

**TRENDS IN FINANCIAL  
INTERMEDIATION BY THE BANKING  
SYSTEM IN KERALA:  
AN ANALYSIS IN THE CONTEXT OF THE GROWTH  
TRENDS IN THE STATE'S ECONOMY**

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for the award of the Degree of Doctor of Philosophy in Economics  
under the faculty of Social Sciences by*

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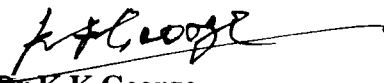
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## CERTIFICATE

*Certified that the thesis entitled “ Trends in Financial Intermediation by the Banking System in Kerala: An Analysis in the Context of the Growth Trends in the State’s Economy” , is a record of bonafide research carried out by Philip M P under my supervision . The thesis is worth submitting for the degree of Doctor of Philosophy in Economics.*



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# CHAPTER 1

## INTRODUCTION

It is well recognised in the literature that the financial system<sup>1</sup> plays a critical role in the process of economic growth (Goldsmith, 1969, McKinnon, 1973, Shaw, 1973). The role of the financial system as a facilitating factor for growth essentially stems from one of its basic functions-: mobilisation and allocation of savings brought about through the process of financial intermediation<sup>2</sup> (Bhatia, Rattan and Deena Khatkhate, 1975). Looking at this the other way round, the intermediation process supports increasing capital accumulation through the institutionalisation of savings and investment and as such fosters economic growth.

In the literature there has been a long-standing debate on the direction of causality between the two variables, that is, whether financial development causes higher growth (Supply leading) or vice versa. (Demand following) (Patrick H, 1965, Porter R.C. 1966).<sup>3</sup> Though this issue remains still inconclusive, it has been well recognised and firmly established that the process of financial development and economic growth are closely intertwined and they foster each other in a mutually reinforcing manner; so that the real and financial parts of the economy grow simultaneously (Jung, W S.1988).

While recognizing such propositions, however, there has been a growing perspective that the interlinkages between the two processes and their co-movement are not as simplistic as proposed by the received theory. As per the limitations imposed by spacio-temporal specificities, the nature and degree of relation between the two would get diverged from the conventional wisdom (Chandavarkar A, 1992, Cho and Khatkhate, 1989). Received theory, though it recognised the possibilities of such departures and contradictions, has shown a tendency to downplay its significance in theoretical framework and policy formulation.

As an alternative, country/region-specific or issue specific research is being suggested for drawing better lessons on financial sector development and on its relationship with economic growth and thus evolving an appropriate policy menu to address the pressing financial and development problems of any country. Such a research has much relevance in a multi regional economy like India, noted for higher degree of heterogeneity in socio-

economic development among the regions. Besides, the country has adopted financial sector reforms since the early '90s. The theoretical underpinnings of the reforms, as is noted by some writers, are essentially the preconceived notions of financial development, noted for their narrow base (Williamson, 2000, Chandrasekhar C P and Ghosh, J 2002). They are perceived to be less accommodative of spacio-temporal differences (Shetty S L, 1997, Ram Mohan T T, 2002). Being so, region-specific, issue-specific studies may help to evolve broad-based and inclusive financial policies and thereby make correction, if needed, in the present reform policy.

Keeping the above in view, an attempt is made in the proposed study to address the nature and role of financial intermediation in economic development in a regional context i.e., the State of Kerala in the Indian Union. It is done by examining the trends in financial intermediation by the banking system, particularly the Scheduled Commercial Banks (SCBs), the dominant player in the financial system in the State as well as the country, against the backdrop of its real economy.

## **1.1 THE PROBLEM**

Kerala seems to have a historical tradition of banking. The banking intensity in the State was much higher than in the country even during the early years. Thus among the Provinces and States of India prior to independence, the erst-while Princely States of Travancore and Cochin in the present State of Kerala had the smallest average number of people served by a bank office. The range of area served by an office of a commercial bank was also the lowest (GOI, 1953). The role of the banking system in financial intermediation seems to be evenly matched between deposit mobilization and credit disbursal as reflected in higher Credit-Deposit (C-D) ratio<sup>4</sup>. The ratio was estimated to be more than 80 percent in 1935 (Oommen MA, 1976).

The historical lead that Kerala had in financial infrastructure development could be explained, to some extent, in terms of commercialisation of agriculture and growth of trade. It seems that the region has experienced buoyancy in its productive sectors during the pre-independence period as well as during the immediate decades succeeding it<sup>5</sup>. The better banking sector growth when looked against the State's economic growth may lead one to suggest the existence of a symbiotic relationship between banking and productive sectors of



the State's economy. The State's real economy and the banking sector during the earlier period seem to have infused energy to each other.

Though the gap in banking infrastructure development between Kerala and all India got narrowed down over the years, the historically better position of the State in banking infrastructure still continues. In the average number of offices per lakh population, the position of Kerala is much ahead of All-India. The trends in the financial intermediation as reflected in the C-D ratio, however, shows divergence from the historical experience. Having remained reasonably high till the late '80s, the C-D ratio of the banking system in Kerala has fallen drastically since then and reached a very low level. Thus from more than 60 percent during the late '80s, the C-D ratio of the Scheduled Commercial Banks (SCBs) in Kerala has fallen to a palpably low level of around 40 percent during the early years of the present decade.

Given the significance of C-D ratio as a measure indicating how the banks do undertake their intermediating role and thereby contribute to economic growth, the falling C-D ratio in Kerala draws our attention and raises the question: What brought the C-D ratio down or where it has happened? Also, what does it imply to the State?

The decline in the C-D ratio of the SCB system that the State witnessed over the years is to some extent an all India phenomenon. The experience of the State, however, stands out in some respects. The C-D ratio in Kerala which was relatively higher than that of India during most of the years in the '70s and '80s, turned out to be trailing behind the all India since then. The gap between the two got widened over the years. Compared to all India, the phenomenon of falling C-D ratio has started relatively earlier in Kerala and has been much sharper in the State. The steadier and much steeper fall in the ratio in Kerala, as against the all India situation, signifies some state specific factors, apart from the national economic policies in the making up of the receding C-D ratio in Kerala.

Juxtaposing the trend of the C-D ratio against the economic performance of the State, it is found that as against the historical experience of the better C-D ratio coinciding with fairly good economic growth, there took place a situation of higher C-D ratio coinciding with rather poor growth of the economy during the '70s and '80s and the reverse of that i.e.; the falling C-D ratio, coinciding with better economic growth since the late '80s. Low C-D ratio, being indicative of poor banking intermediation and vice versa, this

divergent growth behaviour between banking and economic variables raises serious concerns regarding the role of banks in the State's development. Though higher C-D ratio suggests better mobilization of financial savings in the form of bank deposits, it contradicts the notion of increased banking activity in the form of more credit deployment coinciding with buoyancy in economic performance. The low C-D ratio, prima facie, indicates asymmetric financial intermediation by the banking system in the State. Also, the lack of correspondence between banking and economic variables, in its turn, may tend one to doubt whether a drift in the relationship between banking and economic variables is taking place in the State.

Admittedly, the phenomenon of falling C-D ratio and its low level has attracted much attention in the State. It has raked a series of debates and public discussions in which banking authorities and political leaders/activists took part actively. Consequently, divergent views have been aired; allegations and counter allegations followed. Two broad perspectives, however, came out of these. While one view attributes the problem of falling C-D ratio entirely to the State's lack of development efforts and poor investment climate, the other finds fault with the banking system operating in the State. The SCB system is accused of meting out discriminatory treatment towards the State. Their operations in the State, is blamed of undermining the developmental efforts in the State and helps only to funnel resources to other regions/States. Such contradictory positions of the issue still continue.

It is often pointed out that the C-D ratio does not provide a complete picture of the extent of resources deployed by banks in a particular geographical area as it excludes investment in government securities and marketable instruments in a State. The credit plus investment deposits (C+I: D) ratio<sup>6</sup>, which takes into account such investments along with credit disbursement by the banking system also, however, shows a falling trend in the State over the years. It has now reached a low value.

Another noteworthy aspect in this regard is that the organised financial intermediaries other than SCBs, which operate in the State's financial system like co-operative banking institutions, All India Financial Institutions (AIFIS), too have shown progressive deceleration in their credit disbursement. C-D ratio is made up of credit as well as deposits and is reflective of two-way banking intermediation. The ratio falls when deposits increase at a rate higher than that of credit or the credit falls at a rate higher than that of the

former. Hence, to understand the issue, two questions are to be answered. What is the pace of their relative movements? What made the deposits grow or what made credit grow unmatching with deposits? Prima facie, lower credit absorption capacity or lower demand for credit will lead to this.

Answers to these questions, from *a priori* understanding, rest with the structure and composition of deposits and credit. The trend, pattern and composition of credit and deposits in turn are reflective of the level, pattern and composition of investment in the economy. All these are to be mirrored in the growth and structure of the economy. Hence, answers to the asymmetric intermediation by the banking system in Kerala as reflected in their falling C-D ratio would lead one to explore the growth and structural changes in the banking infrastructure, its deposits mobilisation, credit disbursal and its interlink to the developments in the State's economy. Given the interlinkages-complementary as well as competitive- the commercial banking system may have with other intermediaries and instruments in the financial sector, it may also lead one to enquire the linkages that the former have with other players in the financial system. Thus an understanding of the process of the intermediation by the financial system as a whole and its links to the development process is required to understand the issue of C-D ratio. Hence, in the present study, we propose an analysis on these lines. We are left with very little systematic information on the intermediating functions other than those of the banking intermediaries and therefore have confined the analysis mainly to banking intermediation and its links to economic growth. The approach will be one which takes into account the over all Indian context, in which the Kerala experience is embedded, for the specificities of Kerala highlighted will be important and meaningful only if considered within the over all Indian economy. An analysis of this nature may broaden and deepen our understanding of the State's development experience.

While conducting the enquiry, we will try to give answers to queries like; what is the nature of the phenomenon of falling C-D ratio and the emerging financial intermediation by the banking system in Kerala? How and where does the fall in the C-D ratio take place? Whether Kerala's situation is different from that of India? If it is different, how and why it is so? Has it got something to do with the peculiar pattern of Kerala's development often referred to as the Kerala model of development?

## **1.2 REVIEW OF LITERATURE**

### **1.2.1 Theoretical Perspectives**

The issue of the relationship between financial development and economic growth has extensively been dealt with in the literature (Gurley and Shaw 1960, 1955, Cameron 1967, Minsky 1967, Patrick H T 1966, Goldsmith 1969, McKinnon R.I, 1973, Townsend 1983, King R G and R. Levine 1993, Pagano 1993). Theoretical discussions on the nature of the relation between financial development and economic growth have postulated a positive relation between the two; increase in financial intermediation accompanies growth. Regarding the sequence, a two-way relation between financial development and economic growth is identified (Berthelemy, J C and A.Varoudakis, 1996). On the manner in which the financial sector facilitates growth, essentially three ways are identified: (1) by providing the savers with different varieties of financial assets to meet their diverse preferences, it enables them to increase their savings, (2) by transferring finance to ultimate borrowers it raises investment and, (3) by bringing about a better allocation of investment, the productivity of capital is improved. While the financial sector favours growth through the mobilisation and allocation of savings, the process of economic growth stimulates and encourages higher participation in the financial markets, which promotes the creation and expansion of financial institutions (Greenwood J, and B Jovanovic 1990).

At the policy level, there emerged two divergent views on the type of institutional framework that is required to achieve better financial intermediation. The financial liberalisation literature, the dominant line of thinking between these two, underlies the significance of market forces is bringing about efficiency in the credit system and thereby its allocative functions (Fry M J, 1988,1982, World Bank, 1989). Asymmetries in financial intermediation or unevenness in financial development between regions is assumed away for the reasons of overall allocative efficiency that the free play of the market forces would bring in. The lower use of credit in an area, it is hypothesised, would be compensated by better use of credit in other region/s where the returns of capital are high (Capiro, G.I Atiyas and J Hanson, 1994).

The alternative view of financial intermediation, called 'financial repression' in the literature, has brought the problem of asymmetric financial intermediation to the fore. It has doubted the efficacy of the market as a mechanism to achieve comprehensive development

and advocated government intervention in financial/ banking system for its better developmental effects- allocative as well as distributional. Studies of these sort stressed the need to take cognizance of a number of factors such as the historical base in financial sector development in different regions, the policies and programmes to reduce regional disparities and their effects, the profiles of agriculture, industrial and infrastructural development in various regions/states, etc to understand the issue of disparity in the growth of financial infrastructure and asymmetric financial intermediation (Khatkhate, Deena 1998). Credit allocation should be deliberate rather than market- driven (Raj K.N, 1974)

Having discussed briefly some of the broad theoretical issues on financial development and economic development, let us now turn to some of the empirical studies related to them. Indeed, the theoretical formulations on the nature of relationship between financial and economic development mentioned above were based on the corroborative evidence from numerous empirical studies. The praxis context of many of those studies, particularly of the financial liberalisation literature, being advanced capitalist countries, and that too being in a national framework, they may not be a valid characterization in the Indian context particularly in the setting of a region like Kerala, whose model of development has been rather unique.

### 1.2.2 Empirical Studies

The hypothesis of the positive relation between financial intermediation and economic growth was put to test empirically in the context of the African Countries by Bhatia, Rattan J. and Deena R. Kharthakhate (1975). For many of the African Countries, no definitive relationship between financial intermediation and growth could be discerned. The probable reasons for its absence were attributed to the alternative fiscal technology or leakage of savings or market imperfections thwarting productive enterprises. Among the three, the last one is found to be more probable. The study seems to be supportive of one of the commonly shared views on financial intermediation that though necessary, it is not a sufficient condition for growth and development.

Documenting the historical evolution of the Bank of Nova Scotia during 1880-1910, the uneven financial intermediation in the form of lower credit deployment in relation to deposit mobilisation by the banking intermediary in a multi- regional context was highlighted by James D Frost (1985). The Bank of Nova Scotia that was begun as a

regional bank in one of the Maritimes provinces in Canada by the early 30's of the 19<sup>th</sup> century got transformed into a national financial institution by the first decade of the 20th century by setting up branches outside the region. Having assumed the national character, the intermediating role of the bank in the region had turned out to be asymmetric – deposits exceeding loans. For the bank, the Province became an area of surplus savings and enormous sums of money were drained away from the region. However, people in the region resorted to local banks for their credit needs. Thought it was for commercial considerations, that the regional bank expanded its operations in other regions, over the years, it became detrimental to the interests of the region. The ‘concentration and centralization of capital and industry’ that was taking place in the central parts of Canada was identified to be an important factor for such an evolution.

#### *1.2.2.1 Studies at All India Level*

Coming to the Indian context, All-India Rural Credit Survey (RBI 1954) had brought out the higher degree of unevenness in financial infrastructure development and resultant financial intermediation among States/regions as a serious case of concern. Modern banking institutions were found to be concentrated more in commercial and business centers like Bombay, Calcutta and Madras. Region-wise, their presence was found more in central and southern regions. Sector-wise examination of the credit structure showed very little involvement of the formal institutions-co-operative as well as commercial banks – in the agricultural sector. The informal segment, despite its exploitative nature, was identified to be playing a prominent role in the overall credit system. As against all-India, Travancore and Cochin had been cited as regions noted for higher involvement of formal institutions in rural credit. Historical factors as well as structural pattern of the regional economy like commercialisation of agriculture and trade were identified to be the facilitating factors for this. The next survey on similar line by RBI titled ‘All India Rural Debt and Investment Survey, 1961-62 reestablished the higher degree of inequality among regions in credit availability and credit outstanding (RBI 1965).

The subsequent decennial All India Debt and Investment Surveys of RBI, respectively for the years 1971-72 and 1981-82 showed the decline in the importance of informal segment in overall credit structure( RBI, 1977, 1987). However, they were still prevalent to be reckoned with. Though the degree of unevenness in the use of institutional credit among regions had come down, these surveys pointed out the continuation of the

problem so as to be attended to. Considering the country as a whole, the credit use was found to be much ahead in States like Maharashtra and Gujarat-two States whose overall economic performance was much ahead of all-India average. In almost all these studies Kerala along with the other southern States is identified as a region enjoying higher degree of banking intermediation.

Other important institutional level studies, namely Organisational Framework for the Implementation of Social Objectives-Report of the Study Group of National Credit Council (RBI, 1969), Report of the Banking Commission (RBI, 1972), Report of the Committee on Functioning of Public Sector Banks (RBI, 1978), Report of the Committee to Review the Working of the Monetary System (RBI, 1985), A Review of the Agricultural Credit System in India-Report of the Agricultural Credit Review Committee, RBI, 1989) also pointed out the unbalanced growth of the credit system between regions and sectors. The organizational unpreparedness of the banking system was highlighted to be a key factor explaining its failure to meet the social objectives of banking in the form of regional evenness and balanced economic growth. Qualitative changes in the mode as well as manner of financial intermediation were highlighted to realize the social objectives of banking.

The Narasimham Committee report (RBI) 1991, which ushered in banking reforms in the country since then brought forth the inefficiency of the credit system. The higher social orientation as well as increased political (Government) intervention was identified as factors contributing to inefficiency. Instead of financial repression, progressive financial liberalisation was advocated as the policy plank. International standard of sound banking was advocated to be followed by the banking system in the country.

Various committee reports and surveys, which examined the credit system, highlighted unevenness in financial intermediation. It was manifested in poor credit deployment or credit use region-wise and economic sector wise. In the context of the declining trend of C-D ratio in the late '80s, RBI (1992) conducted an enquiry on the status of C-D ratio of SCBs in India. It identified the improvement in the ratio in the relatively backward States like Madhya Pradesh and Bihar during the post-nationalisation period. It had attributed the lagging behind of undeveloped regions and States in C-D ratio to the relative backwardness in regard to infrastructural development and general inadequacy of their credit absorptive capacity. Direct loans to institutions engaged in infrastructural development, higher quotas of market borrowing for less developed States, establishment of

special infrastructural corporation for the eastern region, directing entrepreneurs to set up units in poor region, diversion of public sector undertakings deposits to less developed regions, bank headquarters in underdeveloped States etc. have been suggested to resolve the issue.

Coming to studies by individual scholars, Basu (1979), while analysing agricultural credit in 283 selected districts for the year 1973, found that there were wide variations across the States with regard to the growth of bank offices and per hectare credit to agriculture. The inter district disparity measured in terms of coefficient of variation was very high. The major share of bank credit in 1973 went to Maharashtra and West Bengal. Within these two States, Bombay and Calcutta availed of the bulk of the loans, which showed that the degree of urbanisation has been a determining factor influencing the regional disparity in the intensity of credit operations of commercial banks. Even the C-D ratio continued to have wide regional divergence. It ranged from 7 to 245 percent with a coefficient of variation of 98 percent. The study also sought to trace the determinants of the regional disparity of the agricultural credit by using regression method and found that certain banking, institutional and productivity variables are responsible for this variation. He found that in quite a number of States, the bulk of the agricultural credit goes to finance the plantations. But, even after deducting for plantation credit, Tamil Nadu, Kerala and Maharashtra, accounted for a good share.

Kannan (1987) constructed an index of banking development using the factor analysis technique for three time points, 1969, 1975 and 1985. The analysis was supplemented by estimating the economic distance between regions. It was found that there is no significant variation in the ranking pattern of States for the period 1969 to 1975, although there was a substantial reduction in disparities from 1975 to 1985. The industrially backward States of MP, Jammu, and Kashmir, Bihar, Assam, and Orissa had a low banking index, while Punjab, Maharashtra, Kerala, and Gujarat were well developed. The three main indicators that were used in the analysis were the population per bank office, per capita credit and per capita deposits.

Binswanger, Hans P.S Khandker and M R Rosenzweig (1993) examined the impact of the flow of commercial credit to agriculture. The study used data from 85 randomly drawn districts of India covering the period 1960-61 to 1981-82 and showed that the expansion of commercial bank branches accelerated the pace of agricultural investment.



Availability of banks is found to be an important determinant of fertilizer demand and aggregate crop output.

Using data for 1965-78, Eastwood R and Kohli(1999) has looked at the effect of directed credit on small scale industry. The bank credit channeled to small firms seem to have raised their investment appreciably. The study, however, identified severe financial constraints in the case of the small scale industrial sector. Ajit D and R.D Bangar(1997) looked at the issue for later years and suggested that the financial constraints continued to exist.

The trends in credit deployment by industry, bank groups, by rural and urban areas and by States over the 7-years of the post reform era were examined by D. Narayana (2000). The post-reform banking trends are found slowly reversing the trend of the two decades since bank nationalisation. In the deployment of commercial bank credit, serious regional and sectoral inequalities are identified in the post-reform years. There has taken place a drastic reallocation of total commercial bank credit from poor agricultural States to Delhi, Maharashtra, and Tamilnadu. The new private banks and foreign banks are found to be increasing their presence in areas with banking habits and in the emerging business of financing personal and professional services.

The EPW Research Foundation (2004) has undertaken a stock taking of the progress made by scheduled commercial banks over the 30-year period since 1972. The analysis has found that in the post- reform years, the banking system has faltered in their traditional developmental role of savings mobilisation and provision of productive credit. The study noted the decline in rural branches, persistence of inter-regional disparities, fall in priority sector lending, fall in credit of smaller size and credit to informal sectors.

Using such a long period data S.L.Shetty (2005) has examined banking performance in the pre and post reform periods and has brought out the emerging, regional, sectoral and functional distribution of bank credit. The study noted the departure from supply based banking development. The study emphasized the importance of promoting financial intermediation by spreading branch networks, mobilizing savings and bringing about better regional, sectoral and functional reach of institutional credit in the country.

