**

Credit advanced per branch, is the highest for Tamilnadu and lowest for Andhra Pradesh. The growth rate in the above ratio is lowest in the case of Kerala, as revealed by the table4.29.

**Table 4.29****Index of Disparity in Credit per branch (Rs. In lakhs)**

| Southern States                     | 1985          | 1995          | 2005          | Growth rate in % |
|-------------------------------------|---------------|---------------|---------------|------------------|
| Andhra Pradesh                      | 83.0          | 305.9         | 1483.2        | 84.37            |
| Karnataka                           | 80.2          | 283.6         | 1694.3        | 100.66           |
| Kerala                              | 78.1          | 250.0         | 1100.4        | 65.46            |
| Tamil Nadu                          | 110.1         | 481.3         | 2300.7        | 99.46            |
| <b>Mean</b>                         | <b>88</b>     | <b>330</b>    | <b>1645</b>   | <b>88.61</b>     |
| <b>Coefficient of variation (%)</b> | <b>17.06</b>  | <b>31.29</b>  | <b>30.51</b>  |                  |
| <b>Herfindahl index</b>             | <b>0.0073</b> | <b>0.0245</b> | <b>0.0233</b> |                  |

Source: Basic Statistical Returns - RBI

Herfindahl Index rules out any possibility of concentrated development of this indicator. The Coefficient of Variation has however increased.

#### 4.7.7 Credit Deposit Ratio

**Table 4.30**

##### **Index of Disparity in Credit Deposit Ratio**

| Southern States                     | 1985          | 1995          | 2005          | Growth rate in % |
|-------------------------------------|---------------|---------------|---------------|------------------|
| Andhra Pradesh                      | 76.1          | 74.6          | 83.3          | 0.47             |
| Karnataka                           | 80.9          | 65.1          | 80.5          | -0.02            |
| Kerala                              | 68.4          | 45.2          | 57.5          | -0.80            |
| Tamil Nadu                          | 84.8          | 86.8          | 105.4         | 1.21             |
| <b>Mean</b>                         | <b>78</b>     | <b>68</b>     | <b>82</b>     | <b>0.27</b>      |
| <b>Coefficient of variation (%)</b> | <b>9.11</b>   | <b>25.85</b>  | <b>23.99</b>  |                  |
| <b>Herfindahl index</b>             | <b>0.0021</b> | <b>0.0167</b> | <b>0.0144</b> |                  |

Source: Basic Statistical Returns - RBI

Credit Deposit Ratio is an important indicator of the performance of banking sector. Kerala and Karnataka show a negative growth rate in this ratio over the period 1985 to 2005. The Coefficient of Variation has increased over the period. Herfindahl Index value is less than 0.1. This assures better regional equality, with respect to the above indicator.

When the above individual indices are examined, there is little disparity among the four states. Coefficient of variation and Herfindahl Index points to regional equality with respect to banking sector improvements.

#### 4.7.8 Composite Index of Banking Development in South Indian States

In order to get an aggregate measure of banking development, the six indicators analyzed in the previous section are standardized and condensed into composite indices. Composite indices were obtained,

after giving weightage, to each indicator using principal component analysis. Such indices are constructed for the south Indian states, Kerala, Karnataka, Tamilnadu and Andhra Pradesh. The results of the study are given in the table 4.35 and 4.36.