Pallavi Chavan (2005) has analysed the regional distribution of rural banking in India between 1975 and 2002. Liberalisation of the banking sector in the 1990s is found to

have weakened the link between commercial banks and rural areas. The credit to output ratio for agriculture during the 1980s showed steep rise. A reverse trend was noted in the '90s. There also took place a fall in rural C-D ratio. The decelerating tendency in rural credit and also the declining C-D ratio was felt more in historically unbanked States from the Northeastern, Eastern and Central regions. States of Maharashtra and Punjab emerged as major gainers in terms of the share of total rural credit advanced. Banking sector liberalisation seems to have reversed the process of balanced regional development of the rural banking.

Apart these, there exists a host of studies at individual level that shed light on unbalanced financial intermediation. The incidence of inequality within States has been pointed out to be a major cause for lower credit absorption. The difference in infrastructural development and social and demographic indicators of development like literacy, life expectancy, etc; is pointed out to have a strong bearing on the evolution of the credit system.

Studies at the individual level, generally speaking, seem to be restricted in their scope, for their discussion is confined to the role of banking in the growth of a particular segment of the economy such as industry or agriculture.

#### *1.2.2.2 Kerala's Experience*

Though there are numerous studies on the unique development experience of Kerala, studies focusing on the financial sector development are few.

One of the pioneering studies in this regard is the Travancore Banking Enquiry Committee report of the Government of Travancore, dated 1930. The report made reference to the ancient financial institution, namely chitty or kuri, that existed in the northern taluks of Travancore and the metamorphosis from 'Grain banks' of old, run by indigenous bankers of central Travancore to modern joint-stock bankers. It was the profitable use of surplus funds that led to the formation of many joint stock banks. The contribution of banks to the financing of agriculture was found to be significant during the decades of the 1920s.

The Travancore-Cochin Banking Enquiry Committee Report (Government of India, 1956) in the post-independence period traced the development of banking in the two regions of Travancore and Cochin. It inquired into the role played by the banks incorporated in the region in financing economic activities such as agriculture, industry, commerce and trade.

According to this study, the average number of people per bank office, in the Travancore-Cochin region was the smallest in the whole of India. It was also noted that the banks in the region had penetrated into the rural areas.

Oommen (1976) made an attempt to trace the early history of banking in Travancore and Cochin. He offered some explanatory hypotheses about the nature and pattern of the growth of banking in the region. The community or sectarian origin of ownership, the rural area bias, over extension of credit, and predominance of small accounts were identified as the salient features of banking in the region. The spatial concentration of banking in Tiruvalla and Trichur too was observed.

T. T. Sreekumar (1995) examined the origins of the co-operative movement of Travancore and found a chaotic existence of it in the initial years. The study also deals with the history of the system of government directly participating in credit and found the final collapse of it by 1940. Considering the two cases of state intervention in the final credit market, one direct through the system of providing agricultural loans and the other indirect through the establishment of the co-operative movement, he argues that the inability of the government to cope with the sharp social and economic divisions in the peasant society has been among others, a fundamental reason for the failure of these institutions.

The Kerala State Planning Board (GOK, 1982) made an effort to understand the performance of commercial banks in Kerala after nationalisation. This study was confined to a quantitative assessment of the performance of nationalised banks, and looked at the mobilisation of deposits, trends in credit expansion, and the sectoral distribution of bank advances. Even though the number of bank offices in the State was more even than in other States, some districts like Malappuram, and Idukki lacked banking infrastructure. Ernakulam was found to be the best banked district in the State followed closely by Trivandrum. It accounted for 22 percent of the deposits and 30 percent of the credit disbursed in the State. Idukki, Malappuram and Palakkad were way behind.

Ram Babu (1996) examined the inter regional disparities in banking development in Kerala in the context of regional variation in economic development of the State. The banking development in Kerala from the beginning of the present century has been characterised by a widening of the differences between northern and southern Kerala. It has been pointed out that faster commercialisation, infrastructure development and greater

degree of urbanisation contributed to better banking development in southern Kerala. To understand the factors responsible, he undertook an inter district analysis of banking performance in the State for the period 1985 to 1993. While Ernakulam, Qulion, Trivandrum and Kottayam came out as the most advanced in terms of banking development, Idukki (in southern Kerala) and the northern Districts show a relatively poor performance. The study also examined the structure of SCB deposits and credit. Compared to the earlier studies, it is more dynamic in approach. Along with commercialisation, the influence of foreign remittance is highlighted to be an important factor explaining dynamism in Kerala's commercial banking system. While examining SCB credit, the study pointed out the increasing dominance of tertiary sector in credit.

A task force with D D Avari as chairman examined the issue of the falling C-D ratio of scheduled commercial banks in Kerala (Canara Bank, 1994). Among other things, it recommended 1. to expand small agricultural loans, 2. to bring about better co-operation between various government departments and banks, 3. to formulate a composite loan policy for financing homestead farming, 4. to create a conducive investment climate, 5. to extend credit in a big way to areas like agriculture marketing, food processing, tourism, housing, education and infrastructural facilities and 6. the government to evolve schemes for tying up non-resident deposits with productive ventures. The study was noted for its data gap as well as normative approach.

The issue of low C-D ratio was dealt at individual level by Narayana D (2003). The study underlined the smaller size of credit and the much small flow of credit to industry as the explanation for the low C -D ratio. The study was based on a single year data and it discussed only the credit side of the issue.

Yet another individual attempt is the one made by Jeromi P.D. (2003). The study has brought out the relatively lower growth of credit deployment in the State during the '90s. Lower credit absorption capacity, as reflected in lower per capita credit and credit per account in the State is suggested to be the major reasons for lower credit growth.

Jeromi P. D (2005) has analysed the issues relating to agricultural credit in Kerala against the backdrop of the performance of the agricultural sector. The study finds that the outreach of formal financial institutions for providing agricultural credit is relatively high in the State, the loans issued for agriculture and allied activities by financial institutions are

fairly good. The size of agricultural credit, however, is small. The structure of loans to agriculture shows the higher significance of short-term loans. The study identifies considerable credit potential in the agricultural sector, implying lower degree of intermediation by the commercial and co-operative banks in the agricultural sector.

Sunanda (1991) in her study on the institutional agencies for agricultural credit in Kerala reviews the socio-economic background of the origin and growth of banks in Kerala. While discussing the agricultural credit disbursed by these institutions, she highlighted the prevailing interdistrict disparity. Using principal component analysis, she found that in per hectare credit, Ernakulam and Trichur stood highest while Palakkad ranked the lowest in the State.

Though the financial sector per se was given relatively less attention in the context of Kerala, the development experience of Kerala, as noted before, has aroused considerable interest and debate in recent years as the region exhibits the paradoxical feature of social development and economic backwardness, hailed as the Kerala model (Nair 1997, Krishnan 1996, Dreze and Sen 1996, Franke and Chasis 1982, CDS 1975). Attention has also been given to the sustainability of the model in the wake of prolonged economic stagnation, growth in unemployment and fiscal crisis (Balakrishnan, P 1999, George K.K 1996, 1999, Oommen M.A 1993, Subrahmanian K.K 1990, Kannan K.P 1990) Besides the prevalent resource-endowment explanation, one of the emerging views on the development crisis of the State is that the structure of the regional economy is narrowly based and this acts as a cause as well as consequence of much of the dilemma in the development process of the State. It has also been suggested that in order to get a comprehensive understanding of the development crisis, the problem should be addressed against the socio-economic background of the State in the pre- as well as the immediate post-independence period.

Recent discussion on the growth experience of Kerala has portrayed a 'turnaround' in the State's economic growth (Chakraborty, A 2005, Kannan K P, 2005, Subrahmanian and Azeez, 2000, Harilal and Joseph, 2000). The State's earlier achievements in education and health are pointed out to be factors contributing to it. However, there are alarming warns to be cautious of interpreting the 'turnaround'. Also, doubt has been raised regarding the continuation of the growth process, particularly against the background of mounting unemployment (Oommen M A, 2005).

From the brief review attempted above, it could be seen that though there exists theoretical discussions providing insights into the problem, empirical studies pertaining to the issue, particularly in the case of Kerala, is highly inadequate. The available studies on the banking system in the region are less comprehensive and less revealing of the present day developments. Even those later studies that focus on the issue have stopped short of explaining the structural link between the banking and real sectors of the economy. The dynamic forces of supply and demand in commercial banking development and their interlinkages to the whole credit system within the State and within the country are not adequately discussed to get a comprehensive understanding of the issue. The present study attempts to fill this gap in the development literature of Kerala. The discussion may be conducted in such a way that the links between the two broad processes-of the development of the banking sector on the one hand, and of the economic processes on the other-may be looked at all through. Such an attempt which gives an analytical description of the development in the banking system will explore how it facilitates the process of economic development and is expected to provide further insights into the issue of sustainability of Kerala's development experience discussed widely at present.

### **1.3 OBJECTIVES OF THE STUDY**

Broadly, the objective of the study is to explore the interrelationship between financial intermediation and economic growth in Kerala. In order to pursue this objective, we will examine:-

1. the trends in intermediation by the banking system in Kerala over a long period
2. the trend and pattern of bank deposits and credit in the State
3. the trend in the growth and performance of financial intermediaries like the All India Financial Institutions
4. the trend and pattern of Kerala's economic growth
5. the links between banking and economic variables, and
6. the difference in the growth trends of banking and economic variables between Kerala and India and the probable reasons for the difference.

## **1.4 METHODOLOGY AND DATA SOURCE**

The purpose of the study, as noted before, is to provide an analytical description of the interrelationship between banking and economic variables. Being exploratory in nature, the study did not have any specific hypothesis to begin with.

To capture the links between financial intermediation and economic growth, the long term growth trends of banking variables and economic variables at an aggregate and very disaggregated levels are traced out. The analysis is carried out in a comparative framework in the sense that the trends of the banking and economic variables in Kerala are traced over time and juxtaposed against the all India situation. The growth trends of the banking variables are also being compared with that of the trends in the non-banking financial intermediaries.

The study is conducted in a historical context. In order to arrive at a comprehensive framework for analysis, the study will try to weave together the existing literature on economic development, particularly in the context of Kerala. To provide the empirical support for the analysis, secondary sources of data are used. The major sources for banking data is the Basic Statistical Returns (BSR), published by the Reserve Bank of India (RBI). Other important sources of banking data include Statistical Tables Relating to Banks in India and Report on Currency and Finance, both published by the Reserve Bank of India; the Statistical Statements Relating to the Co-operative Movement in India and the Handbook on Co-operative Movement in Kerala, published by National Bank for Agriculture and Rural Development (NABARD), RBI and Registrar of Co-operative societies, Government of Kerala (GOK) respectively. Information on banking intermediaries is also availed of from State Level Banker's Committee Reports.

Data on All India Financial Institutions is taken from the Report on Development Banking in India published by Industrial Development Bank India (IDBI). We have also availed of the information from Annual Reports of National Savings Organization, Government of India and the Annual Reports, Kerala State Financial Enterprises, Limited, Government of Kerala. In addition to these, macro economic data from Central Statistical Organization, GOI, Census of India, and State level economic data from the publications of the Government of Kerala like Kerala Economic Review, Statistics for Planning, etc. are made use of.

The period taken for the analysis is the 32 years from 1972-73 to 2002-03. The choice of 1972 as the initial year is due to the fact that our main source of data, the Basic Statistical Returns (BSR), giving detailed information on banking performance on a uniform basis came to be published only from this year. Data on bank advances as per the State of utilisation or by industrial categories came to be collected for the first time only from 1972 through BSR. Only simple statistical methods are used.

To analyse the growth behaviour of the variables, mainly the exponential growth rate is used<sup>7</sup>. We estimate the annual growth rates by fitting a semi-log ( $\ln Y_t = a + bt + e$ ) trend. The regression coefficient  $b$  yields an estimate of the compound growth rate.

## 1.5 CHAPTER SCHEME

The study is divided into seven Chapters including this introductory chapter. Chapter two traces the historical evolution of the banking infrastructure in Kerala. The historical review is done so as to provide a comprehensive framework for the subsequent analysis.

Chapter three examines the trends in financial intermediation by the scheduled commercial banking system in Kerala during the post- bank nationalisation period. Kerala's situation is compared with the All-India situation. State-wise, population-wise and bank-wise details of the C-D ratio are spelt out here. The performance of the SCBs is compared with that of the Co-operative banking system. Also, the growth trends of these two banking intermediaries are compared with those of the All-India Financial Institutions ( AIFIs ) consisting mainly of Development Banks.

Chapter four begins with an analysis of the overall performance of the Kerala economy. The intermediation trends of the banking system is looked against the backdrop of the State's economy, so as to identify the nature and character of the relationship between the banking and economic variables at the aggregate level. It is followed by an analysis of the broad sectoral characteristics of the SCB deposits and credit on the one hand and the State domestic product on the other. This chapter also looks at the rural, semi urban and urban characteristics of SCB deposits and credit.

Chapter five analyses the credit structure in a further disaggregated manner and identifies some of the important factors in the making up of the pattern of credit to different sub sectors of the State's economy in the context of their performance. Chapter six attempts



district wise analysis of the banking intermediation trends. Chapter seven brings together the major findings of the study.

## **1.6 LIMITATIONS**

The scope of the analysis, mainly due to the inadequacy of data, is restricted to intermediation by the banking system; the entire financial system is not covered. Even with regard to the banking data, there exists considerable gap. The economic activity-wise information available is largely related to the credit part of financial intermediation; very little on the deposits side. Hence the sector and sub sector wise analysis of the links between banking and economic variables is largely confined to bank credit. Further, there is definitional differences between the data provided by the banking system and National Accounts Statistics (NAS) at the disaggregate level. So the two sets of variables do not conform exactly at the sub-sectoral level.

## End Notes

1. *Financial system of a country consists of financial institutions, markets instruments and services, which facilitate the transfer of funds. Financial institutions range from the informal types comprising pawnshops, money lenders, chitties etc to the formal ones made up of banks, pension funds, insurance companies, brokerage houses, investment trusts and stock exchanges. Financial instruments range from deposits, cheques, credit cards, bonds and stocks to the more exotic-futures, swaps etc of high finance. Markets for these instruments may be organised formally or informally. The informal institutions and markets of finance, it is expected to get eclipsed as economies grow. Depending on the relative significance of capital market or the banking sector in the overall financial system in an economy, two broad institutional possibilities i.e. capital market based system and the bank-based system are identified in the literature. The capital market-based systems are generally characterised by highly developed capital markets with widely dispersed ownership of equity and debt instruments and relatively lower involvement of banks in either allocation of funds or the ownership of financial assets as in Anglo-American line. The bank-based systems, by contrast, are characterised by the dominance of banks in the financial system. The latter is broadly of two types. One is characterised by a small number of universal banks that are actively involved in the long-term financing of investment activity of the non-financial system as found in Germany. The second is the State -directed credit -based system where the government participates actively in allocating credit as found in France and Japan. (Gerschenkron, A 1962, Zysman J 1983). The financial systems found in India and many of the developing countries including the Newly Industrialised Countries (NICs) broadly come under this category.*
2. *The financial system provides payment services, mobilize savings and allocate credit. They also limit, price, pool and trade the risks resulting from these activities. These diverse services are used in varying combinations by households, businesses and governments. Though a financial system's contribution to the economy depends upon the quantity and quality of its various services and the efficiency with which it provides them, its function as a conduit of resources from savers to investors acts as central to the development process.*
3. *The 'demand- following' hypothesis suggests a pattern of high economic growth leading to the emergence of more developed financial systems with a wide range of*

- financial instruments, financial assets and transactions; a reverse relation has been suggested by the 'supply- leading' hypothesis. Such theorizing led to two approaches: 'supply- leading approach' and 'demand- following approach' to financial development. According to the former, financial development appears as a consequence of the development of the real sector, which implies continued expansion of markets and growing product differentiation, thus acquiring more efficient risk diversification and better control of transaction cost. This type of financial development thus plays a rather passive role in the growth process. Conversely, supply -leading financial development precedes the demands for financial services and can have an autonomous impact on growth. Its role is essentially to mobilize resources blocked in the traditional sector to transfer them to the modern sector that is capable of promoting growth and to ensure that they are used to finance the most dynamic projects.*
4. *C-D ratio, by definition, is the ratio of total advances granted by banks to the total deposits mobilised, expressed in percentage. This indicates the extent of total advances made by the banking system directly to the customers out of the total deposits mobilised and is considered a simple and a useful concept to measure the extent of deployment of credit relative to the deposits mobilised . Being so, it is quite reflective of the nature of financial intermediation also.*
  5. *The percapita Net Domestic Product (at constant 1970-710 prices) of Kerala (Rs. 460) was a little higher than the all- India average (Rs. 446) in the early fifties (Albin, Alice 1990). Further, Kerala's per capita manufacturing product was significantly higher (Rs. 48) than all India average (Rs. 37) in 1950 (Issac and Tharakan, 1986).*
  6. *Investments that are included in the Credit plus Investment (C+I) ratio are those done by the banking system in State government securities, State undertakings, investment in share capital of State-based companies, investment in co-operatives, bonds issued by local bodies, etc.*
  7. *Let  $Y = ABt$  where  $B = 1 + r$ , and  $r$  is the compound growth rate of  $Y$ . When the equation is estimated with  $\ln Y$  as the dependent variable, we obtain an estimate  $\hat{b}$  for  $\ln B$ . The antilog of  $\hat{b}$  minus 1 yields an estimate for the compound growth rate i.e.;  $r$ .*

## CHAPTER 2

# EVOLUTION OF KERALA'S BANKING SECTOR: A HISTORICAL REVIEW

In this chapter, we attempt to highlight the essential features of the historical evolution of Kerala's banking sector from the early 20<sup>th</sup> century till the nationalisation of the major commercial banks in 1969. The discussion is organised in two sections. Section One begins with a brief sketch of the growth trends of indigenous non-banking financial intermediaries, mainly chitties. This is followed by a description of the historical growth trends of the commercial banking system and some of its important features. Finally, a brief note on the historical evolution of the co-operative banking system is also made. Section Two attempts to identify some of the important socio-economic factors that contributed to the emergence of the commercial banking system during the period.

The recapturing of the historical aspects attempted here, given the paucity of the required type of data and the existence of numerous gaps in the information available, is done by piecing together the fragmented data on the State's financial sector available in published materials. They include mainly Travancore Banking Enquiry Committee Report, (Government of Travancore, hereafter GOT, 1930), Report of the Travancore–Cochin Banking Inquiry Commission, (Government of India, hereafter GOI, 1956), All India Rural Credit Survey, (RBI-1954a), Banking and Monetary Statistics of India, (RBI-1954b), Statistical Tables Relating to Banks in India, (RBI- various years) and Travancore State Manual by T K Velu Pillai, (1940). We had relied extensively on the pioneering work of M.A Oommen (1976) namely the "Rise and Growth of Banking in Kerala".

Even though Kerala is more or less a homogeneous unit in the linguistic and ethnic sense<sup>1</sup>, it constituted three separate political entities till 1947: the Princely States of Travancore and Cochin and the Malabar District of the erstwhile Madras Presidency of British India<sup>2</sup>. After India became independent, as part of the all-India plan for abolishing princely States, Travancore and Cochin were integrated in 1949 into a single State. Later in

1956, consequent on the reorganization of States on linguistic basis, Malabar was added on to it. A few taluks at the south extreme part of the region were taken away from Travancore-Cochin to form the present State of Kerala<sup>3</sup>. Hence for any historical analysis of Kerala, it is essential to study, the evolutionary processes in these three regions separately and with equal importance. A caveat, however, needs to be added here. The sources of information that is made use of in the discussion, particularly till the formation of the State, are pertaining largely to Travancore-Cochin region and relatively less to Malabar. This is mainly due to reasons of data availability. Hence our discussion on historical developments till 1956 would mainly be set against the background of the Travancore- Cochin region.

Though administratively the Princely States were distinct entities, they were economically integrated with the rest of the colonial India. The banking system evolved separately in the region constituted an integral component of the all-India banking system. After independence, the banking system got further integrated with the national banking network and the national banking policies and programmes got reflected in the banking development of the region. In short, the regional character of banking development, gave way to national character increasingly.

## **Section 2.1**

In the discussion on institutional innovations in the form of modern commercial banks in India, the significance of institutional antecedents like usurious moneylenders and indigenous bankers is well recognised. In fact, these institutions antedate, by many hundreds of years the western type of banking institutions, which were introduced into India with the second half of 18<sup>th</sup> century. They constituted the most important group of financial intermediaries during the pre-independence period (Goldsmith, 1983, P.25). The emergence of modern banks, to a considerable extent, is perceived to be a continuum of such institutional legacies. Being so, we shall proceed with our discussion here with a glance at such antecedents of banking institutions in the State.

### **2.1.1 MONEY LENDERS**

Literature on Kerala's economic history pointedly refers to the fact that unlike in some other parts of India, all the three units-Travancore, Cochin and Malabar- were devoid of caste based professional moneylenders in early times. There was no indigenous commercial caste, which specialized in usury, such as Chettiars and Banias operating in

other parts of the country. (Government of Travancore, hereafter GOT, 1930, p.157 –158; Prakash Karat, 1973, p.33) In the absence of such a class, the money lending operations in the Travancore-Cochin region were carried out by a section of landlords and rich peasants<sup>4</sup> (Nagam Aiyah, 1906). The Travancore Banking Enquiry Committee (hereafter TBEC) which made one of the earliest attempts to furnish consolidated statistics regarding the financial institutions prevalent in the State however found that there were 264 prominent money lenders functioning in the region, during the late '20s of the last century (GOT, 1930, p.24)

Besides them, the hundi merchants from the neighbouring Tinnevely district in the Madras Presidency also engaged in money lending activities . during the period under consideration (T. K Velu Pillai, 1940. p. 653). They started operations in the State from the beginning of the 19<sup>th</sup> century and could be found in all-important trading centers in the State in the late 19<sup>th</sup> as well as the early 20<sup>th</sup> century.

### **2.1.2 CHIT FUNDS<sup>5</sup>**

The earliest and most popular forms of money mobilizing and credit providing enterprise in the State was chitti/kuri--a deposits- advance- lottery combine (GOI, 1956). The chit funds in these regions arose before communication facilities were developed, when the villages had to be largely self-supporting (GOI, 1930, vol. 1, para. 481). The antiquity of these institutions had been referred to by Logan in his “Manual of the Malabar District” and Sim Cox in his “Primitive Civilizations”<sup>6</sup>.

The chit fund system, as it originated, was in the form of grain or ‘Dhanya Chitti’. It witnessed significant changes in its form, nature of foreman and pattern of subscribers over the years. Along with increased monetization of the economy, money chits replaced grain chits. Similarly, the earliest form of chit business was based on the system of lot, and this gave way to auction<sup>7</sup>, as many members in a group were in need of money at the same time. The occupation pattern of the clientele of the chitties shows that along with agriculturists, other categories like traders, and salary earners also turned to the chitties in a big way in course of time (Nayar CPS, 1973, p.5).

Another noteworthy development is that institutional foremen such as partnership firms, private limited companies, co-operative societies and joint-stock banks emerged which reduced the significance of individual foreman. With the advent of institutional

foreman, the chitty lost its local character and became a modern business requiring entrepreneurial skill and financial acumen. Consequent on this and various other developments, the chitty business spread by leaps and bounds in the first half of the last century, particularly since the end of the First World War (ibid, p. 6-7).

As can be seen from table 2.1, a total number of 2982 chitties were registered in Travancore during 1918-1922. The total capital of these chitties was estimated at Rs. 75 lakhs. At the end of 1928-29, there were 9931 live chitties involving a total capital of Rs. 236 lakhs in Travancore; the average number of chitties registered annually in the 1920s was 1300. Besides these registered chitties, there were innumerable small chitties with capital below Rs. 100 that did not require registration. There were also chitties, which distributed silver vessels, ornaments, furniture etc as prize in lieu of money (GOT, 1930, P. 160).

**Table 2-1** Number of Chitties in Travancore, 1918-22 to 1935-36

Year	No. of chitties registered each year	No. of chitties working at the end of each year	Total capital (Rs. in lakhs)
1918-22	2982		75
1922-23	913		11
1923-24	1037		14
1924-25	1048		15
1925-26	1291		24
1926-27	1445		37
1927-28	1656		45
1928-29	1625	9931	236
1929-30	1388	10735	247
1930-31	524	10289	258
1931-32	294	9254	262
1932-33	284	8418	265
1933-34	339	7667	146
1934-35	272	6944	125
1935-36	35	6228	86

**Note:** The total amount collected from the subscribers of the chit fund in one installment is the capital of the Chit fund. For years up to 1928-29, the total capital relates to number of Chitties registered annually only.

**Source:**

1. For years up to 1928-29: TBEER (1930), op. cit, pp 160
2. For years from 1929-30 to 1935-36, Velu Pillai (1940), pp 655

The chit business in the region witnessed a downswing in the number of registrations and business turnover during the '30s (Velu Pillai, p. 640). The world depression might have been one of the reasons. The falling trend of it continued till the early '40s. Since 1942, the chitty business showed reviving tendency. The trend in Cochin during the period also was more or less similar to that of Travancore. The decline during more than one decade since the early '30s was partly due to general economic depression that prevailed in the area during the period. The entry of other financial institutions in the form of commercial and co-operative banks, insurance companies, etc., might have played a role. By 1948-49, the number of registered chitties and kuries functioning in Travancore and Cochin was estimated to be about 3000 (Nayar CPS, 1973, p 161).

During the more than one and a half decade between the formation of Kerala State and the late '60s, the number of registration of chitties and kuries showed more or less a steady increase. The yearly registration increased from 695 in 1957-58 to 1530 in 1968-69. The number of working chitties rose from 3889 to 6062 during the corresponding years. Similarly, the capital of working chitties, which was Rs. 171.3 lakhs at the end of 1957-58 rose to Rs. 788.2 lakhs at the end of 1968-69. The annual turnover of all working chitties in 1968-69 in Kerala was about Rs.94.6 crores (ibid p.161-165).

### **2.1.3 EMERGENCE OF COMMERCIAL BANKS**

Having been organised on a small scale in the early days of their emergence, the chitties and kuries found themselves incapable of meeting the large financial needs of the community. As a result, in the normal process of social and economic growth, other forms of financial agencies emerged in the region by the fag end of the 19<sup>th</sup> century. Some of the chitties themselves assumed new institutional forms like joint-stock banks. This changeover is brought out in a brief but telling reference made by the TCBE, 1956. To quote, " Most of the banks in Travancore-Cochin have grown out of the womb of chit and kuri funds that have been operating in the State since ancient times. The subscription paid by the members of these funds are analogous to the deposits that are kept with the banks and the prize amounts distributed resemble the advances made by the commercial banking institutions. From such an institution, the transition to a modern form of banking was an easy step as the latter conferred certain advantages on the person, that is, the foreman who conducted the business of chitty " (GOI, 1956, p.25). Not only that several banks developed out of chitties, but also the chitties continued as important means of deposit mobilisation . This is evident



from the fact that as many as 166 banks were conducting kuries in Travancore-Cochin during the thirties<sup>8</sup>. Along with chitties, some of the indigenous banks also assumed modern institutional forms like joint-stock banks (ibid 1930, p.31)

### **2.1.3.1 Early Attempts**

The Travancore Bank, started in Central Travancore by Eapen, a vakil (pleader) by profession, of the Kandathil family, in 1893, is recorded to be the earliest organised commercial bank established in Kerala. It was a partnership firm with a paid-up capital of Rs. 15000. After about eight years of operation, this banking enterprise got liquidated in 1900 (Oommen, 1976, p.27). In the early 1890s itself, one T.C. Poonen started a bank in Kottayam, but that too did not prosper (Jeffrey, 1976, p.201).

The Travancore region witnessed the setting up of two banks during the early years of the 20<sup>th</sup> century: The Thayyil Bank, a partnership started by K. I. Cherian of the Kandathil family and a joint-stock bank called Thiruvalla Bank started by M. Paulose of Chalakuzhyil family<sup>9</sup>. The Thiruvalla Bank founded in 1900 was the first joint-stock bank in Travancore and Cochin areas. Having operated successfully for more than a decade, it was wound up (Jeffrey, p.201). These initial efforts in banking business were subsequently emulated by other enterprising people. The growth momentum during these years, however, was very slow. Thus when the new Companies Regulation of 1917 was passed, there were only 5 banks in existence in Travancore, (GOI, 1930, p.31). Before the end of the decade, 10 more private joint-stock banks were registered in Travancore. In the Cochin State, the first joint stock commercial bank was started only in 1914. But it too had five joint stock commercial banks by 1917 on par with Travancore (Sunanda S, 1991).

### **2.1.3.2 Growth Since The First World War**

The growth trend of the formation of new banking companies that was steady and slow in the initial one and a half decades of the 20<sup>th</sup> century picked up momentum after the First World War. As could be seen from Table 2.2, the number of joint-stock banks in Travancore shot up from 5 in 1917-18 to 275 in 1932-33. The number of banks registered in Cochin also increased substantially during the corresponding years; from 5 to 167.

**Table 2-2** Number of Joint-Stock Banks Registered in Travancore and Cochin, 1917-18 to 1946-47

Year	Number	
	Travancore	Cochin
1917-18	5	5
1919-20	35	5
1924-25	36	
1925-26	43	
1927-28	120	
1929-30	256	
1930-31	257	
1931-32	268	162
1932-33	275	167
1933-34	267	162
1934-35	252	
1935-36	245	
1936-37	241	155
1937-38	247	144
1938-39	221	122
1939-40	186	111
1941-42	138	90
1942-43	117	84
1943-44	114	84
1944-45	109	84
1946-47	108	82

**Source:**

1. Oommen, M.A (1976). Table 1, Page 26.
2. Travancore-Cochin Banking Inquiry Commission 1956, PP. 18-19.

Though there had been burgeoning in the number of banks during these years, a particularly powerful increase in the number of banks could be seen between 1927 and 1930. Even though the forces of World Depression set in by 1930, the growth in the number of banks still continued and reached the peak in 1932-33. In both the regions, this upward trend, however, was followed by a decline in the number of banks since then. In the initial years of this declining phase, the fall was less sharp. As noted by TCBIC, “Even though the profitability of the existing banking concerns was adversely affected during the period of World Depression, as that of the other economic activities, their earnings were not crucially affected so as to result in their liquidation on a large scale” (GOI, 1956).

A large number of banks, however, were wiped out since the mid-'30s. The number of new banks floated is found to be few since the end of the second half of the '30s. This along with the larger number of bank failures that took place since the mid-'30s, resulted in a much sharper fall in the number of banks during the period following the late '30s and the trend continued throughout the '40s and '50s. Similar, trend in the growth of the number of banks is found in Cochin too.

The fall in the growth of banks, during the second half of the '30s, coincided with the enactment of the Banking Regulation Act, 1938 in Travancore and the Royal Proclamation, 1937 of the Cochin State to govern the various aspects of commercial banking business. These regulations were meant to put a break on the haphazard growth of commercial banks that the region experienced during the late 20's and the early 30's. Among other things, the regulation in Travancore included the one prohibiting the banks from conducting chitties.

### **2.1.3.3 Growth in Malabar**

The Nedungadi Bank, founded at Calicut in 1899 by Appu Nedungadi, a barrister by profession, was the earliest bank to be established in the Malabar region. In fact, it was the first joint-stock bank to be started in Kerala. Though this bank was set up in 1899, it got registered as a joint-stock company only in 1913 (Ram Babu, 1996). The first bank to be registered in Malabar was Chalapuram Bank Ltd. in 1906, followed by Calicut Bank Ltd., in 1908.

We do not have comparable statistics regarding the number of joint-stock banks registered in Malabar for the period covered above for Travancore and Cochin. Some information on another banking indicator ie; the number of bank offices in the three regions, however, is available. To get an understanding of the comparable situation in Malabar, Travancore and Cochin, we give below the number of commercial bank offices (see table 2.3). As the Table indicates, the number of bank offices in Travancore and Cochin had been well ahead of Malabar throughout the period since the mid-'20s and the gap got widened since the '40s, indicating much higher growth in the former two regions.

**Table 2-3** Number of Commercial Bank Offices: Region- Wise, 1916-1952

Year	Travancore	Cochin	Malabar	All-India
1916	2	2	4	292
1921	5	7	6	526
1926	9	9	5	646
1931	23	14	9	748
1936	96	32	45	1233
1941	55	51	55	2296
1946	250	124	89	5373
1947	279	141	87	4404
1948	301	162	87	4287
1949	300	161	82	4082
1950	335	176	80	3969
1951	363	180	81	3808
1952	353	184	79	3699

**Note:** Upto 1936, offices of only class A and class B banks are considered. Since then, bank offices of class C banks also are included. Further, in the case of class A banks, offices situated in places with population less than 50000 is not considered. Banks with paid-up capital and reserves of Rs. 5 lakhs and over are termed class A banks; Banks with paid-up capital and reserves of Rs. 1 lakh and over but less than 5 lakhs are termed class B banks; Banks with paid-up capital and reserves of Rs. 50000 and over less than 1 lakh are termed as class C banks.

**Source:** RBI 1954 b

It could also be seen from the table that the expansion of bank offices had been larger since the late '30s. Interestingly, these were the years during which the region witnessed a sharp fall in the number of commercial banks. The fall in the number of banks during the period, coinciding with the increase in bank offices, may indicate the branch expansion of the surviving banks.

The growth trend shown above as well as the uneven growth of the banking infrastructure between the two regions could be further established with the information on banking density furnished in table 2.4. The margin between Travancore- Cochin and Malabar in banking offices per lakh people increased over the years.

**Table 2-4** Number of Commercial Bank Offices per lakh of population

Region	Year						
	1921	1926	1931	1936	1941	1946	1951
<b>Travancore-Cochin</b>	0.24	0.32	0.57	2.18	1.28	4.49	5.64
<b>Malabar</b>	0.19	0.14	0.23	1.08	1.32	1.88	1.43

Source: RBI, 1954 b

### **2.1.3.4 Unique Experience**

The growth of banking business in Travancore and Cochin was well ahead not only of Malabar but also of other Provinces and regions. According to the TBEC Report (1930), during 1929-30, Travancore alone accounted for about one-fifth of the total number of banks then existing in the combined area of erstwhile British India and Travancore together. Further, in the range of area and population served by an office of a commercial bank, Travancore-Cochin had been credited with the highest position at the time of Independence. The average area served by an office of a commercial bank in Travancore-Cochin in December 1949 was 18 square miles as against 222 for the country as a whole and the average population served by a commercial bank was 16000 as against 65000 for the country as a whole (GOI, 1953). Here it may also be noted that around 1936, the population served by joint-stock banks in Travancore was about 185000 against 276000 in India as a whole (including Pakistan) and 7900 for USA and 20000 for France (Muranjan S. K, 1952, P.56, Oommen, 1976, p.24). Further, on 31 March 1953, Trichur, a small town in the erstwhile Cochin region, had the second largest number of registered offices (19); the first being Calcutta (21).

The relatively better banking development of the region can also be seen from the fact that the proportion of families (cultivating as well as non-cultivating), borrowing from commercial banks in 1951-52 was the highest in the Quilon district of Travancore-Cochin among the 75 districts chosen for the All-India Rural Credit Survey Report (hereafter AIRCSR) (RBI, 1957, AIRCSR, Vol.1, part 2, pp.644-645). While 8.3 percent of the families borrowed from commercial banks in Travancore-Cochin, the corresponding percentage in Malabar was only 1.6. Further, as against the share of commercial bank credit (1.1percent) of the total credit of an average borrowed family at all-India; the corresponding

share was 6.1 percent in Travancore- Cochin. The corresponding share in Malabar, was only 0.6 percent. The average amount of credit from commercial bank per family, too, was higher in Travancore-Cochin. While it was only Rs.1.8 in All-India, the corresponding amount in Travancore-Cochin was Rs. 13.

#### **2.1.4 SALIENT FEATURES**

##### **2.1.4.1 Unit Banks**

The banking system, which developed in the regions of Travancore and Cochin, was mainly of the unit banking type. Thus in 1933, the two regions had about 400 banks (with registered offices within the regions), but with less than 100 branches. But since the early '40s, there took place considerable branch expansion. According to TCBE (1956), as many as 235 branches were opened during the period between 1941 and 1947 in Travancore. Thus what started as unit banking gave way increasingly to branch banking. However, even in 1955, out of the then existing 571 banking offices in Travancore-Cochin together, 67 were still unit banks (GOI, 1956).

##### **2.1.4.2 Very Few Big Banks**

Majority of the banking institutions emerged during these years were small in size; only a few of them could be called big. (Oommen, 1976 p.28) Thus out of 35 banks in 1919-20 in Travancore, only 2 (i.e., 5.71 percent) had paid up capital above Rs. 100,000. The paid up capital of 7 banks (i.e., 20 percent) was even below Rs.5000. Their number had become 69, (ie; 29 percent) in 1933-34, when the number of banks was as high as 452. There were 11 banks with paid up capital even below Rs. 2000 during these years. Only seven banks (2.75 percent) had paid up capital above Rs.100,000. Even though the number of tiny and small banks came down over the years their presence was quite significant even in the immediate post-independence period. In 1950-51, out of the 116 banks, only 23 ie; 20 percent had invested capital above Rs.100,000. The situation in Cochin was not much different. Out of the total 81 banks, only 22 (27 percent) had invested capital above one lakh rupees there (ibid p.13).

When the Reserve Bank of India was established in 1933, only two Travancore banks –the Travancore National Bank and the Quilon Bank -were classified as scheduled banks<sup>10</sup> in Travancore. These two banks were amalgamated in September 1937, to form the Travancore National and Quilon Bank Ltd. (TNQBL). This was the biggest locally owned

private bank in the State. It reached the first position in having the largest number of branch offices in India and third in the volume of business. Besides branches in Travancore-Cochin, the bank had 24 other branches, of which 16 were in British India and 3 in Ceylon. This giant in the region's banking sector during the pre-independence period, however, went into liquidation in September 1938, soon after amalgamation (Koshy, 1975, Mathen C.P. 1951). The sudden liquidation of this bank also contributed, in its own way, to the disappearance of a large number of banks during the period. This incident had a ricocheting effect on the banking business as the general confidence of the depositors in them was severely shaken. Following this, many small and medium sized banks, had been wound up or liquidated in Travancore as well as in Cochin (GOI, 1956).

In 1940, five scheduled banks operated in Kerala. They were Nedungadi Bank (Kozhikode), Palai Central Bank (Kottayam, 1927), South Indian Bank (Trichur, 1929), Travancore Forward Bank (Kottayam, 1929) and Indo- Mercantile Bank (Cochin, 1937). There were also a few banks, which were non- scheduled but which had more than Rs. 500000 as share capital. As on 31<sup>st</sup> May 1956, according to TCBEC, out of the total number of 163 banks operating in Travancore-Cochin, 18 were scheduled banks.

An interesting aspect of the scheduled banks was that the majority (13 out of 18) of them were incorporated outside the State. Out of the 148 banks incorporated within the State, the number of scheduled banks was only 5 even in 1955. It is also significant to note that the Travancore Bank, registered on 12<sup>th</sup> September 1945, after the disappearance of TNQB in 1938, emerged as an important bank of local origin within a short time. Its growth was fairly rapid and its only major competitor in the State during the period was Palai Central Bank.

### **2.1.4.3 Sectarian Characteristics**

Another noteworthy aspect of the genesis of modern banking in Travancore and Cochin was that many of the banks were either "personality" banks or "family banks", that is to say, banks started and built up by a single individual sufficiently enterprising or by a family. Further, many of the early banks were founded by one community i.e., the Christians. In fact, they dominated the field for several years. The lead of the Christians prompted several other communities to enter the field in later years (GOI, 1956). The community bias of the early banks was evident in the names of the banks themselves. . For

instance there were many banks with nomenclature associated with a particular sect or religion such as the Catholic Syrian Bank Ltd, The Catholic Oriental Bank Ltd, The Cochin Nayar Bank Ltd, The Chaldean Syrian Bank Ltd etc. In this context, it may also be noted that several leading Christian families had comparatively higher stakes in the banking business<sup>11</sup>.

#### **2.1.4.4 Spreading of Banks**

Literature on banking development in the nineteenth and early twentieth century India indicates that the banks at the national level originated first in port towns and that there had been a heavy concentration of them in major cities and commercial centers like Bombay, Calcutta and Madras. As against this general pattern, banks in Travancore were initially started in the agrarian hinterland such as Thiruvalla, Thalavadi, Chengannur, Kozhencherry, Kottayam, Palai, etc. In fact, there was a spatial concentration of banking at Thiruvalla in Travancore. But in Cochin, the commercial and industrial areas were the cradles of earlier banks and it was only later that branches were opened in the rural areas. A heavy concentration of banking institutions could be found in the towns of Thrisur, Cochin and Ernakulam in Cochin State. In 1947, these 3 towns accounted for two-thirds of the total number of banks in Cochin (Oommen, 1976 p. 33). Interestingly, as noted before, in 1953, Trichur had the second highest number of registered offices of commercial banks in India.

In Malabar, the banking activity was virtually confined to urban and semi-urban areas with very little spreading over to rural areas. The difference in the location pattern of the banking development among the three regions can further be shown with the following table.



**Table 2-5** Population -wise Distribution of Commercial Bank Offices in Travancore, Cochin and Malabar

(per cent)

Year	Travancore			Cochin			Malabar		
	Urban	Semi-urban	Rural	Urban	Semi-urban	Rural	Urban	Semi-urban	Rural
1936	44.79	36.46	18.75	90.63	9.38	0.00	40.00	48.89	11.11
1941	43.64	41.82	14.55	72.55	23.53	3.92	30.91	60.00	9.09
1946	35.60	38.40	26.00	62.90	25.81	11.29	43.82	51.69	4.49
1947	31.54	40.86	27.60	58.87	29.08	12.06	40.23	55.17	4.60
1948	30.90	39.53	29.57	59.26	27.78	12.96	39.08	55.17	5.75
1949	30.00	40.00	30.00	60.25	27.33	12.42	36.59	56.10	7.32
1950	25.97	41.79	32.24	57.95	28.98	13.07	37.50	56.25	6.25
1951	24.52	42.70	32.78	56.67	30.56	12.78	37.04	55.56	7.41
1952	25.21	42.78	32.01	57.07	30.43	12.50	35.44	56.96	7.59

**Notes:** Urban: areas with population higher than 50000 per square miles; Semi-urban: population higher than 10000 but less than 50,000; and Rural: population less than 10,000. The table above gives data excluding banks other than Class A, B and C banks.

**Source:** RBI 1954

As the Table indicates, the urban category accounts for the highest share in Cochin throughout the period. Compared to the other two regions, the proportion of bank offices in urban areas is much higher in Cochin. As against this, the semi-urban category accounts for the highest share in Travancore and Malabar. Between the two regions, the share of semi-urban areas is much more in Malabar. Among the three regions, Travancore had the lead in the share of rural branches throughout the period. The share of rural branches increased over the years in both Travancore and Cochin, as against the decline of it in Malabar.

In this connection, it is worthwhile to mention that it is the banks incorporated outside the State including exchange banks, which were mostly scheduled banks and bigger in size, which played a dominant role in the port towns—Cochin, Alleppey, etc<sup>12</sup> - as well as in other important urban centers.

#### **2.1.4.5 Higher Credit Deposit (C-D) Ratio**

There is very little data on the trend in banking deposits as well as advances in the regions during the pre-independence period. In the absence of such data, the TCBE (1956)

utilised banking statistics as on the 31 December 1955 as an indicator, not only for that particular date, but also for a few years prior to it, of the role that the banks were playing in the State. According to it, the total deposits of all the banks functioning in the Travancore-Cochin State at their offices within the State were about Rs. 37.37 crores. The total advances stood at Rs. 22.74 crores forming 61 percent of the deposits in the State. This ratio was marginally higher (61.5) when all the banks incorporated in Travancore-Cochin were considered. In the case of medium and small banks, within this group, the ratio was very much above than this i.e., 75.1 and 84.2 respectively. The above ratio was the one after 1949 when the Reserve Bank imposed strict control over the pattern and distribution of assets. Oommen (1976) finds that in Travancore-Cochin the C-D ratio of scheduled commercial banks in 1937 was as high as 81 percent as against 58 percent in the country as a whole. It was still higher (97 percent) for non-scheduled banks.