**Table 4.31**

**Weights assigned to different indicators of banking development**

| Variable                     | 1985     |          | 1995     |          | 2005     |          |
|------------------------------|----------|----------|----------|----------|----------|----------|
|                              | Factor 1 | Factor 2 | Factor 1 | Factor 2 | Factor 1 | Factor 2 |
| Population served per branch | -0.226   | 0.302    | 0.296    | 0.094    | -0.160   | 0.339    |
| Per capita deposit           | -0.044   | 0.409    | 0.255    | 0.232    | -0.063   | 0.404    |
| Deposit per branch           | 0.286    | 0.131    | 0.114    | 0.332    | 0.213    | 0.268    |
| Per capita credit            | 0.144    | 0.365    | -0.099   | 0.348    | 0.233    | 0.229    |
| Credit per branch            | 0.353    | 0.049    | -0.227   | 0.267    | 0.279    | -0.001   |
| Credit Deposit Ratio         | 0.274    | -0.076   | -0.312   | 0.095    | 0.269    | -0.113   |
| Percentage variations        | 46.94    | 39.99    | 51.36    | 44.57    | 59.56    | 40.18    |

Source: Basic Statistical Returns - RBI

**Table 4.32**

**Composite indices of banking development in South Indian states**

| Southern States | 1985    |      | 1995    |      | 2005    |      |
|-----------------|---------|------|---------|------|---------|------|
|                 | Indices | Rank | Indices | Rank | Indices | Rank |
| Andhra Pradesh  | -0.7350 | 4    | -0.9123 | 4    | -0.7801 | 4    |
| Karnataka       | -0.2359 | 3    | -0.0598 | 3    | 0.3379  | 2    |
| Kerala          | 0.0151  | 2    | 0.8016  | 1    | -0.3855 | 3    |
| Tamil Nadu      | 0.9558  | 1    | 0.1705  | 2    | 0.8278  | 1    |

Source: Basic Statistical Returns - RBI



The above table shows the relatively top position of Tamilnadu. Andhra Pradesh comes at the bottom of the ranking. Kerala and Karnataka can be considered as moderately banked states in south India. In 1995, Kerala ranks first among other states, according to the analysis. It was mainly due to the decrease in the number of people covered per branch and fast increasing deposits. In 2005, Kerala ranked third, among the four states according to the study. The four South Indian States are more or less on equal footing as revealed by the study.

Test of the hypothesis :

Post reform period has witnessed increase in deposit mobilization and credit disbursement. Compound rate of growth of per capita credit and per branch credit has also increased. Credit deposit ratio is also showing increasing tendency recently. Very recently there has been some tendency for deposits to decrease. The compound rate of growth of per capita deposit and per branch deposit came down marginally .The change in the pattern of credit deployment is also not favourable. Thus the results of the study partially validate the hypothesis that the performance of the banking sector in Kerala has improved in the post reform period.

## **Conclusion**

The evaluation of the alterations in the monetary variables can be encapsulated. There has been substantial accretion in the volume of bank deposits in Kerala in the post reform period. The rate of growth of credit in the decade 1995-04 exceeds the rate of growth of credit in the previous period. There has been sizable addition in credit extension in the post reform period. Private and public sector banks are alike in the rate of

growth of credit. The variations in the composition of credit report the shrinkage in the share of agricultural credit and expansion in the share of personal loans. Compared to the situation in 1985 credit deposit ratio is low at present. However there is an increasing tendency of credit deposit ratio in recent times. In the case of Kerala , per capita credit has positive impact on per capita income. There is no reverse relationship between per capita income and per capita credit as proved by causality test.

Compound rate of growth of six important monetary ratios published a picture of general advancement of the banking sector in Kerala. The four southern States in India betrayed little difference in their achievements based on the monetary ratios. Among the four States, Tamil Nadu tops the list. Kerala can be considered as belonging to a group of moderately banked states.

The statistical analysis in this chapter substantiates the general perception of good performance by banks in the post reform period even though the changes in certain areas are not satisfactory. The direction of change in the banking sector is appropriate in general. However, the tendency of a fall in the rate of growth of deposit in recent times is not a welcome feature. Likewise the distortions in the pattern of credit allocation have to be corrected before we can ascertain the fact that the banking sector in Kerala has improved in the post reform period.

## Notes and References

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- <sup>1</sup> Oommen M A (1976), "Rise and Growth of Banking in Kerala", Social Scientist Vol 5 , No:3, October, PP.24 to 26