#### **2.1.4.6 *Small-Man's Banks***

From the available evidence, it can be inferred that as against the prevailing standards, the banking institutions in the region received deposits from small savers and gave credit to small peasants and traders. Even as late as 1955, when a large number of the minor banks got wiped out, 54 percent of the accounts in the remaining banks were those below Rs.100. If amounts less than Rs.1000 are included as small, the proportion works out to 75 percent of the accounts and over 19 percent of the total amount. The total number of accounts with balances above 1 lakh was only 0.2 percent. With respect to credit, as already noted, the proportion of families depending on commercial bank credit was the highest in Travancore-Cochin. The average borrowing from commercial banks per family, however, had been only Rs.161 (RBI, 1957). A significant percentage of borrowers with a low average amount borrowed, evidently, is indicative of the banking system reaching a much lower stratum-mass banking-in the region at an earlier period than elsewhere. Looking differently, this would also signify that the region did not have large size borrowers during the period.

### **2.1.5 *COMMERCIAL BANKING DEVELOPMENT: 1956 TO 1969***

#### **2.1.5.1 *Process of Consolidation and Integration***

The process of consolidation of the commercial banking system, which began during the late '30s and continued progressively thereafter, got further impetus during the decade

following 1956. Thus the earlier trend of the decline in the number of banks continued while the number of branches per bank tended to increase. The fall in the number of banks and branch expansion that Kerala experienced during the '50s and '60s was largely in conformity with the all-India trends. During the post-independence period, the RBI followed a rather conservative policy towards opening of new banks. The emphasis, during the period, was on consolidation and strengthening of the banking system rather than on expansion, as bank failures/closures were recurring phenomena prior to independence. The uncontrolled floatation of banks by private individuals was found to be a major cause for such large-scale failures. Given the prevalence of a large number of banking institutions in Kerala, of which majority were small, the impact of the RBI policy, as is to be expected, could be felt more in the region.

As it may be seen from table 2.6, there had been 129 commercial banks registered in the State in 1956. Their number declined to 97 in 1960 and further to 10 by 1965.

**Table 2-6** Number of Commercial Banks Registered; Kerala and All- India, 1956 – 1965

Year	Indian Scheduled Banks (A1)		Indian Non-Scheduled Banks (A2)		Total Indian Commercial Banks (A1+A2+B+C+D)	
	Kerala	India	Kerala	India	Kerala	India
1956	6	72	14	58	129	405
1958	7	77	12	45	113	357
1959	6	78	14	39	107	342
1960	5	77	15	38	97	329
1961	3	67	12	32	84	276
1962	3	66	10	30	84	262
1964	3	60	18	80	21	140
1965	3	61	7	33	10	94

Source: RBI, Statistical Tables Relating to Banks in India, Various issues

At all-India level, the number had come down from 405 to 329 and further to 94 during these years. Compared to all-India situation, the number of banks in Kerala during the year under consideration was still much higher. The disproportionately higher share of Kerala was due to the presence of small non-scheduled banks- class B, C and D banks. Since large number of such banks got disappeared in the subsequent years, the number of

banks registered in Kerala had declined to 10 in 1965. However, since banks registered in other States had also been functioning in the State, and their number increased over the years, the actual number of banks functioning in the State was much more than this. Thus out of the total 89 commercial banks in the country as a whole, 28 were operating in Kerala during 1969 (see Table 2.7).

**Table 2-7** Number of Commercial Banks Operating in Kerala, 1966-1969

Year	No. of banks operating Kerala	Branches per Bank Kerala	Population per office in '000	
			Kerala	All-India
1966	30	18	36	76
1967	28	19	37	73
1968	27	21	35	69
1969	28	23	32	60

Source: Same as Table 2.6

Also, the fall in the number of banks coincided with increase in bank offices; indicative of the furtherance of branch banking. Offices per bank, which were less than 10 during the early '60s, became more than 23 in 1969. Population per commercial bank office, which was more than 50,000 in 1960 fell to 32,000 in 1969. The corresponding figures for the country was 60,000.

The decline in the number of banks in the State, as elsewhere in India, was on account of merger/amalgamation of smaller/weaker banks with larger/stronger ones. The period was also noted for higher incidence of bank failures/closures. Further there were instances of compulsory liquidation. Apart from these reasons, the classification of many banks as non-banking companies by RBI also contributed to the fall in number to a great extent.

Thus during the year 1962, when 8 banks were amalgamated with other banks (6 with the State Bank of India), 15 had been classified as non-bank finance companies in Kerala. Not only small banks, but relatively larger ones too had been wound up during these years. A typical case for the latter can be found with the liquidation of Palai Central Bank<sup>13</sup>- a medium-sized scheduled bank- in December 1960.

Another noteworthy feature of the banking development during the period under consideration was the decline in the number of Non-Scheduled Commercial Banks (NSCBs) indicating greater degree of control of the RBI on the banking sector in India. Thus there were 474 non-scheduled commercial banks in the country in 1951, but they had become rather negligible by 1969 (See table 2.8). In 1969, of the 16 NSCBs existing for the country as whole, half of them were from Kerala.

**Table 2-8** General Banking Trends in India, 1951-1969  
(number)

	1951	1961		1969	
	All-India	Kerala	All-India	Kerala	All-India
<b>No. of Commercial banks</b>	566	84	292	31	89
<b>Scheduled</b>	92	17	82	23	73
<b>Non-scheduled</b>	474	67	210	8	16

Source: RBI, Trend and Progress of Banking in India, various issues

### 2.1.5.2 Better C-D Ratio Continues

Table 2.9 shows the C-D ratio of commercial banking system during the second half of the fifties. Compared to all India, Kerala had better C-D ratio.

**Table 2-9** Category- Wise C- D Ratio of Commercial Banks,  
Kerala and All-India, 1956-1960

(per cent)

Year	Kerala					India				
	Class A1-SCBs	Class A2-Non SCBs	Class B-Non SCBs	Class C-Non SCBs	Total	Class A1-SCBs	Class A2-Non SCBs	Class B-Non SCBs	Class C-Non SCBs	Total
1956	52.01	64.43	65.70	75.59	58.42	55.81	49.75	61.39	77.69	55.70
1957	52.79	69.15	64.69	74.83	58.41	51.17	64.82	61.92	89.10	51.64
1958	52.15	64.09	61.17	74.83	56.35	46.04	60.59	60.34	71.86	46.46
1959	51.45	57.25	65.64	72.73	54.85	43.62	57.74	62.20	70.13	44.05
1960	58.35	65.65	64.03	69.87	61.67	53.07	51.33	61.88	68.98	53.16

Source: Same as Table 2.6

We do not have comparable data on C-D ratio of the commercial banking system as a whole for the '60s. But some information on the C-D ratio of SCBs alone is available which is provided in table 2.10. The table shows increase in C-D ratio in the sixties than in the fifties for both Kerala and India. The C-D ratio kept on increasing for both Kerala and India. Compared to the fifties, the value of the ratio in the State is lower than for the country, but the gap between the two got reduced by 1968 and 1969.

**Table 2-10** Scheduled Commercial Bank Deposits, Credit and C- D Ratio: Kerala and all-India

Year	Kerala (Amount Rs. Lakhs)		Credit- Deposit Ratio ( Per cent)	
	Deposits	Credit	Kerala	All India
1964	8046	4934	61.32	68.79
1965	9428	5724	60.71	69.41
1966	11148	6626	59.44	67.97
1967	11862	7107	59.91	69.46
1968	13038	8634	66.22	70.68
1969	15272	10514	68.84	72.19

Source: Same as Table 2.7

Data on pre capita SCB deposits as well as credit given in table 2.11 shows relatively lower values of both for Kerala. Compared to deposits, SCB credit shows an increasing tendency in the State.

**Table 2-11** Per Capita and Per Office Deposits and Credit of Scheduled Commercial Banks: Kerala and India

Year	Per Capita Deposits		Per Capita Credit		Deposits / Office		Credit/Office	
	Kerala (Rs)	Percentage of Kerala to India	Kerala (Rs)	Percentage of Kerala to India	Kerala (Rs)	Percentage of Kerala to India	Kerala (Rs)	Percentage of Kerala to India
1964	45	76	27.31	68.14	21.23	43.02	13.02	38.35
1965	51	79	30.99	69.54	24.36	47.17	14.79	41.26
1966	58	80	34.33	70.11	27.87	49.50	16.57	43.28
1967	60	78	35.91	67.16	29.22	50.33	17.50	43.42
1968	64	76	42.55	70.89	30.61	51.21	20.27	47.98
1969	73	77	50.52	73.01	29.60	50.77	20.38	48.42

Source: Same as Table 2.6

Indeed, Kerala is found to have a relatively higher presence of non-scheduled banks during these years. Their inclusion, given the earlier trend, may make Kerala's position appear better.

From the strands of the above discussion, it can be unambiguously concluded that the region experienced relatively better commercial banking spread during the pre-nationalisation period. The pace of development in the region's banking sector during the half a century since the First World War can be divided into three distinct phases: Phase I extends through the '20s and the early '30s, Phase II covers the thirties and Phase III, the period thereafter up to nationalisation of major commercial banks. During phase I, consisting of more than one decade of the post-World War I period, there took place a rapid growth of Joint Stock Banks as well as chitties. In phase II, there had been a deceleration in their growth. But this had been followed by a revival during phase III. Significantly, during phase III, the system of banking that started out largely as a unit banking type gave way to branch banking. Further, it seems that during the years since the late '30s, the financial market of the region experienced a change-over from an unstructured and chaotic growth phase to a leaner but more efficient and consolidated one. This phase was also characterised by the integration of the State's banking system with the all-India banking system. The period also witnessed the spread of all-India banks in Kerala.

### **2.1.6 THE CO-OPERATIVE CREDIT SYSTEM**

In Kerala, as in other parts of India, the phase of Co-operative credit was started following the Indian Co-operative Credit Societies Act, 1904, the first Act dealing with co-operative societies to be passed in India<sup>14</sup>. Following this Act, the first co-operative society, an agricultural credit society got registered in Kerala in 1904 at Palakkad in Malabar region of the erstwhile Madras Presidency. In Cochin, the first credit society was started in 1913. It was only in November 1915, that the first society was registered in Travancore. Unlike the primary agricultural societies in other regions, it was a secondary organisation, namely the Trivandrum Central Co-operative Bank Ltd which was started in Travancore. Within a year after the inauguration of the central bank, twenty-five primary societies were registered. Eighteen of them were agricultural credit societies, and the rest non-agricultural credit societies. A few Taluk (co-operative) banks also got registered (Velu Pillai. P.676-677).

The initial phase of co-operative movement, however, was beset with enormous problems and was characterised by multifarious tensions and frictions. Thus despite government patronage for the bank and growing public demand for institutional credit, the growth of individual and societal membership of the Trivandrum Central Co-operative bank was tardy in the initial years. Further, the bank failed to tap local resources by attracting deposits from members or from the public; notwithstanding the fact that the interest offered on deposits was tempting enough (Sreekumar T.T, *ibid*, p.16, GOT, 1930, P.126-128). The primary societies too shared such initial inertia. The saving average per member was just Rs. 12 during the early '20s.

From 1925 onwards, however, a mushroom growth in the number of societies and membership took place (see table 2.12). This spurt, however, was interrupted during the global slump and immediately thereafter.

**Table 2-12** Average (3 -Years) Number and Membership of Central Banks and Agricultural Banks, 1926-1928 to 1947-1950.

Year	Travancore			Cochin		
	Central banks	Agricultural banks		Central banks	Agricultural banks	
	Membership (thousand)	Number	Membership (thousand)	Membership (thousand)	Number	Membership (thousand)
1926-1928	518.33	1217	120.00	90.00	112	10.00
1929-1931	656.33	1417	160.67	114.00	125	11.67
1932-1934	696.00	1401	158.00	147.33	137	11.33
1935-1937	713.00	1357	148.33	150.00	128	10.00
1938-1940	676.33	1205	128.33	164.00	128	9.00
1941-1943	626.33	1054	113.33	164.00	111	9.00
1944-1946	827.00	1207	138.00	153.00	105	10.00
1947-1950	1168.00	1329	154.33	221.00	193	18.50

Source: RBI 1954 b

This downswing had been followed by a slow but steady progress of the co-operative movement during World War II and was to continue in the immediate post-independence years. Consequently, the co-operative credit system had acquired a significant place in the State's credit structure.



Having recognised the pivotal role that the co-operative credit institutions can play in rural development in general and agricultural development in particular, efforts have been taken during the planning era to strengthen and develop the system so as to make it an integral part of the rural infrastructure in the country. As a significant step in this regard, an All India Rural Credit Committee<sup>15</sup> was constituted in 1954 to make a detailed review of the agricultural credit situation in India with particular reference to the co-operative credit structure. Compared to the then all-India standards the situation in the State was better. Thus during the early '50s, while the average borrowing by household from co-operatives was found to be 2.9 percentage of their total borrowing at all-India level, the share was 4.3 percent in the Quilon district of Travancore. Here too the position of Malabar was much behind that of Travancore-Cochin; the percentage share being 0.6.

The period since the mid-'50s witnessed a reorganization of the co-operative movement in Kerala on the basis of the recommendation of the all-India Rural Credit Survey. The State government became partner in the co-operative credit societies by making contributions to their share capital.

This Period was crucial for the rural credit in the State as there was a withdrawal of both the non-institutional and commercial banks from the field of rural credit. But because of pyramiding (three tier) financing structure established at this time and also due to the channelising of funds from the Reserve Bank of India, they could maintain their strength and stability (Sunanda, S, 1991).

### **2.1.7 SYSTEM OF DIRECT STATE AGRICULTURAL CREDIT**

There existed direct involvement, apart from the indirect involvement through the co-operative system, noted above by the State in the credit system. As a matter of fact, the practice of distributing advances for agricultural purposes to peasants by the State was prevalent in the region from early period onwards. Several Cadjan records pertaining to the 18<sup>th</sup> century administration of Travancore hold testimony to this (Sreekumar T. T, 1995, p.2). This practice prevailed without any statutory basis but by the promulgation of necessary orders issued by administration from time to time. Following the British-India pattern, legal status (in order to make the scheme effective) was given to the practice in Travancore in 1891 and again in 1919. In 1940, the government completely withdrew from the scheme, after having transferred the work of granting agricultural loans to the

Travancore Credit Bank, established under the Travancore Credit Bank regulation in 1938. In Cochin, the loan operations were practised under a provision of the Agricultural Improvement Loans Act 1918, during the period under consideration (RBI, 1957).

In both the regions, the system could never meet fully the demands for credit due to the paucity of funds. Also, there had been complaints against the scheme that it retreated from its original objective of helping the poor ryots. Further, it had often been pointed out that the time and manner of the disbursement of the loan under the scheme was very unsatisfactory.

Table 2.13, reveals that the amount granted under the scheme was just a few lakhs of rupees. Given the large number of ryots in the region during the period, the allotment, no doubt, was paltry and insufficient. The per head allotment, was only about half an anna during the early 20s and the situation did not change much in the subsequent decades. (T.T. Sreekumar 1995, p.7).

**Table 2-13** Amount Disbursed as Agricultural Loans in Travancore, 1928-29 to 1933-34

Year	Amount (Rs)	Percent increase/decrease over the previous year
1928-29	150015	
1929-30	157518	5
1930-31	287774	82.7
1931-32	389793	35.5
1932-33	353007	-9.4
1933-34	272928	-22.7

**Source:** Sreekumar, T.T (1995) Table2, Page 8.

The virtually negligible role that the Government finance had in the credit spectrum of the State during the period had further been brought out by the All India Rural Credit Survey. According to it, the proportion of families borrowing from Government to the total number of families in the sample area of Travancore-Cochin was 0.3 percent; it was only 0.1 percent in Malabar. The proportion of families borrowing from Government to the total number of borrowing families too was very insignificant; 0.4 percent in Quilon in

Travancore and only 0.2 percent in Malabar. Very strikingly, though the share of families borrowing from Government in Malabar is only half that of Travancore-Cochin, the average borrowing from Government per family borrowing from Government in the former was very much above the latter: Rs. 275 in Malabar as against Rs. 33 in Travancore-Cochin (RBI, 1957, p.91).

Having identified some of the important features of the historical evolution of the State's system during the pre-nationalisation period we may now turn to examine the next logical question: What are the determinants or sources of such an evolution? Examination of this issue is taken up in the next section.

## **Section 2.2**

### **Major Sources of Banking Growth**

The process of banking and other forms of financial sector development are linked to the process of economic development. Hence, while discussing the determinants of the region's banking sector development in this section, it is proposed to delineate the development trajectory of the State and explore how the processes involved in making of it facilitated the growth of the banking sector and vice versa. Analytically, this can be done by exploring how the banking sector evolved to meet the financial needs of the economy and how its function of collecting and allocating of savings i.e., how transferring the excess of income over expenditure from surplus units to deficit units facilitated the real sector to grow. Ideally, this is to be done by examining the evolution of the State's economy as well as its component regions and sectors. But we do not propose to deal with the analysis of the sub-regions/sectors in any detail here. What we would do is to portray the general characteristics of the economy's evolution and explore how they articulated the demands for financial services and how the resultant nature and pattern of growth of the latter in turn contributed to the development of the former.

## **2.2.1 DEVELOPMENT EXPERIENCE DURING THE PRE-BANK NATIONALISATION PERIOD: MAJOR FEATURES**

### **2.2.1.1 High Density of Population**

The State of Kerala, particularly Travancore-Cochin, experienced a rapid growth of population since the turn of the present century. The population of Kerala rose from less than 6.5 million in 1901 to 13.5 million in 1951. As a result, the region had become one of the most densely populated parts of the world. In Travancore- Cochin, the density of population per square mile which was 476 in 1911 rose to 690 in 1921 and further to 1015 in 1951. Significantly, the all India average was only 281 in 1951. If habitable land alone was taken into account, the density in Travancore- Cochin came to 1800 in 1951. The low land area, which was most thickly populated, had a density of 2,448 and in some of the taluks situated there, the density exceeded 2500, while in its many rural areas, the density was more than 4000. The density of population in the Malabar district of Madras province however was not much higher than in the rest of the country, indicative of lower growth rate there compared to Travancore-Cochin (CDS, 1975).

### **2.2.1.2 Predominantly Agrarian**

The economy of the region during the period under consideration was largely agrarian. Primary sector activities like agriculture, fishing, forestry etc. enjoyed commanding position in the economy. The agrarian characteristics of the regional economy during the period under consideration can be gleaned from the sector-wise distribution of State Domestic Product (SDP) given in table 2.14. As the Table shows, the agricultural and allied activities accounted for about 55 percent of SDP during 1955-56.

**Table 2-14** Sectoral Share of Net State Domestic Product in Kerala, 1955-56 to 1968-69

(per cent)

Year	Agriculture	Industry	Service	Total
1955-56	55.23	15.21	29.56	100
1960-61	55.78	15.24	28.98	100
1965-66	50.59	17.83	31.58	100
1968-69	50.66	17.44	31.89	100

Source: Government of Kerala, Statistics For Planning, 1977

The share of this sector remained more than 50 percent even during the late '60s. Needless to say, the share of the sector would have been higher for the years prior to the formation of the State, but we are left with little comparable data on State domestic product to establish that. The available information on sector-wise distribution of labour force, however, can be used as a rough indicator of this. The relevant data is furnished in table 2.15. More than 55 percent of the total work force was engaged in primary sector activities in 1951.

**Table 2-15** Kerala: Sectoral Distribution of the Working Force, 1911 and 1951

(per cent)

Sector	Male Workers		Female Workers	
	1911	1951	1911	1951
Primary	65.1	55.9	56.1	56.8
Secondary	14.3	17.5	27.3	27.3
Tertiary	20.6	26.6	16.6	15.9
All Sectors	100	100	100	100

Source: Centre for Development Studies, 1975, Page-79

The share of agriculture, though it declined over the years, still remained at 50 percent in the early '70s (Jose A.V.1980). It is not only that the primary sector dominated the overall income and employment during the early decades but more significantly it also determined the mould and orientation of the activities in the non-agricultural sectors, which remain more agrarian and traditional.

### **2.2.1.3 Commercialisation and Marketisation of the Agricultural Sector**

As it is well established in the literature on the region's historical development, though there had been regional variation, within agriculture, there was an increasing trend towards commercialisation—the specialisation in commercial perennial crops for sale in the market. Kerala had commercial contacts with foreign countries from very early times (Sreedhara Menon, 1967, Pandian,1990). The crops of the Malabar Coast such as spices and

coconut attracted traders, both inland and foreign, and this in turn stimulated the expansion of the area under such crops and the production thereof. Like most long distance trade of antiquity, however, these dealings did not have much of an impact on the day-to-day economic activities of the people of the region who were engaged in the task of the production of staple food ie. paddy. With the effective domination of the British in the region towards the middle of the 19<sup>th</sup> century and the starting of the plantation economy, the trend towards the cultivation of plantation and other cash crops set in the region (Kurian C T, 1994). Here Travancore had the lead followed by Malabar and Cochin.

State-owned forests, particularly in the highlands, were thrown open to the British in Travancore to set up plantations growing tea, coffee, rubber etc. meant for the world market (Isaac and Tharakan, 1986). Emulating the foreign investment in plantations, increasing area was put to the cultivation of plantation crops by the local people, mainly Syrian Christians. From a mere three plantation companies incorporated in Travancore in 1905, their number rose to 89 in 1945 (Varghese T.C, 1970). Side by side with the expansion of plantations, there was an increase in the cultivation of other crops suited to the soil like pepper, ginger, lemon grass, coconuts, turmeric etc which fetched attractive prices in the world market. Interestingly, this was the effort not so much of large landed proprietors, but of a vigorous peasantry, with smaller holdings of land, eager to improve its lot.

As entrepreneurs were organising plantations in the highlands of Travancore, tendencies of a similar capitalistic nature were working in the inland areas of Travancore. Many enterprising cultivators had begun reclamation<sup>16</sup> through bunding and dewatering of the swamps near the coast, specifically Vembanad Lake, for the cultivation of paddy (Pannikar, P.G.K., et al, 1977). Similar efforts, though on a smaller scale, had also been made in Trichur District in the 'Kole' lands. However, these efforts were not enough to offset the increasing allocation of agricultural resources in favour of non-food crops or the decline in hill cultivation of grains during the late 19<sup>th</sup> as well as the early 20<sup>th</sup> centuries. Though the period of reference is not fully covered, a rough idea of the magnitude of commercial agriculture in Travancore-Cochin and Malabar during the colonial period can be obtained from table 2.16. The Table indicates that of the three regions, Travancore had the highest percentage of area under cash crops during the period between 1910-11 and 1946-47.

**Table 2-16** Total Cropped Area (TCA) and Area under Cash Crops (ACC) in Travancore, Cochin and Malabar, 1910-11 to 1946-47  
(area in thousand acres)

Years	Travancore		Cochin		Malabar	
	TCA	ACC	TCA	ACC	TCA	ACC
1910-11	1527	478(39)	478	86(18)	1387	444(32)
1920-21	1952	899(46)	522	103(20)	1678	572(34)
1930-31	2108	948(45)	550	143(26)	1758	606(34)
1940-41	2374	1004(42)	559	158(28)	1816	667(37)
1946-47	2346	1073(46)	601	152(25)	1817	718(40)

**Note:** Figures in brackets are percentages to total cropped area.

**Source:** Indian Agricultural Statistics, GOI, Various Issues.

Next to Travancore, Malabar had the second place. The relative share in Cochin was much behind the other two regions.

The specialisation in commercial crops continued in the post independence period. Though the emphasis given to regional food self-sufficiency in the country's Five-Year Plans increased the Gross Cropped Area (GCA) under food grains, the area under commercial crops rose even more rapidly so that the proportionate share of the latter in the total Gross Cropped Area continued to increase (Pillai PP, 1994)

Regarding the composition of cash crops, coconut occupied the highest percentage in all the regions, followed by rubber in Travancore-Cochin, and by pepper in Malabar (Ram Babu, 1996). Looking at the phenomena on the basis of geographical divisions, while coconut cultivation rapidly spread in the coastal areas, spices and plantation crops were concentrated in the midlands and high lands. In the post-formation period also, coconut accounts for the largest share in the total area devoted to cash crops. Next to coconut, rubber occupies the second place.

What did lead to the increasing commercialisation of agriculture in the region? The shift to commercial crops, apart from the topographical and ecological characteristics of the region, was a rational response on the part of the cultivators given the foreign trade arrangements then prevailing, expanding international demand for the crops and the

possibility of unrestricted imports of food grains at favourable terms of trade (Pannikar PGK and Pillai V.K. 1965, Pannikar P.G.K. et al, 1977). The process was also facilitated by the agrarian structure that evolved in Travancore and Cochin. Consequent on the tenancy reforms introduced as well as the emergence of an active land market since the second half of the 19<sup>th</sup> century, a wider base of cultivators with land of their own emerged in the region, particularly in Travancore during the period (Michael Tharakan, 1976)<sup>17</sup>.

#### **2.2.1.4 Expansion of Trade and Transport**

Concurrent with commercialisation in agriculture, the region experienced a substantial expansion of its trade-local as well as external- during the post 1850 period<sup>18</sup>. In Travancore, Alleppey, the State port of the 18<sup>th</sup> century, was revived and it acquired the status of the most important port, next to Bombay in the west coast. Along with this, British Kochi emerged as an important outlet and inlet for goods. Another commercial trading centre worth mentioning is Trichur. According to one estimate, between 1850 and 1920, while world trade increased by around 10-fold, external trade of Travancore expanded by over 20 times (Ram Mohan, 1997). Another estimate suggests that the total volume of exports and imports of Travancore increased more than 10-fold during the period between 1870-71 and 1938-39 (Issac and Tharakan 1986). Significantly, in comparison with Travancore, the performance of Malabar had been far behind. For instance, over the three decades since 1900, while Travancore registered an annual rate of growth of 6.6 percent in the volume of trade, Malabar registered a much lower rate of 3.7 percent (Ibrahim, 1976).

Further, though trade began to grow since the mid 19<sup>th</sup> century, a particularly powerful impetus to its growth could be observed during the first three decades of the 20<sup>th</sup> century, specifically, the interregnum between World War 1 and the Great Depression. This period witnessed the highest growth in commercial agriculture.

Details on the composition of trade show that the exports consisted of various agricultural products like coconut, plantation crops like coffee, tea, rubber and various spices such as ginger, pepper and cardamom. The imports comprised both manufactured products and food grains. Significantly, rice and paddy constituted 30 to 50 percent of the import basket during the period (Issac and Tharakan 1986).

The trend in the ratio of export to import price over the four decades prior to independence shows that the terms of trade were favourable to Kerala during the period



before the First World War. It deteriorated during the war, but started to improve from the mid- twenties. The trend was maintained till the late thirties, despite global depression. The Second World War turned the scale again. But, soon after the war, the terms of trade started looking up (Panikkar, PGK et al. 1977).

Consequent to the expansion of trade, the region witnessed the emergence of a trading class, hailed mainly from Ezhavas and non-Hindu communities like Christians and Moplahs. As the European coastal firms virtually monopolized the export and import of all items of trade through interlocking of directorships and managing agencies, these emerging trading classes, interestingly, had to be content with the status of middle person traders. Besides, there was the Western Indian merchants engaged in the import of food materials, textiles etc. to the region and this further restricted the chance of the domestic traders to higher levels in trading activity. They were engaged in the collection of plantation crops and spices for export and selling the manufactured items and food grains internally. The predominance of small growers of commercial crops and the geographical distance between the production centers and export centres, gave rise to a long chain of middle person traders. The exit of foreign traders during the post-independence years was followed by the emergence of big businessmen in the region (Issac and Tharakan, 1986).

Growth of trade, in turn, led to another significant development in the region; the expansion of transport and communication (Ibrahim, 1978). From a practically zero-road situation in 1860, the total length of roads in Travancore increased to about 1000 miles in 1880-81 and to over 2200 miles by 1910-11 (Bright Singh, 1944). Here again, Malabar lagged behind the Travancore-Cochin region. Estimates of the composite index of transport development in Kerala during the first three decades of the 20<sup>th</sup> century reveal that while Travancore had registered an increase of 52 points over the base year, the increase in Malabar was only by about 8 points. As for Cochin, the index increased by 19 points over the period from 1910-11 to 1930-31. Noticeably, while transport and communication expanded mainly as a concomitant development to trade and other socio-economic processes in Travancore-Cochin, its development in Malabar was mainly to meet the military needs (Ibrahim, 1978).

Trade as well as transport experienced further impetus in the post- Independence years. Thus the share of the two which was 13.4 percent in State SDP in 1960-61 rose to

more than 16 percent by the early '70s. Within overall trade, a relatively higher growth of internal trade had taken place over the period under consideration.

### **2.2.1.5 Growth of Industrial Activities**

The products of various commercial crops such as tea, coffee, cashew and coconut required certain elementary processing before they could be exported. Hence, there also emerged agro-processing industries mostly, export oriented in the region. Of these, coconut based industries like coir making and coconut oil extraction were in the region from a relatively earlier period and the spurt in commercialisation process during the post-1850s, in fact, gave a real boost to it. Textiles, fish processing industries, etc. also sprang up. The overall industrial sector made improvement during the period between 1956 and 1969. But compared to trade and transport, the growth rate of it was lower (Pillai P.P 1994).

## **2.2.2 RISING DEMAND FOR FINANCIAL SERVICES**

### **TO BE MET**

#### **2.2.2.1 Catering Credit Needs**

In the early phase of expanding commercial agriculture and trade, ie; the years during the turn of the 20<sup>th</sup> century, the most popular form of money mobilizing and credit providing enterprise in the State was chitties/kuries. They along with the agricultural as well as trading moneylenders virtually monopolized the credit market, particularly in the rural and semi-urban areas. The presence of the moneylenders was more noticeable in wetland areas like Nanjinad and Kuttanad. Also, in places like Shencotta, where there were no joint stock banks, their presence was higher. For their agricultural operations as well as consumption needs, the peasants depended heavily on these moneylenders for finance. Lending of grain was also a common practice. The small peasants borrowed grain on the security of the coming crop. The principal and interest rate were repaid in grain at the time of harvest. Like the specialised moneylenders found elsewhere in the country, the cost of credit from the agriculturist moneylenders operating in the region also was exorbitantly high. They followed unscrupulous means to exploit the poor peasants and small traders who largely depended on them<sup>19</sup>. The rates of interest varied across localities. The rates were the highest in southern Travancore (Pandian, 1990, P.156). In Kuttanad, as noted by TBEC, the agricultural moneylenders charged even upto 70 percent interest annually (GOT, 1930).

Compared to the exploitative nature of the moneylenders, chitty was really a boon to its clients. The introduction of chitties owes its origin, as established in the literature, to the desire among people for mutual help and co-operation (Nayar CPS, 1973). During the early days of its emergence and growth, chitty was organised on a small scale and was mainly used for consumption purposes and it remained so till the turn of the 20<sup>th</sup> century. As the commercialisation of agriculture and the associated activities-trade, in particular- continued to expand in Travancore-Cochin, these regions experienced rising demand for money and credit to facilitate the processes. While the cultivators demanded credit for meeting the expenditure incurred by them for the purchase of land, its development- the reclamation process which involves bunding, dewatering etc, for instance- as well as meeting the ordinary expenses of cultivation, the web of tradesmen required funds to give advances to cultivators/manufactures for cash down purchase of produce and for its transportation to different market centers. While traders needed credit to meet their payments to the emerging factory owners the latter in their turn demanded advances to meet their expenditure, particularly on working capital (Jose A.V, 1980; GOI, 1956). The gestation period of many of these economic activities being relatively higher, the credit requirement had to be for comparatively long period also.

Chitties, given the small-scale of their organization, found themselves unable to meet the rising requirements for financial services that the commercialisation process of agriculture and its associated developments brought about. Hence, while chitty continued and even flourished during the early decades of the 20<sup>th</sup> century, private joint-stock banks, incorporated in the State, began to make their appearance to cater to the increased financial needs. They made rapid strides during the interregnum between the First World War and the Depression when the trade- induced commercialisation process experienced greater dynamism. As the Great Depression of the 1930s severely affected the prospects of trading and its concomitant commercial cultivation, naturally, the region's financial sector witnessed a set back in the post-Depression years. This had been followed by a buoyancy of the banking sector since the late '30's and it could be directly linked to the boom condition prevalent in the region during the Second World War and the years immediately succeeding it.

The Travancore-Cochin region was far ahead of Malabar in these diverse productive activities and hence in banking development too. Within Travancore, banks sprang up

largely in the midland region-specifically, in areas like Kottayam, Palai, Changanacherry, Chengannur, Kozhencherry etc,-the centre of cash crop cultivation. They made available loans mainly to small/middle peasants as well as traders against the security of land and/or personal security (Ram Mohan 1997). In Cochin they confined their activities largely to urban areas, financing trade and commerce.

The emergence and growth of these institutions can also be linked to the fact that there was a general feeling among the Travancore traders as well as agriculturalists that the outside banks operating in the State were overlooking their interests. Thus in its editorial of 30<sup>th</sup> of March 1901, the Malayala Manorama requested the Government to set up agricultural banks on the metropolitan model. From the next decade, demand was raised for the setting up of a Government owned bank to assist the development of indigenous trade and industry. The Keraleeya Vyavasaya Mitra of September 1917, pressing the case, sought to point out that foreign banks disregarded local interests (Ram Mohan, 1996). To overcome the resultant problem of the scarcity of capital, the establishment of banks had consistently been pursued. Also, though there existed the system of government directly engaging in agricultural credit and indirectly through the cooperative system, they were inadequate on the one hand and were characterised by multifarious problems on the other as already noted. Given this, chitties/kuries and the emerging commercial banks were largely resorted to for meeting the borrowing needs.

The significant contribution of the banks in productive activities, particularly in the field of agricultural financing, was referred to by TBEC, 1930, on the basis of the mortgage debt data for 1928-29 (GOT, 1930). The TBEC put the estimate of rural indebtedness in Travancore at Rs. 25 crores. Based on this estimate and the population estimate of 1931 Census, the per capita debt burden was worked out to be Rs.55 in Travancore. The Provincial Banking Enquiry Reports of 1930 provide comparable estimates of rural indebtedness in other States also. Based on the population estimates of 1931 the per capita debt burden in other provinces of India too are worked out and the same is provided in table 2.17.

**Table 2-17** Per capita Debt Burden in Different Regions in India, 1931

Region	Bengal	Assam	Madras	Bihar and Orissa	Burma	Bombay	Punjab	Travancore
Debt (Rs)	21	26	36	43	45	49	66	55

Source: Varghese T. C.1971

As is shown in Table 2.17, the per capita debt burden in Travancore (Rs.55) was higher than in other regions except Punjab, which had the highest average debt per head (Rs.66) among the provinces. Interestingly, the high debt burden was not an index of pauperization, but an indicator of the large-scale investment being undertaken by commercial cultivators during the period prior to the onset of depression. (Ram Babu, 1996, p.94). Here it is significant to note that the spatial distribution of the percapita debt in Travancore, as revealed by the Economic Survey<sup>20</sup> conducted in 1931, corresponded to the distribution of the commercial banks. As per the survey, the average debt burden in Travancore was relatively high in the northern division. Most taluks of this division belonged to the mid and highland regions where commercial cultivation was making a breakthrough and chitties and banks sprang up in large numbers. The percapita debt burden was found to be the highest in Meenachil—a typical midland taluk characterised by expanding commercial agriculture.

As done in the previous section, following the TCBE (1956), we shall provide the data on the banking performance, 1955, as an indicator of the contribution of the commercial banking system to the various activities. During that year, agricultural advances by commercial banks were estimated to be Rs. 1.57 crores, forming 6.9 percent of their total advances. Though this constituted only a smaller proportion of the total advances by the banking system in the State, the situation in the region in this regard was well ahead of the all-India average of 1.8 percent. The banks incorporated in the State gave almost the entire credit of Rs. 1.57 crores for agriculture.

The advances to agricultural purposes formed 9.8 percent (Rs. 1.56 crores) of their total advances as against a negligible proportion of 0.2 percent by “non-Travancore Cochin Banks” operating in the State. If the amount of finance granted to agricultural trade, (around 14.2 percent) was added to that given to agriculture, the share of agricultural loans would be about 24 percent of the advances by the banks incorporated in the State. Apart

from this, a part of the gold loans, (loan on gold ornaments as security), common in the State, might also have gone to finance agriculture. The percentage would definitely be much higher for periods prior to 1949 when the control by the Reserve Bank over the pattern and distribution of assets of the banks was relatively less.

Regarding the significance of credit for trade, it can be seen from the TCBE (1956) that bulk of the advances by the commercial banking system in Travancore-Cochin was utilised for trading activity-both agricultural and nonagricultural. Thus, the amount advanced to finance trade constituted 40.7 percent of the total advances in the region by all types of commercial banks as on 31st December, 1955. The credit extended to traders, significantly had a strong bearing on agricultural development-indirectly. The traders used to advance loans to cultivators on the stipulation that the crop would be sold to them after harvest. It has been reported in All India Rural Credit Survey that the proportion of borrowing from traders to the total borrowing was very significant in the Quilon District of Travancore- Cochin as well as in Malabar.

The industrial sector, as a user of funds accounted for about 23.7 percent of the total advances (credit) in 1955. Of the industrial advances, the largest proportion was accounted for by the banks incorporated outside the State. While industry accounted 47.7 percent of their advances, it formed only 13.6 percent in the case of banks incorporated within the State (GOI, 1956).

### **2.2.2.2 Commercial Banks to Meet the Saving Needs**

Alongside the demand for credit, there also arose the demand for financial assets to cater to the saving needs of those with surplus income. Because of the expansion of international demand for commercial crops and its favourable terms of trade during the colonial period, particularly during the early decades of the 20<sup>th</sup> century, surplus income had been generated by the cultivators. The agriculturists could have acquired higher income not only through the increasing commercial crop cultivation but also because of the increased productivity of land that accompanied it. During 1960-61, the net value of agricultural output per acre in Kerala was estimated to be about Rs.445, as against the all India average of about Rs.161 Kerala's position in this regard was the highest among the Indian States (Jose A.V. 1980).

Increasing trading activities and the buoyancy of the agro-based industries during the period also might have brought considerable income to the emerging merchant class and the industrialists in the two regions. Those with surplus income felt the need for financial instruments for accumulating savings or wealth. Given the limited scope of chitty as a device for savings, the commercial banks filled the gap by providing a diversified asset portfolio—demand, savings and time deposits (Oommen, 1976). Of the three categories, fixed deposits accounted for the dominant share in deposits (see table 2.18).

**Table 2-18** Proportion of Fixed Deposits to Total Deposits, 1935 and 1960

(per cent)

Year	Area	Scheduled banks		Non-scheduled banks	
		Fixed deposits	Other deposits	Fixed deposits	Other deposits
1935	Travancore and Cochin	61	39	82	18
	India	49	51	55	45
1960	Kerala	63	37	71	29
	India	48	52	61	39

Source: Oommen, p.38. The Statistical Tables Relating to Banks in India, RBI, 1961

### **2.2.3 EMERGING LAND TENURE SYSTEMS AND ITS INFLUENCE**

The emergence of cultivators with surplus funds and those with credit requirements can be taken as consequence to the prevailing agrarian structure. Owing to agrarian reforms from the mid 19<sup>th</sup> century, particularly since the Royal Proclamation conferring full ownership right on the tenants of all State owned land in 1865, Travancore witnessed the emergence of a broad-based class of peasant proprietors free from rental obligations (CDS, 1975). Along with the traditional land owning communities—Brahmins and Nairs, the Christians and the Ezhavas, though the latter to a lesser extent, benefited from the social and agrarian changes of the period and hence became landowners. The average holding of these lands was relatively large and the adoption of commercial cultivation, given the attractive crop prices in the World market, naturally, led to the generation of surplus income for the newly emerging landowners, mainly Christians. While the evolving agrarian structure of Travancore made the tenants free from heavy rental obligations and encouraged the

emergence of a stratum of prosperous farmers in the region, in Malabar and to some extent in Cochin the period was noted for exploitative land tenure system (see table 2.19)

**Table 2-19** Composition of Agricultural Population by Relationship to Land, 1911 and 1951

(per cent)

Category	Travancore		Cochin		Malabar Districts	
	1911	1951	1911	1951	1911	1951
Cultivating land owners	75.3	53.3	15.7	19	7.7	12.7
Tenants	6.8	10.2	44.6	28.1	44.9	39.3
Agricultural Labourers	12.6	34.6	36	48.9	41.6	44
Rent Receivers	5.3	1.9	3.7	4	5.5	4
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: CDS, 1975, p 57.

Cochin displayed features similar to Malabar during the early years but there took place significant improvement over the years.

The emergence of a large number of landowners from the sections of Christians and Ezhavas was also facilitated by the active land market that emerged in the post -First World War period. Throughout the period, both the communities steadily bought up land and here again, the Christians had a critical edge over others (Varghese T C, 1970, P.103). The agrarian reforms and the commercialisation process had strong bearing on the emerging land market. With the enactment and implementation of tenancy reforms, conferring absolute ownership right to cultivating tenants on land under their use, land became a commodity disposable at their will by the end of the 19<sup>th</sup> century. The commodity aspect of land had further been established with subsequent reforms affecting inheritance of property, partition of the joint family property, etc. The surplus generated in commercial agriculture and trade provided the necessary capital for the transactions in land. The capital requirements for buying land had also been met from the emerging credit market. Thus the Agricultural Debt Redemption Committee of Travancore asserts that there can be no doubt



that a very considerable portion of loans was invested on the purchase and investment of land.”

The evolving agrarian structure had contributed to banking development by influencing the demand for credit also. As the number of landowners increased and as they made productive investment in land, the need for credit was automatically enhanced, as noted before. In other words, it had increased the credit absorption capacity of the region. The emerging pattern of land ownership influenced not only the quantum of agricultural credit, but also the creditworthiness of the agriculturists. Against the security of land, credit was mobilised mainly in two ways: hypothecation of land and mortgages on land. The various economic enquiries conducted in Travancore during the thirties pointedly refer to the fact that agriculturists extensively resort to hypothecation and mortgaging of land for raising long-term loan (RADRC, 1935, op. cit. Ch. 2 and 3; TBEER, 1930 Chapter, iv and xiii). An idea of the trend and magnitude can be obtained from table 2.20.

**Table 2-20** Yearly Average Number of Sales, Hypothecation and Mortgages in Travancore

Period	No of Transaction (in thousands)			Value of Transaction (in lakhs)		
	Sales	Hypothecation	Mortgage	Sales	Hypothecation	Mortgage
1917-18 to 1919-20	44	53	82	192	144	218
1920-21 to 1924-25	43	62	82	221	164	234
1925-26 to 1929-30	74	64	104	302	153	298
1930-31 to 1934-35	53	55	70	165	102	179
1935-36 to 1939-40	66	78	30	165	114	69
1940-41 to 1944-45	145	148	28	489	255	73
1945-46 to 1949-50	120	159	44	704	513	

Source: Jose A V; 1980

The number as well as value of transactions under both hypothecation and mortgage is quite significant in Travancore, indicating their wider use in the region. Here it is worthy to note that the Christian law of inheritance which stipulated that land owned was a definite share with sole proprietary rights, different from the law of Hindus made the Christian land a more acceptable security and thereby helped to mobilize credit on the basis of mortgage of land in Travancore (Ram Babu, 1996). The dowry system prevalent among the Christians

also might have helped this, for the married woman had little claim on their ancestral properties; so it was more acceptable as a security for financial intermediaries.

In the case of land transactions- sales as well as non-sales transactions including hypothecation and mortgages- too, the position of Malabar was far behind. A comparative picture of it could be seen from table 2.21.

**Table 2-21 : Yearly Land Transactions in Travancore and Malabar, 1911-1950**

(Number in Thousands)

		Transactions by Sale	Non-sale Transactions		
Average for the years	Total No of Land Transactions	Total	Total	Mortgages	Others
<b>Travancore</b>					
1911-1920	252	37	215	132	83
1921-1930	331	58	273	156	117
1931-1940	273	59	214	116	97
1941-1950	520	138	381	192	189
<b>Malabar</b>					
1911-1920	202	6	196	90	106
1921-1930	189	19	170	80	90
1931-1940	153	24	129	51	79
1941-1950	181	33	148	52	97

Note: "Mortgages include hypothecations. Others in the case of both Travancore and Malabar consist of family partition and miscellaneous deeds.

Source: T. C Varghese (1970). Op. cit, p. 207 and p. 210

#### **2.2.4 CHITTIES/KURIES AND COMMERCIAL BANKS: AVENUES FOR INVESTMENT**

The link of commercialisation of agriculture and trade to the origin and growth of the joint stock banks can be looked at from another angle. The increasing commercialisation of the economy led to the accumulation of personal fortunes during the period of the First

World War for those who engaged in the cultivation of commercial crops and trading activities. In other words, commercialisation of the economy had created one of the essential conditions—the generation of surplus income—for the rise of a nascent entrepreneurial class, by the twenties. From the base in plantation and trading, they had diversified into chitties and commercial banking business and to a limited extent to agro-processing industries, particularly coir and other coconut based industries (Raman Mahadevan, 1994). The relative significance of the financial enterprises in the overall corporate profile of Travancore during the period under consideration can be shown with the data furnished in table 2.22.

**Table 2-22** Type-Wise Growth of Joint Stock Companies in Travancore ,1926 - 1935

Year	Total Number of Joint-stock Companies			
	With insurance business	Without insurance business	Banks and insurance as a percentage of total business	Banks as a percentage of total business without insurance
1926	156	156	35.90	35.90
1927	225	225	52.89	52.89
1928	314	314	61.78	61.78
1929	381	380	67.19	66.93
1930	421	408	66.98	63.90
1931	672	411	78.57	39.73
1932	943	434	83.03	29.06
1933	646	407	78.17	41.18
1934	446	400	66.59	56.28
1935	415	389	65.06	58.80

Source: T.K Velu Pillai. Op. Cit.

Banks and insurance companies constituted an overwhelming proportion of the total number of joint-stock companies registered during the decade following the mid-'20s. The higher number of insurance firms was due to the setting up of provincial insurance companies profusively during the first half of the '30s. Significantly, these insurance

companies did not transact insurance business on usual lines, insuring lives on medical certificates. They were mostly benefit funds offering to pay bonus in the event of certain contingencies. They were of two types, free or dividing insurance companies for the reason that insurance was done freely without medical examination and the collections were divided among the claimants. Along with them, there existed the usual insurance organisations -life as well as property. Together, there were 509 insurance companies registered in Travancore in 1932-33. They declined to just 26 during 1935-36. Besides the above, there were 10 more insurance companies, which were incorporated in England, working in the region (Velu Pillai, p.668). Even excluding insurance business and looking at the proportion of commercial banks alone, their share is quite significant. The marked share of banks and insurance during the period can be further established with the data on percentage share of paid-up capital of joint-stock companies in Travancore, given in table 2.23. Next to plantation, banks and insurance had a higher share in total paid-up capital till the early '40s.

**Table 2-23** Sectoral Distribution of Joint Stock Company Investment, Travancore, 1931-32 to 1946-47

Sector	Percentage share of paid up capital			
	1931-32	1936-37	1940-41	1944-45
<b>Plantation</b>	47.3	41.6	52.4	56.2
<b>Banking and Insurance</b>	35.6	40.9	25.9	12.6
<b>Trade and Manufacturing</b>	9.3	8.8	13.1	19.5
<b>Others</b>	7.8	8.7	8.6	11.7
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Raman Mahadevan, "Industrial entrepreneurship in princely Travancore; 1930-47" in S Bhattacharya et al(ed), The South Indian Economy: Agrarian Change, Industrial structure and State policy 1914-1947 (Delhi, OUP, 1991) P.161.

During the '40s, however, there took place sectoral shift in joint-stock investment. Trade and manufacturing gained much while banking and insurance recorded a lower share. Though these sectors showed a substantial decrease in share of investment during the period, they still accounted for a significant proportion till the end of the '40s.

The higher profits of the banking business along with the low initial investment needed to set up such enterprises might have been the probable reason for their establishment on a large scale. Given the increasing demand for credit during the period, the running of chitties/kuries and commercial banks would have provided those who conducted them the opportunities to accumulate further surplus and that in turn further investment. The Syrian Christians, who had a lead in chitties and banking business thus generated further surplus and that along with cheap credit, might have, to a great extent, enabled them to consolidate their position in the plantation sector and trading activities. In this context, it is significant to note that the wealthy cultivators/traders could attract deposits of cash from those sections that had money to deposits and who were in search of some trustworthy persons to take charge of the money, and allowing some interest. The better returns of chitties and fixed deposits were found attractive instruments for investment by them.

The emerging active land market also offered another attractive opportunity for investment. Compared to other physical forms of investment like livestock, gold, utensils, and financial investment, land occupied a commanding position in household investment, as could be seen from table 2.24. Next to land, significantly, chitties enjoyed the second place.

**Table 2-24** Percentage Distribution of Investment on Various Items in Rural Areas in Travancore, 1930

Nature of Investment	Land	House Property	Livestock	Utensils	Gold, Ornaments, etc	Chitties	In Banks	Money Lending
Percentage Value	67.3	8	1	1.1	3.1	13	1.2	5.3

Source: TBECD, 1930, op. cit, p.211.

The popularity of land in Travancore as an asset for investment had already been observed by S.G Barker who conducted an industrial survey of the region in 1917, at the instance of the Travancore Government. As noted by him, the low industrial investment in the State was not due to lack of money. The land was fertile and assured a safe and secure income. Purchase and possession of land was, therefore, the most popular investment (Barker, 1919). The attraction of land, it was being pointed out later in 1930 by TBECD,

was more because of safety rather than return. Thus, as noted by TBECR, “On account of the deep seated belief that investment in land is the safest, the average price of land is much higher compared to its return”.

### **2.2.5 TRADE AND COMMERCE: MAJOR INFLUENCE IN COCHIN**

While the expansion of commercial agriculture and trade worked as the dominant factors in the growth of the banking sector in Travancore, it was trade and commerce that chiefly contributed to their growth in the erst-while Cochin region. As against the emergence and growth of chitties and banks in rural areas initially and their spread to urban centers later in Travancore, we can find the concentration of these institutions in British Cochin and Trichur—two leading centers of trade and commerce in the erstwhile Cochin region, as already noted (Oommen, 1976). As the expatriate communities, particularly of traders were gathered more in British Cochin, exchange banks and branches of the Imperial Bank were established there mainly to cater to their needs, on a larger scale compared to the other two regions.

Alongside trade and commerce, the region was noted for the relatively better growth of manufacturing activities, like bricks and tiles making, oil processing, fish processing etc. and this also might have played a significant role in the growth of the financial institutions in the State. There was heavy concentration of these activities in port-towns of Cochin and Ernakulam and around the commercial town, Trichur. (See table 2.25)

**Table 2-25** Taluk-Wise Distribution of Registered Factories in the Cochin State for Selected Years ,1920-21 to 1932-33

(per cent)

Name of Taluk	1920-21	1925-26	1930-31	1932-33
<b>Cochin-Kanayannur</b>	14	23	13	21
<b>Trichur</b>	21	29	45	47
<b>Other Taluks (4)</b>	15	17	40	38
<b>Total (6)</b>	<b>50</b>	<b>69</b>	<b>97</b>	<b>106</b>

Source: Oommen M A 1976

Obviously the persistent demand for financial services from factories led to the mushrooming of banks in Cochin, and their concentration in the urban areas of the region.

### **2.2.5.1 Trend of Urbanisation**

Concurrent with the growth of modern non-agricultural activities, naturally, there took place increasing urbanisation in Cochin as revealed by table 2.26 and this further explains the phenomena of the urban-centered growth of the financial institutions and markets in Cochin.

**Table 2.26** Share of Urban Population in Total Population

(per cent)

Year	Travancore	Cochin	Malabar
1901	6.2	10.8	7.8
1911	6.2	12	8
1921	10	13	7.6
1931	10.8	17.1	7.7
1941	11.4	18.2	NA

Source: Census of India, Various Issues.

In contrast to Malabar and Travancore, the trend of urbanisation was stronger in Cochin. Regarding industrialisation too, the position of Malabar was much behind. The important industries that sprang up in the region were textile, tile and timber. The latter two types of industries were concentrated more in Mangalore and Calicut respectively.

Though relatively less when compared to Cochin, the urbanisation in Travancore too was progressively increasing over the years and this could be taken as an additional factor that contributed to the expansion of banking institutions there.

### **2.2.6 SOCIAL SECTOR DEVELOPMENT**

The progress witnessed in the region had yet another significant dimension: the development of the social sector, particularly, education and health. The achievements that Kerala made in these sectors prior to independence were well ahead of other princely States and provinces. The better status of the State in this regard could be seen during the turn of the last century itself. Thus the data on the literacy rate—the most significant indicator of

achievement in education—indicates that the erst-while Travancore-Cochin occupied the foremost place in the matter of literacy of both men and women as early as 1901(Nair 1989). While the number of literate persons per thousand populations was about 50 at India, the corresponding figures in Travancore and Cochin were 124 and 133 respectively.

Over the years since then, the literacy in Kerala had grown at a much higher rate than that of India. In 1951, the literacy rate in Travancore- Cochin was found to be 41 percent as against 17 percent for all India. Life expectancy at birth was more than 40 years for the region during that year. For all India, the corresponding indicator was about 10 years less than that of the State. With regard to infant mortality too, the State's position was much better: 153 per thousand in Travancore- Cochin as against 192 in all India. As in other indicators of development, in both literacy and health, the position of Travancore and Cochin was well ahead of Malabar. The better position that the State had in these indicators continued in the later years also.

The relatively better position in Kerala with regard to these indicators, to a great extent, was due to the community development efforts by the Princely State governments (CDS, 1975). The social sector developments that the expanding economy brought with it, no doubt, had a bearing on the nature and pattern of the historical evolution of the region's financial factor. Along with trade, commerce, transport and communication, the expansion of financial activities too created increasing demand for education. Growing demand for educated persons might have arisen for the running of modern institutional forms like commercial banks, co-operative banks, insurance business etc. The educational growth in its turn, might have influenced the attitude of people towards thrift and thereby enhanced the demand for financial instruments and institutions that facilitated saving. Similarly the demand for credit and investment activities was facilitated by the spread of education. The achievement in literacy, no doubt, gives greater awareness regarding the available financial infrastructure and the services that the various components of the financial system provide. The relatively higher number and circulation of newspapers, journals and their readership would have facilitated the spreading of information on innovation in the financial sector and thereby influenced the demand for accompanied financial services.



### **2.2.7 INFLUENCE OF SOCIO-RELIGIOUS FACTORS**

The social forces had considerable influence on different economic activities of the State and their influence was more pervasive and pronounced in the financial sector activities (GOI, 1956). There were numerous instances of chitties as well as banking institutions emerging on religious and caste basis primarily to cater to the requirements of their respective members. For instance, by the beginning of the 19<sup>th</sup> century, several churches had started kuries, popularly known as pallikuries, in the villages around Trichur town. It was the popularity as well as the experience with church-managed kuries that subsequently inspired independent banking ventures in Trichur to some extent. Further, as seen earlier, many banks used communal or sectarian names like Catholic Syrian Bank Ltd. the Cochin Nayar Bank Ltd., the Chaldean Syrian Bank Ltd. etc.

Though indirectly, the church organisations in Central Travancore also engaged in the mobilisation and disbursement of finance (Oommen, 1976). In the initial stages of its development, there were many instances of chitties being organised as family organisations, primarily to cater to the financial needs of the family members and the financial functions being clubbed with other activities of the family. It was at one of the annual meetings of the Kandathil family (now popularly known as the Malayala Manorama family) that the idea of forming a joint-stock company was born and it was followed by the recasting of the family as a new economic entity- the Kandathil Kudumba Yogam Company (Kandathil Family's Association Company), established in the 1880s. The Kandathil Company extended financial support to the family members in their commercial and agricultural activities. The family involved largely in organizing chitties and lotteries around this time.

### **Summary and Observations**

To sum up, Kerala witnessed historically better banking infrastructure development. The historical experience of banking growth in the State was better than the then all India standards. The pattern of its growth was rather unconventional. There was the spread of banking infrastructure and services to rural and semi-urban areas from the very beginning in the region particularly in Travancore. A complex set of socio-economic factors determined the direction, rate and time pattern of the historical evolution of the banking sector in Kerala. The expanding economy had brought with it the emergence of a large class of new owner cultivators. Innovations in agriculture and industry, development of transport and

communication infrastructure, growth in trade, population growth, urbanisation, improvements in education and health etc contributed to banking development. Of the flurry of economic activities and the resultant development processes, the trade induced commercialisation process of agriculture stands out as the most significant one, because it was the prime-mover of the developments experienced in other sectors.

The process of commercialisation led to increase in prices and profits as well as growing demand for financial services-credit, instruments for saving and investment, etc. Among the financial needs of the economy, the demand for credit assumed crucial significance. It is largely in order to meet the financial needs emanating from the trade-driven commercialisation of agriculture that the indigenous financial institutions in the form of chitties and joint-stock banks emerged and grew in the State. The financial operations of these institutions strengthened the above process further. The growth trends of banking and other financial intermediaries, given the leading role that the trading activities, particularly external trade, played in the economy during the period, were ultimately determined by the ebb and flow of the trading activities.

The setting up of a large number of financial intermediaries in the form of chitties/kuries, private joint-stock banks, etc, was essentially an extension of the investment activities-trade, plantation-etc. that were in vogue. Though the demand for financial services, particularly credit, provided the necessary support for their wider growth, beneath such an association, there existed another crucial factor that need to be internalized: the possibility of making quick disproportional pecuniary gains. The setting up of financial enterprises offered opportunities for higher returns, even more than that possible from trade or plantations. The financial institutions lent out progressively to trade and other activities like commercial agriculture, transport etc, which were essentially trade- driven as well as trade -inducing.

The economic transformation in the form of the evolution of and trade in the “commercial crops” led to the integration of the regional economy with the external world – with the national and international economies. The process of integration, in turn, led to further commercialisation and the two processes facilitated each other in a cumulative manner. The commercial banking system developed as an integral component of these processes. The developments in the form of banking and other institutions, markets and instruments, on their part, contributed to strengthening the external orientation of the State

economy further. While Travancore-Cochin experienced expansion of economic activity and concomitant buoyancy of the banking sector, there was near stagnation, in the Malabar region, in the growth of both of them. Considering the State as a whole, it implies unevenness in banking growth historically.

## End Notes

1. *The State is a rather narrow strip of land with the Arabian Sea on the west and the Western Ghats on the east. The total length is about 590 kilometers and the width varies from 35 km to 120 km. Even within this small width, the topography and physical characteristics vary distinctly from east to west. From the Ghats, the land slopes steeply to western border, where there is an unbroken coastline. According to the nature of the terrain and other physical features, the State can be divided into three regions longitudinally, viz. lowlands, midlands and highlands. The area of the lowland is the smallest; lagoons and backwaters cover a large part of it. The land is suited for the cultivation of coconut, paddy etc. On the sandy coastline are found valuable mineral deposits - illmenite, rutile, zircon, sillimanite, etc. The midlands comprise of hills and dales. Besides various food crops like rice and tapioca many cash crops like pepper, ginger and rubber are grown there. The highlands have the largest area, and are suited for plantation crops like tea, coffee, rubber and cardamom. The availability of water everywhere has led to a settlement pattern, which is rather unique to Kerala. People in the State, unlike elsewhere in the country, do not live in clusters. The population is widely distributed. The settlement pattern has led to the rural-urban continuum in the State.*
2. *Malabar came under the British authority in the 1780s. The region was unified by the British into a single administrative unit and was made a part of the Madras Presidency in 1800. Though the British paramountcy was established in Travancore and Cochin during the same period, the two regions were allowed to remain princely States, to be ruled under strict British guidance and control.*
3. *When the State of Kerala was formed on Nov. 1, 1956, on linguistic basis, it consisted only of 9 districts: Trivandrum, Quilon, Alleppey, Kottayam, Ernakulam, Trichur, Palghat, Kozhikode and Canannore. Consequent on the reorganization of the districts over the years, now there are 14 districts in the State. Malappuram district came in to existence on June 16, 1969 by carving out Ernad taluk and portions of Tirur taluk of Kozhikode district and portions of Perintalmanna and Ponnani taluks of Palghat district. Idduki was formed on January 26, 1972 by carving out Devikulam, Peerumade and Udambanchola taluks from Kottayam district and Thodupuzha taluk from Ernakulam district. Kozhikode was bifurcated*

and certain taluks were handed over to Malappuram and Wyanad districts. Wyanad district was formed on 1 November, 1980 combining taluks from Kozhikode and Cannanore. When the State of Kerala came in to being in 1956, Wyanad was a part of Cannanore district. Later South Wyanad was added to Kozhikode district. In order to fulfil the aspirations of the people of Wyanad for development, North Wyanad and South Wyanad were joined once again to form the present district of Wyanad. The district of Pathanamthitta came into existence on 1 November, 1982. The district includes portions of the erstwhile Quilon, Alleppey and a few villages of Idukki district. Pathanamthitta, Adoor, Ranny and Kozhencherry are some of the important areas taken from Quilon district whereas Tiruvalla and Mallappally are the major places taken from Alleppey district. Lastly, Kasargod was formed from Cannanore on May 24, 1984.

Travancore broadly consisted of the present day districts of Trivandrum, Quilon, Pathanamthitta, Idukki, Kottayam, and Alleppey. Cochin, broadly consisted of the present day districts of Ernakulam and Trichur. The erstwhile Malabar district of Madras Presidency is today divided into the districts of Palghat, Malappuram, Calicut, Wyanad and Cannanore.

4. The Banking Enquiry Committee of 1930, noted in the context of Travancore; "One remarkable feature is that there is no special class of traditional money lenders like the Nattukottai Chettiars, Marvaris or Mahajans. The village moneylender is invariably an agriculturist himself", p.157. Such conditions were observed in the Malabar region also. To quote, "There was no indigenous commercial caste which specialized in usury such as Chettiars and Banias. Moneylending was carried on mainly by certain agrarian classes". Prakash Karat, 'Agrarian Relations in Malabar, 1925-1946, Social Scientist, Vol.11, No.2, Sept. 1973. p.33.
5. There are regional variations in the use of the term "chit". In Travancore area, it is called 'Chitty'; in the Cochin and Malabar areas it is popularly called 'Kuri'. In the other parts of the country it is called 'Chit' or 'Chit Fund'. We use these terms interchangeably in our discussion.

The Chitties Regulation (Travancore) Act of 1918 defines a chitty as follows, "A chitty means a transaction by which one or more persons hereinafter called the foreman or foremen enter into an agreement with a number of persons that every one of the contracting parties shall subscribe a certain amount of money or quantity

*of grain by periodical instalments for a certain definite period and that each in his turn as determined by lot or by auction or in such other manner as may be provided for in the 'Variola' shall be entitled to the 'prize amount.'*

*'Variola' is the document containing the articles of agreement between the foreman and each of the subscribers relating to the chitty. The foreman is the person who under the Variola, is responsible for the conduct of the chitty.*

6. *Logan who was Collector of the Malabar district in the erstwhile Madras Presidency writes: "Another curious custom has come down from ancient times and is still flourishing... . Anyone desirous of raising a considerable sum of money for some temporary purpose invites his friends to join him in what is called a kuri and lottery..." (Logan 1887 Vol 1, page 173). The book was first published in 1887 as The Malabar Manual by him. The Government of Madras reprints it as A Collection of Treaties, Engagements and Other Papers of Importance Relating to the British Affairs in Malabar in 1951.*

*Sim Cox records: "The Dravidian kuri or lottery is said to have been handed down from very ancient times, and it is still commonly resorted to by anyone desiring to raise a sum of money for some special purpose, such as a daughter's marriage... A feast is always given by the recipient of the lump sum...." (E.J.Sim Cox, Primitive Civilizations or Outlines of the History of Ownership in Archaic Communities, Swan Sonnenschein and Co., London, 1894, Vol.1, page 568).*
7. *In the case of 'Lot Chitties', the prized subscriber is decided by casting lots whereas in the case of 'auction chitties', the person who offers to pay the highest discount for the prize amount is described as the prize winner.*
8. *A similar development was found in Maharashtra where banks evolved out of the 'bishis', a mutual credit institution commonly found in Kolhapur district in the early Bombay State (Krishnan, 1959. p. 170).*
9. *K.C. Mammen Mappillai who later started the Travancore National Bank Ltd. was the son of K.I Cherman. The Quilon Bank was founded later by C.P. Mathen, son of Paulose. About his father's Tiruvalla Bank, C.P Mathen said, "Even to its founder, my father, it was more the experimental verification of an idea much in advance of*

*his time than the probable means of any substantial monetary returns. (C.P Mathen, 1947, p.34).*

10. *Banks included in the second schedule to the Reserve Bank of India Act are termed scheduled banks. Banks which carry on the business of banking in any State in India, excepting the State of Jammu and Kashmir, and which (a) have paid-up capital and reserves of an aggregate, real or exchangeable, value of not less than Rs. 5 lakhs, (b) are companies as defined in section 2 (2) of the Indian Companies Act, 1913, or corporations or companies incorporated by or under any law in force in any place outside India and (c) satisfy the RBI that their affairs are not being conducted in a manner detrimental to the interests of their depositors, are eligible for inclusion in the second schedule to the RBI Act (RBI, 1954b, p.23-24).*
11. *During the 50 years period (1893-1944), as many as 15 leading banks in Travancore were started by members of the Kandathil family. They were: 1, Travancore Bank (1898), 2. Thayyil Bank (1900), 3. Kandathil Kudumba Yogum Bank (1900), 4. Parur Bank, 5. Travancore National Bank (1912), 6. Alleppey Bank (1919), 7. Kerala Bank (1920). 8. Vennikulam Bank (1920), 9. National Union Bank (1920), 10. Alliance Bank, 11. City Bank, 12. Travancore National and Quilon Bank (1937), 13. Bank of New India (1944), 14. Finance Bank 15. Trivandrum Union Bank.*
12. *The first branch of the Bank of Madras, an important financier of export-linked trade, was established at British Cochi in 1862. Later in the second half of the 1860s, it opened a branch at Alleppey and it was wound up on 15 August 1875 (A. K. Bagchi 1987, p.385)*
13. *Established in the twenties, Palai Central Bank was one of the leading banks in Kerala. It had more deposits than any other local banking institutions. The Palai Bank was served in addition by the branches of two other scheduled banks, namely the Travancore Forward Bank and the Kottayam Orient Bank. They too had been established in the twenties. But in Aug 1960, there was a run on the Palai Central Bank; it failed and later wound up.*
14. *The Act, however, had a limited scope, and its application was restricted to primary co-operative credit societies. In 1912, the Government of India, with a view to enlarging the scope of the Act passed the co-operative Societies Act (Act 11 of*

1912). Other than credit societies, it also contained provision for the registration of secondary organization such as central banks, supervising unions as well as non-credit societies. The Act was in force in the British India and it has provided the framework for most of the State legislation concerning co-operatives. In Travancore, the Travancore Co-operative Societies Regulation X of 1914, followed this Act. While a three tier co-operative credit system comprising the State Co-operative Banks at the apex level, the central banks or bank unions financing the primary societies at intermediate level and the primary credit societies as the basic unit was adopted as the short term credit structure in majority of the States, Travancore and Cochin followed a two tier system without the apex bank. The central bank assumed the role of the apex bank in the two region's co-operative credit system. However in-between the central bank and the rural primary societies there existed taluk banks, interlinking the two. The long-term credit structure, as elsewhere, consisted of primary land mortgage banks and central land mortgage banks.

15. The committee conducted the first All India Rural Credit Survey (AIRCS) in 1954. According to the Survey, co-operation in the country had failed, but co-operation must succeed. It failed because of functional, structural and administrative defects, default of suitable personnel, lack of training, a background of illiteracy, the grave and chronic deficiency in roads, storage and other vital economic requirements. But the fundamental reason is socio- economic in character.
16. Kuttanad region had a history of backwater reclamation for paddy cultivation, but the scale of operation was small until the 1870s. Large scale reclamation began towards the end of the 19<sup>th</sup> century with generous support and encouragement from the State. The State support for reclamation consisted of changing the water course of main canals, simplifying procedures for granting permission, tax concessions, loans and subsidies. By 1900, around 5500 acres were reported to have been reclaimed. As a result of an objection from the then Government of Madras due to the silting up of the Cochin Port, there was an interruption to the process of reclamation during the turn of the second decade of the 20th century. The situation was resolved in 1912 and reclamation resumed. The total area brought under cultivation through the process was estimated to be 11250 hectares ie. a little over one fifth of the area in Kuttanad. (Pillai and Panikkar, 1965, p.14-22)



17. It is suggested that the regional differences in population growth and the resultant inter-regional migration of population within Kerala, also contributed to the expansion of commercial cultivation. (Michael Tharakan, 1976).
18. The expansion of trade stimulated the commercialisation process in agriculture but the former can rightly be considered as a natural sequel to the increasing commercialisation of agriculture as well. It can also be attributed to several commercial and administrative reforms implemented in Kerala in the late 19<sup>th</sup> century. Studies examining the expansion of trade during the pre-independence period suggest that the political stability of Travancore as well as Cochin from the latter part of the 19<sup>th</sup> century, the creation of an extensive canal and road network and ports by rulers and numerous reforms of trade regulation initiated by the British from 1856 onwards paved the way for its dynamism.
19. An account of the style of operation of the moneylenders is given by Nagam Aiyah: “ In November (Thulam and Vrischigam) the ryot borrows the paddy on the security of his coming crop. In April (Kumbham and Meenam) is the harvesting and then the paddy is measured back to the creditor with 20 percent interest. The creditor comes to the harvesting field with his own measure and with a canoe to take the paddy due to him, as did Shylock with his knife and pair of scales. The creditors’ measure is 10 percent higher than the one with which he measured out paddy in preceding November which, added to 20 percent interest, enables the creditor to make something like 30 percent on interest and the gain thus made, let us say, 130 paras upon the 100 paras originally lent, is lent again to the poor cultivator under the same terms in April to be returned to the creditor with another 20 percent in the following September (Kanni). The year’s interest thus accruing is about 60 to 70 percent on the whole”. (Nagam Aiyah, Travancore State Manual, pp. 153-154).
20. The Economic Survey of Travancore conducted in 1931, estimated the total rural debts outstanding in Travancore at Rs. 17.45 crores (Census of India 1931, vol. xxviii, Travancore, part 1, report appendix iv. P.487).

## CHAPTER 3

# BANKING SYSTEM IN THE POST-NATIONALISATION PERIOD

Historically, Kerala experienced relatively better development of banking infrastructure as was seen in the previous chapter. The process of financial intermediation by the banking system, during the period also seems to be fairly good. The better banking development was matched by dynamic changes in the State's real economy. The two sectors seem to have infused energy to each other in a mutually reinforcing manner. A symbiotic relation between them seems to be in existence. Of late, however, serious concern has been raised regarding the type of financial intermediation emerging and the nature and degree of relationship between the banking and economic variables in the State. The credit-deposit (C-D) ratio of the banking system in the State, a prominent measure of banking system's role in an economy, has fallen drastically in Kerala and reached a very low level. As the low C-D ratio represents asymmetric financial intermediation process, the situation in Kerala may lead one to doubt whether a drift in the relationship between banking and economic variables is taking place in the State. The analysis in this chapter is designed to look into this issue by first tracing the long term trends in financial intermediation by the banking system since the nationalisation of major scheduled commercial banks in 1969.

The analysis is arranged in two sections. Section one begins by presenting the trend in infrastructural growth in the SCB system. It will be followed by the portrayal of the trends and pattern of its C-D ratio. In Section 2 we first analyse the trends in the performance of the co-operative banking intermediaries in this regard. This is followed by an analysis of the trends in the performance of the All-India Financial Institutions (AIFIs) consisting mainly of development banks. Also, the trends and pattern of the banking variables are juxtaposed against the latter.

We have chosen the year 1972 as the beginning point of our analysis. The selection of this year is governed solely by the availability of comparable banking data. As already

noted, detailed information on banking variables, particularly bank advances as per the State of utilisation on a uniform basis, came to be published only from 1972.

## **Section 3.1**

### **Scheduled Commercial Banking System**

#### **3.1.1 NATIONALISATION OF SCBs**

During the late '60s, the banking system in India witnessed some revolutionary changes. Social control over commercial banks was introduced in early 1968 and it was followed by the nationalisation of 14 major commercial banks in 1969. Another 6 banks were nationalised in 1980.

The overriding objective of nationalisation of banks was to take banking to the 'masses'<sup>1</sup>. Consequently, the nationalised banks explicitly set quantitative targets to expand their network in rural and semi-urban areas and to direct credit to priority sectors. The expansion of rural branches was encouraged on the consideration that the scheduled commercial banks had a role to play in the process of institutionalisation of rural savings and rural credit. Banking in rural and semi-urban areas, in relatively unbanked states and regions were given special importance. The setting up of Regional Rural Banks (RRBs)<sup>2</sup> has been pursued as a special policy for social banking. Banks were asked to direct credit to priority sectors at concessional interest rates. The definition of priority sector has been vastly expanded over the years. It comprises broadly agriculture, small-scale industry, small transport operators, small businesses and professional and self-employed persons. The target for priority lending was stipulated at 33 percent in 1974 and was gradually raised to reach 40 percent of bank credit in 1985. Within priority sector various sub-targets were also introduced. For instance, the share of agriculture was specified as 18 percent of total bank credit. Banks were also asked to finance various credit based poverty alleviation programmes within the over all priority sector targets.

The wisdom of government intervention in the banking sector, however, got challenged in course of time on the premise that it led to an unhealthy financial system in the country. For enhancing efficiency and growth, financial liberalisation was suggested and a series of financial sector reforms have been introduced in that direction since the early

'90s<sup>3</sup> RBI (1991), Nayak, (1993), Khatkhate (1993), Rangarajan (1994b), Joshi and Little (1999).

### **3.1.2 BANKING INFRASTRUCTURE PROGRESS**

#### **3.1.2.1 Furtherance of Branch Banking**

The branch expansion continued vigorously in the post- nationalisation period. Even though new banks were added during the phase, the number of branches per bank continued to increase. Thus by 2000, the total number of banks in the country reached 295. Each bank on an average had 225 branches. Out of 295 banks, only one is a non-scheduled bank. Among the scheduled banks, 37 are foreign banks. Significantly, the number of foreign banks operating in the country increased since the late '80s. At present 49 banks with a network of nearly 3400 offices do banking businesses in Kerala: (see table 3.1 and appendix 3A-1).

**Table 3-1** Bank Groups Operating in Kerala, 2003

<b>Name of Bank Group</b>	<b>No. of banks</b>	<b>Branches</b>
<b>SBI and its associates</b>	6	802
<b>Nationalised Banks</b>	19	1168
<b>Other Scheduled commercial banks</b>	20	1035
<b>Regional Rural Banks</b>	2	354
<b>Foreign Banks</b>	2	4
<b>Total</b>	49	3363

Source: State Level Banker's Committee Report, 2003

Among the banks operating in the State, the State Bank of Travancore stood first with 555 branches. Significantly, of the total 49 banks operating in the State now, only 6 have their registered offices here; indicating a fall in Kerala's own banks over the years.

#### **3.1.2.2 Better Status of Kerala Continues**

The trend of banking infrastructure development in the form of growth in the number of SCB bank offices in Kerala as well as in the country over the 32 years ended 2002-2003 is provided in table 3.2. As it shows, there took place a phenomenal expansion of SCB offices in Kerala during the first decade of bank nationalisation. It was followed by a relatively slower growth of the same till the mid-80s and much slower growth in the

ensuing years. In fact, India as a whole, such a trend could be seen, but the higher growth in bank offices continued there further for another half a decade.

**Table 3-2** Trend and Progress of Scheduled Commercial Bank Offices:  
Kerala and All India

Year	Number	Percentage change		Ratio of K/AI %	Population per office		Ratio of K/AI %	No of offices per lakh of population	
		Kerala	India		Kerala	India		Kerala	India
1972	947			6.46	22942	38251	59.98	4.36	2.61
1973	982	3.7	4.08	6.44	22517	37572	59.93	4.44	2.66
1974	1068	8.76	10.29	6.35	21071	34826	60.50	4.75	2.87
1975	1185	10.96	10.46	6.38	19328	32231	59.97	5.17	3.1
1976	1344	13.42	12.73	6.42	17344	29228	59.34	5.77	3.42
1977	1607	19.57	17.01	6.56	14763	25536	57.81	6.77	3.92
1978	1975	22.9	14.2	7.06	12225	22860	53.48	8.18	4.37
1979	2060	4.3	7.95	6.82	11929	21650	55.10	8.38	4.62
1980	2152	4.47	7.32	6.64	11622	20623	56.35	8.6	4.85
1981	2357	9.53	11.19	6.54	10799	18961	56.95	9.26	5.27
1982	2468	4.71	11.49	6.14	10452	17375	60.16	9.57	5.76
1983	2542	3	7.54	5.88	10285	16506	62.31	9.72	6.06
1984	2597	2.16	5.87	5.68	10203	15928	64.06	9.8	6.28
1985	2741	5.54	15.06	5.21	9797	14142	69.28	10.21	7.07
1986	2784	1.57	3.4	5.11	9776	13972	69.97	10.23	7.16
1987	2787	0.11	1.32	5.05	9897	14088	70.25	10.1	7.1
1988	2840	1.9	2.72	5.01	9843	14012	70.25	10.16	7.14
1989	2877	1.3	4.14	4.88	9847	13746	71.64	10.16	7.27
1990	2906	1.01	2.58	4.8	9880	13690	72.17	10.12	7.3
1991	2912	0.21	2	4.72	9993	13712	72.88	10.01	7.29
1992	2925	0.45	0.64	4.71	10038	13893	72.25	9.96	7.2
1993	2966	1.4	1.05	4.72	9989	14020	71.25	10.01	7.13
1994	3043	2.6	0.93	4.8	9824	14164	69.36	10.18	7.06
1995	3119	2.5	0.72	4.89	9672	14340	67.45	10.34	6.97
1996	3161	1.35	1	4.9	9630	14477	66.52	10.38	6.91
1997	3198	1.17	1.02	4.91	9604	14614	65.72	10.41	6.84
1998	3239	1.28	1.1	4.92	9569	14740	64.92	10.45	6.78
1999	3286	1.45	1.29	4.93	9517	14839	64.14	10.51	6.74
2000	3318	0.97	0.58	4.95	9510	15045	63.21	10.51	6.65
2001	3362	1.33	0.69	4.98	9471	15236	62.16	10.56	6.56
2002	3417	1.64	0.55	5.03	9403	15452	60.85	10.64	6.47
2003	3463	1.35	0.27	5.09	9362	15714	59.58	10.68	6.36

Source: For bank offices, BSR, Various Issues<sup>4</sup>; for population<sup>5</sup>, Census of India, 1981, 1991 and 2001

The growth of bank offices was relatively higher in Kerala during the '70s and hence Kerala's share in all-India bank offices increased during the decade. As the pace of bank expansion in Kerala since the late '70s was less than that of all-India, the State's relative share in the latter declined since then and the situation continued till the mid '90s. Since then, a marginal improvement in the share of bank offices in Kerala, indicating a relatively higher growth of bank offices in the State, could be observed.

Though the percentage share of Kerala in all-India bank offices declined over the years, the case of Kerala with 3 percent of the country's population having about 5 percent of the bank offices is quite remarkable and can be taken as indicative of the better banking infrastructure in the State. The relatively better position of the region in banking network can also be seen from the indices of the average number of population per office, and the average number of bank offices per one lakh population given in table 3.2. Thus during the year 1972, the population per office in Kerala was nearly 40 percent less than that of all-India. The margin between the two got reduced over the years till the late '90s. Since then, however, the ratio shows a decreasing tendency. A similar trend can be seen from the index of the average number of bank offices per one lakh population. The trend of both indices clearly indicates that the gap in banking density between Kerala and all-India, which has tended to narrow down till the late '90s, got reversed in recent years.

### **3.1.2.3 Qualitative Change in Branch Expansion**

One of the important objectives of bank nationalisation in 1969, as noted before, was the setting up of banking infrastructure in rural and semi-urban areas. Kerala was in a better position in this regard during the pre-nationalisation period itself. The trend continued in the post-nationalisation period. A rough indication of it can be provided with the data on distribution of bank offices among different population groups<sup>6</sup>- rural, semi-urban and urban- given in table 3.3. The semi-urban offices constitute the largest category in Kerala throughout the years. Its share has been increasing progressively over the years. As against this, rural branches constitute the largest segment in the country. The share of rural bank offices, which increased progressively since 1969 at the national level, shows a declining trend in the '90s—the post liberalisation phase. In Kerala too, the proportional share of rural branches decreased during the period. The decline in rural branches is matched more by increase of semi-urban branches in the State. More of the increase in bank offices has taken place in urban areas at all-India level.

**Table 3-3** Population- wise Share of Scheduled Commercial Bank Offices: Kerala and All India

(per cent)

Year	Kerala			All India		
	Rural	Semi Urban	Urban	Rural	Semi Urban	Urban
1973-77	36.86	44.89	18.03	36.07	30.54	33.39
1978-82	38.04	46.3	15.56	45.66	25.51	28.61
1983-87	24.06	59.02	16.77	53.62	20.61	25.71
1988-92	19.98	62.5	17.48	56.09	19.17	24.73
1993-97	13.41	67.36	18.7	53.07	20.26	26.55
1998-02	10.44	70.14	19.42	48.79	21.7	29.49

Note: (a) 'Rural' group includes all centres with population less than 10,000. (b) 'Semi-urban' group includes centres with population over 10000 and upto 1 lakh. © 'Urban' group includes centres with population over 1 lakh. Since there had been changes in the classification of centers as per the population census data from time to time the comparability of banking data by population groups has been affected to some extent.

Source: Same as table 3.2

While the rural and semi-urban offices occupy 70 percent of the bank offices during 2000 in India as a whole, their share in Kerala is 10 percentage point more than that, implying relatively better spread of banking infrastructure in the State. Significantly, Kerala's share of urban offices has been less than 20 percent throughout the period. From a little above 18 percent during the early '70s, its share declined to 15.5 percent in the early '80s. Thereafter, its share progressively increased and became 19.5 percent in 2000. At the country level, the share of urban offices, which was more than 30 percent during the early '70s, experienced a declining trend till the early '90s; and thereafter the share picked up.

### **3.1.3 C-D RATIO OF THE SCB SYSTEM**

As noted earlier, the SCB system in the State has got wide attention in recent years due to the falling tendency of its C-D ratio and its relatively lower value. Now we shall move to look at the trend and pattern of this ratio; often-used as a summary measure of banking performance.

#### **3.1.3.1 C-D Ratio: Kerala and India**

On the C-D ratio by the SCB system in a region/State, RBI provides two sets of data—the C-D ratio by sanction and the one by utilisation. Table 3.4 shows the movement

of the C-D ratio of the SCB system in Kerala by both sanction and utilisation for the period under consideration.

**Table 3-4** Credit –Deposits Ratio of the SCB system:  
Kerala and All-India

(Per cent)

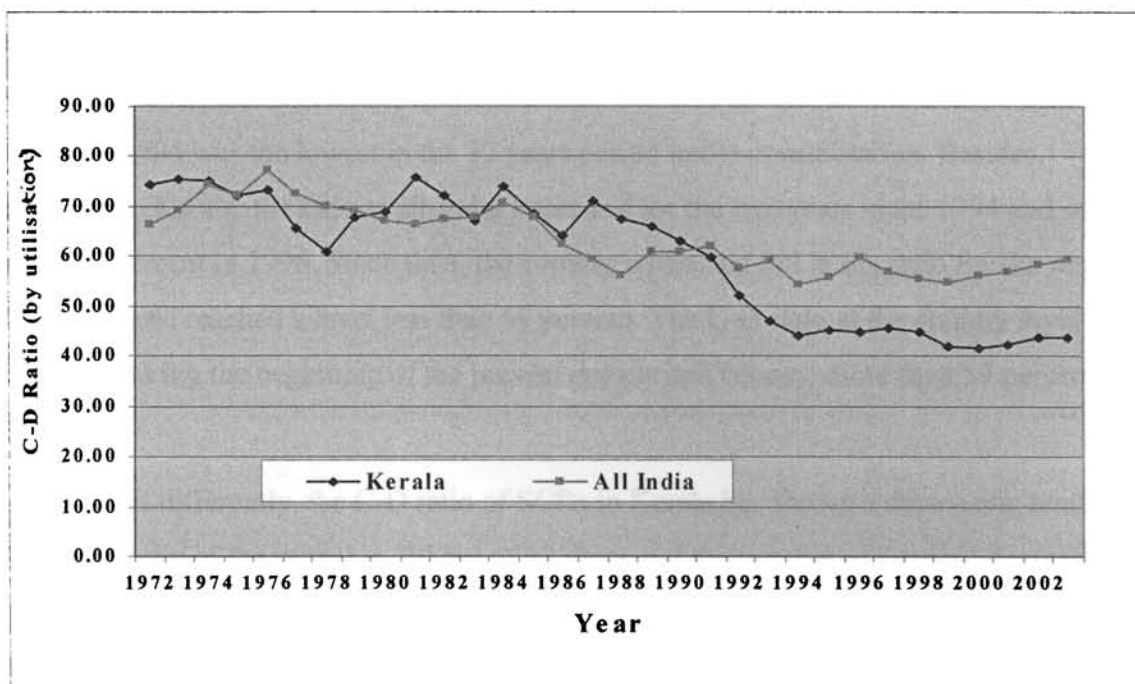
Year	Credit by Utilisation		Increasing/ Decreasing		Difference in C- D Ratio of Kerala from India	C-D Ratio by Sanction in Kerala	Difference in C D ratio of Kerala as per Utilisation over Sanction
	Kerala	India	Kerala	India			
1972	74.17	66.43			7.75	69.6	4.57
1973	75.56	69.15	1.39	2.72	6.41	70.46	5.1
1974	75.14	74.37	-0.42	5.22	0.77	71.5	3.64
1975	72.22	72.16	-2.92	-2.21	0.06	68.72	3.5
1976	73.20	77.23	0.98	5.07	-4.03	71.18	2.02
1977	65.59	72.50	-7.62	-4.74	-6.91	63.99	1.6
1978	60.70	69.80	-4.88	-2.69	-9.10	62.08	-1.38
1979	67.81	69.11	7.11	-0.70	-1.30	65.84	1.97
1980	68.97	67.17	1.16	-1.94	1.81	67.53	1.44
1981	75.95	66.46	6.98	-0.71	9.50	74.37	1.58
1982	72.22	67.44	-3.73	0.99	4.78	66.19	6.03
1983	67.04	67.70	-5.18	0.26	-0.66	68.29	-1.25
1984	73.98	70.70	6.94	3.00	3.28	72.87	1.11
1985	68.35	67.94	-5.63	-2.75	0.41	66.92	1.43
1986	64.26	62.15	-4.09	-5.80	2.12	63.05	1.21
1987	70.91	59.51	6.65	-2.64	11.40	69.8	1.11
1988	67.31	56.19	-3.60	-3.32	11.12	66.44	0.87
1989	65.93	60.78	-1.38	4.59	5.16	65.86	0.07
1990	63.06	60.68	-2.87	-0.10	2.39	63.1	-0.04
1991	59.60	61.93	-3.46	1.25	-2.32	59.08	0.52
1992	52.18	57.66	-7.42	-4.27	-5.48	51.73	0.45
1993	47.10	58.90	-5.08	1.24	-11.80	46.54	0.56
1994	44.18	54.29	-2.92	-4.61	-10.11	43.98	0.2
1995	45.20	55.63	1.03	1.34	-10.43	44.81	0.39
1996	44.71	59.77	-0.50	4.14	-15.06	44.46	0.25
1997	45.72	56.81	1.01	-2.96	-11.09	45.45	0.27
1998	44.71	55.32	-1.01	-1.50	-10.61	44.19	0.52
1999	41.77	54.78	-2.94	-0.54	-13.01	41.71	0.06
2000	41.70	56.01	-0.07	1.24	-14.31	41.53	0.17
2001	42.32	56.71	0.62	0.70	-14.39	43.25	-0.93
2002	43.69	58.39	1.37	1.68	-14.70	43.29	0.4
2003	43.58	59.24	-0.11	0.84	-15.65	42.8	0.78

Source: Same as Table 3.2



Except for a few years, the C-D ratio by utilisation shows a higher value than the one by sanction. Further, the margin between the two was higher during the early years. The gap got narrowed down in later years, and has become rather negligible over the years. Between the two, the C-D ratio by utilisation is taken to be a more useful measure in the regional economy context, for it captures the migration of credit from the place of sanction by branches of SCBs to its place of utilisation. Hence we focus on this data in our analysis. The movement of the ratio by utilisation is traced in chart 3-1 also.

**Chart 3-1** Trends in Credit Deposit Ratio of SCBs: Kerala and All India



The C-D ratio of SCBs in Kerala was above 70 percent during the first five years of the period under consideration (1972-76). Compared to Kerala, the C-D ratio of all-India was much less during the initial years. It picked up in the later years and surpassed Kerala's level by 1976. Between 1977 and 1980, the C-D ratio in the State had fallen below 70 percent and the lowest value of the ratio during these years was noted for the year 1978. The C-D ratio at all-India too had fallen during these 4 years but the decline was not as much as in Kerala. The ratio there remained around 70 percent. It was also above Kerala's position. During the year 1981, the C-D ratio of Kerala reached the peak ie. about 76 percent. Having fluctuated around 70 percent for the next 4 years, the ratio slid down to less than 65 percent in 1986. The ratio picked up and rose to 71 percent in the next year. In 1988, the C-

D ratio fell again to 67 percent. In all-India too, such a fluctuating trend could be seen during these years but it was characterised by the increase in the ratio during the first three years since 1981 and then declined consecutively in the following 4 years. Thus from 66.5 percent in 1981, the C-D ratio at all-India rose to 70.7 in 1984 and fell to a little above 56 percent in 1988.

In Kerala the fall in C-D ratio became a continual process since 1987. The trend continued in the nineties except for a small break in two years. The ratio dipped to 42 percent during 2000. The State witnessed more than 29 percent decline in the C-D ratio of its SCB system over the period 1987 to 2000. In the following years, the ratio showed slight improvement. The ratio had fallen at the all-India level too during this period. But the fall, compared to Kerala, was much less. The C-D ratio at all-India i.e., 54.29 percent in 1994 was the lowest in the 32 years period under consideration. Besides, compared to Kerala, the ratio at all-India improved for the two years since 1994 and reached nearly 60 percent in 1996. Since then, the country witnessed fall in the ratio for the next three years and reached a level less than 55 percent. The C-D ratio at the country level picked up during the beginning of the present decade and became more than 59 percent by 2003.

Put it differently, the C-D ratio of SCBs in Kerala has shown a decreasing tendency for the majority of the years i.e., 20 out of 32 years and the number of years of decrease in the State's C-D ratio has occurred more during the period from 1987. For, during the 16 years from 1987, the C-D ratio of SCBs in Kerala has fallen for 12 years. Looking at the phenomena decade wise, the maximum number of decreasing years could be seen in the '90s. The decrease in C-D ratio was witnessed at all-India only during 16 years. Years of decreasing ratios are found relatively more during the first half of the entire period.

Comparing the value of the C-D ratio between Kerala and India, the ratio is found to be higher for the latter for majority of the years i.e., 18 out of 32 years. The relatively lower ratio of Kerala has occurred during the '90s. Till 1990, Kerala's position was lower than all-India position only during 5 years. Of this, 4 years were in the '70s i.e., 1976 to 1979. Considering the period since 1972 to 1980 as a whole, the average C-D ratio for the period for India (i.e., 71.4 percent) was about 1.5 percent above that of Kerala (see Table 3.5). Between 1981 and 1991, except for the year 1985, the C-D ratio for the State was higher

than that of the all-India. While the average C-D ratio in the State for the 80s was about 69 percent, the corresponding ratio for all-India was nearly 5 percent less than that of Kerala.

**Table 3-5** Sub-Period Average Values of Credit-Deposit Ratio:  
Kerala and India

(per cent per annum)

Year	By utilisation		Difference in C-D ratio of Kerala from India	C-D Ratio by sanction	Difference in C-D ratio of Kerala as per utilisation over sanction
	Kerala	India			
1972-1987	70.38	68.74	1.64	68.27	2.11
1988-2003	49.55	57.69	-8.15	49.26	0.28
1972-1980	70.37	70.88	-0.51	67.88	2.50
1981-1990	68.90	63.96	4.95	67.69	1.21
1991-2000	46.69	57.11	-10.42	46.35	0.34
1991-2003	45.88	57.34	-11.46	45.60	0.28
1990-1995	51.89	58.18	-6.30	51.54	0.35
1995-2000	43.97	56.39	-12.42	43.69	0.28
2001-2003	43.20	58.11	-14.92	43.11	0.08

Source: Same as Table 3.2

During the '90s and all the ensuing years, however, the C-D ratio in Kerala has remained less than that of all-India. The margin between Kerala and all-India in their C-D ratios has increased since the early '90s. Thus the average C-D ratio in Kerala, which was about 57 percent during 1989-97, has fallen to slightly below 43 percent during 1999-2003. The average C-D ratios for all-India for the corresponding years were 59 and 57 percent respectively.

From the analysis of the trend and pattern of the C-D ratio of the SCB system done so far, it is possible to discern the decreasing movement of C-D ratio in Kerala since 1987. Also, the ratio dipped to a very low level during the years following then. Hence, 1987 can be regarded as a break so as to identify two sub-periods as prior to 1988 (i.e., 1972-1987) and since then (i.e., 1988-2003).

Looking decade wise, during the decade since 1980, the C-D ratio in the State was fairly high and stood ahead of all-India. During the years since the '90s, however, the C-D ratio of the SCB system in the State fared poorly and the State was way behind India. The

period from 1972 to 1980 can also be considered as yet another sub-period. This period was characterised by relatively higher but fluctuating value of the C-D ratio for both Kerala and all-India.

### 3.1.3.2 C-D Ratio: State-wise Picture

The steady fall in C-D ratio that Kerala experienced during the '90s was in tune with the trend of the same in most of the States. Information on the comparative position of Kerala's C-D ratio in relation to the major States in the country is provided in Table 3.6. (See Appendix 3A-2 also) Though there were year-to-year fluctuations, the declining trend in the C-D ratio over the years, particularly since the late '80s, was experienced by almost all the States. The number of States having C-D ratio more than the all India average was more during the '80s and early '90s. Thus out of fifteen, more than ten States have shown C-D ratio higher than that of India between 1988 and 1991. But only four States- three southern States (Tamil Nadu, Karnataka and Andhra Pradesh) and Maharashtra have C-D ratio ahead of all India in later years. Among these four States, Tamil Nadu at present has the highest ratio, followed by Maharashtra.

**Table 3-6** Four-Year Average Values of C-D Ratio of Major States and All-India

State	(per cent)							
	1972-75	1976-79	1980-83	1984-87	1988-91	1992-95	1996-99	2000-03
Andhra Pradesh	87.5	72.0	71.0	76.5	79.4	77.0	74.9	65.4
Assam	90.6	67.0	63.5	72.5	74.3	63.1	40.8	40.3
Bihar	51.7	54.5	48.1	38.0	36.1	37.5	29.2	22.2
Gujarat	66.6	57.7	56.1	55.3	60.0	53.4	54.3	51.6
Haryana	111.5	106.4	96.5	102.9	75.2	62.8	54.3	52.1
Karnataka	95.9	88.9	77.4	86.7	85.2	69.5	70.0	64.9
Kerala	74.3	66.7	71.0	69.3	63.9	47.1	44.2	42.7
Madhya Pradesh	56.8	55.2	60.9	62.4	66.3	58.8	56.4	50.8
Maharashtra	76.4	68.9	77.2	82.4	66.3	59.4	72.8	84.0
Orissa	71.6	70.6	77.0	93.1	92.2	66.2	49.7	46.1
Punjab	50.0	74.4	57.3	64.2	45.1	43.7	40.8	42.1
Rajasthan	60.2	67.0	74.2	70.4	61.0	55.5	49.1	50.8
Tamil Nadu	109.0	99.0	93.1	88.1	95.4	86.1	93.6	89.1
Uttar Pradesh	51.4	52.3	49.8	46.5	43.1	41.5	33.3	32.1
West Bengal	66.5	58.5	54.3	46.9	50.9	49.8	47.6	46.0
All-India	70.5	72.1	67.2	64.9	59.9	56.6	56.6	57.6

Source: Same as table 3.2

While the C-D ratio in Tamil Nadu shows a slight decline or remaining constant during the '90s, Maharashtra experienced improvement in the average C-D ratio over the years since the late '80s. Interestingly, the C-D ratio in both these States at present is about twice that of Kerala.

Information on the ranking of the States in relation to the C-D ratio is given in Table 3.7. The rank of Tamil Nadu, which was relatively better even during the earlier years, improved further during the later years. It enjoys the first position over the period since the late 80's as a whole. The rank of Kerala, which was seven during the early '70s, deteriorated significantly and had become eleven in the later years. Sharp erosion in C-D ratio had occurred in the backward States, situated in central and eastern regions.

**Table 3-7** Ranking of States According to C-D ratio

State	1972-75	1976-79	1980-83	1984-87	1988-91	1992-95	1996-99	2000-03
Andhra Pradesh	5	5	7	6	4	2	2	3
Assam	4	8	9	7	6	5	13	13
Bihar	13	14	15	15	15	15	15	15
Gujarat	9	12	12	12	11	10	7	6
Haryana	1	1	1	1	5	6	6	5
Karnataka	3	3	3	4	3	3	4	4
Kerala	7	10	8	9	9	12	11	11
Madhya Pradesh	12	13	10	11	7	8	5	8
Maharashtra	6	7	4	5	8	7	3	2
Orissa	8	6	5	2	2	4	8	9
Punjab	15	4	11	10	13	13	12	12
Rajasthan	11	9	6	8	10	9	9	7
Tamil Nadu	2	2	2	3	1	1	1	1
Uttar Pradesh	14	15	14	14	14	14	14	14
West Bengal	10	11	13	13	12	11	10	10

Source: Same as table 3.2

The situation in Bihar and Uttar Pradesh (UP) is quite striking. In the ranking of the States in C-D ratio, Bihar remained at the lowest position throughout the period since the late '70s and it was followed by UP for majority of the years. Assam, which had a relatively better ranking during the early periods, reached a position next to UP in the ranking of States during the second half of the '90s and the years following then. Considerable deterioration in C-D ratio had taken place in economically better off States like Punjab and

Haryana too. Between these two States, however, the C-D ratio in the former was relatively lower for majority of the years. In the case of Haryana, though the ratio had fallen, it had stayed at more than 50 percent. Orissa also stands as a case in itself. It was at the middle order during the early years. It reached the second position by the second half of the '80s. Its rank order went down during the '90s and reached during the later years a position worse than what it was at the beginning.

National macro economic factors like credit/fiscal/exchange policy might have brought out reduction of C-D ratio in all States. But compared to many of these States, the problem arose in Kerala at a relative earlier period and the State experienced steady deterioration in the ratio. Also, compared to those States, which had a sharp decline in the C-D ratio during the earlier period itself, the receding tendency in Kerala is relatively of recent origin. The much steady and sharper fall in the C-D ratio and the appearance of it in a significant manner in the State at a time quite different from other States indicates that the nature of the problem differs in Kerala from that in other States. Being so, apart the national policies, Kerala might have been affected by some State specific factors in the making of the receding trend of its C-D ratio.

### **3.1.3.3 Credit-Deposit Ratio: Population-wise Profile**

Table 3.8 gives the population group wise details of the C-D ratio. There has been a decline in the ratio of all population groups in Kerala. Among the three groups, the semi-urban areas have the lowest C-D ratios in Kerala as well as in all-India. Throughout the years it was considerably less than that of the aggregate C-D Ratio in both the State and the country. The average C-D Ratio of the semi-urban areas in Kerala was around 48 percent during the '70s. It improved and showed an average value of 53 percent in the '80s. During the '90s, however, the C-D Ratio of the semi-urban areas had come down drastically. A more or less similar trend could be seen in the case of all-India also. The urban category was at the top of the ratio during the '70s, and '80s. The C-D ratio of the urban areas shows a declining trend over the years. Though declining, this group maintains a fairly high C-D ratio in Kerala. The value of the urban C-D ratio is much higher in Kerala during the first half of the period under consideration and it became less than that of all-India towards the end of the second half.

**Table 3-8** C-D Ratio of Scheduled Commercial Banks by Population Groups

(per cent)

4- Year Average						
Period	Kerala			All – India		
	Rural	Semi urban	Urban	Rural	Semi urban	Urban
1972-'75	56.27	50.17	101.23	49.46	45.48	81.42
1976-'79	54.28	45.50	98.12	52.68	46.27	83.21
1980-'83	60.02	50.57	106.23	57.91	49.68	75.74
1984-'87	75.32	53.23	95.17	67.69	52.98	68.21
1988-'91	83.65	52.44	81.55	75.53	48.88	59.38
1992-'95	59.86	38.72	62.90	69.15	45.65	56.92
1996-'99	66.07	36.44	57.60	56.25	41.53	61.18
2000-'03	61.36	34.82	57.40	53.32	40.76	63.39
Decade- wise Average						
1972- '80	55.38	47.70	100.27	51.42	46.02	81.66
1981- '90	73.73	52.93	94.35	66.30	50.85	67.38
1991- 2000	64.75	38.23	61.06	62.90	43.79	59.42

Source: Same as table 3.2

The rural C-D ratio was at the middle position during the earlier years. The ratio increased during the '70s and '80s. Like the other two categories, the value of rural C-D ratio too has declined during the '90s. The fall in its ratio, however, was relatively less. It assumes the highest C-D ratio during the period since the early '90s as a whole.

#### **3.1.3.4 Credit-Deposit Ratio: Bank group-wise Picture**

In table 3.9, an attempt is made to look at the C-D Ratio bank-wise. The fall in C-D Ratio was experienced by all the banking groups in the SCB system. Among the important bank groups – SBI and its associates, the Nationalised Banks, foreign banks and other scheduled banks (private banks) - the C-D Ratio was the lowest among the foreign banks. It was followed by the Nationalised Banks other than SBI.

**Table 3-9 C-D Ratio: Bank- wise Trend**

(per cent)

YEAR	KERALA						INDIA					
	S.B.I and its associates	Nationalised Banks	Foreign Banks	Regional Rural Banks	Other SCBs	SCBs Other than RRBs	S.B.I. and its Associates	Nationalised Banks	Foreign Banks	Regional Rural Banks	Other SCBs	SCBs Other than RRBs
1975-1979	64	71			61	68	75	72			67	72
1980-1984	70	69		209	64	68	74	64		122	71	68
1985	65	67		169	64	66	74	64		113	69	67
1986	64	62		171	58	62	63	60		109	65	61
1987	81	62		194	58	68	58	58		104	69	59
1988	71	61		225	59	65	47	55		99	66	53
1989	70	62		223	56	64	60	60		96	65	60
1990	65	61		207	56	61	62	58		84	66	60
1991	64	54	98	184	51	57	65	58	82	77	57	62
1992	55	47	86	152	46	50	59	55	77	72	53	57
1993	44	44	58	137	48	45	68	55	58	67	55	59
1994	46	38	24	127	48	43	66	50	45	56	54	54
1995	50	36	21	121	48	44	64	52	57	54	56	56
1996	45	40	14	132	48	43	67	54	76	54	63	60
1997	46	39	19	132	50	44	66	50	74	49	59	57
1998	47	39	17	127	44	43	65	49	72	46	57	56
1999	45	37	11	122	41	40	63	49	72	42	59	55
2000	43	38	18	118	40	40	63	51	83	41	59	57
2001	43	39	25	122	44	42	61	51	90	43	62	57
2002	46	41	23	109	40	42	60	54	86	43	64	59
2003	44	44	42	94	39	42	60	55	93	46	66	60
<b>AVERAGE</b>												
1991-2003	47	41	28	127	45	44	64	52	73	52	59	58
1991-2000	48	41	27	134	46	45	65	52	68	55	57	57
1991-1995	51	43	48	143	48	48	64	54	62	65	55	58
1995-2000	46	38	16	125	45	42	65	51	72	47	59	57
2001-2003	44	41	29	108	41	42	60	53	90	44	64	59

Source: Same as table 3.2



In recent years, the C-D ratio of private sector banks showed marked decline. Their C-D ratio remained less than the State average throughout the '90s. Their C-D Ratio, which was around 56 percent in 1990, had fallen progressively since then and became 39 percent in 2003.

The Regional Rural Banks had a very high C-D Ratio in both Kerala and India. Between the two, it was much higher in the State; more than 200 percent during the early '80s. The C-D ratio of these banks too had experienced a drastic fall during the '90s in the State as well as in the country. The steep fall in the C-D ratio of RRBs at all India during the '90s had coincided with the fall in rural C-D ratio observed above.

*[The following text is extremely faint and illegible in the original document.]*

The C-D ratio as the name suggests is made up of credit as well as deposits and it moves according to the relative pace in the movements of credit and deposits. While deposits growth has a depressing effect on the ratio, credit growth has a positive impact on it. Given the growth rate of deposits, a relatively higher growth in credit moves the C-D ratio upwards and vice versa. Thus the trend in C-D ratio of the commercial banking system is a reflection of the trends in their deposits accretion and credit disbursal. Being so, we move on to look into their trends and patterns for the period under consideration, especially the period from 1991 when credit deposit ratio of the State was falling almost continuously and was below the country average.

#### **3.1.4 DEPOSIT MOBILISATION AND CREDIT DISBURSAL BY THE SCBs**

As the data furnished in table 3.10 shows, the total deposits and credit in the State during the beginning of the period were Rs.247 crores and Rs. 183 crores respectively and together they worked out a C-D ratio around 75 percent. Both deposits and credit show an increasing trend throughout, though the rate of increase varied during the years and over the periods.

**Table 3-10** Trend of SCB Deposits and Credit: Kerala and India

(Amount in Rs Crores)

YEAR	KERALA				ALL INDIA				RATIO OF K/AI %	
	Deposits (Amt)	% Change	Credit (Amt)	% Change	Deposits (Amt)	% Change	Credit (Amt)	% Change	Deposits	Credit
1972	247		183		8360		5553		2.96	3.30
1973	284	14.88	215	17.03	9159	9.56	6333	14.05	3.10	3.39
1974	339	19.37	255	18.71	10755	17.43	7999	26.3	3.15	3.19
1975	407	19.9	294	15.23	12637	17.5	9119	14	3.22	3.22
1976	486	19.45	356	21.07	15255	20.72	11781	29.2	3.18	3.02
1977	671	38.14	440	23.77	18983	24.44	13762	16.81	3.53	3.20
1978	890	32.64	540	22.77	23334	22.92	16288	18.35	3.81	3.32
1979	1119	25.73	759	40.45	28684	22.93	19822	21.7	3.90	3.83
1980	1288	15.09	888	17.07	33321	16.17	22381	12.91	3.86	3.97
1981	1567	21.7	1190	34.01	40413	21.28	26857	20	3.88	4.43
1982	1816	15.87	1312	10.18	45825	13.39	30906	15.08	3.96	4.24
1983	2149	18.36	1441	9.87	54448	18.82	36861	19.27	3.95	3.91
1984	2633	22.48	1948	35.17	64316	18.12	45469	23.35	4.09	4.28
1985	3132	18.95	2141	9.9	77767	20.91	52838	16.21	4.03	4.05
1986	3694	17.94	2374	10.89	92233	18.6	57322	8.49	4.00	4.14
1987	4393	18.94	3115	31.24	108343	17.47	64477	12.48	4.05	4.83
1988	5003	13.88	3367	8.1	127593	17.77	71693	11.19	3.92	4.70
1989	5680	13.53	3745	11.2	147031	15.23	89360	24.64	3.86	4.19
1990	6555	15.41	4134	10.39	171911	16.92	104312	16.73	3.81	3.96
1991	7786	18.79	4641	12.26	200568	16.67	124203	19.07	3.88	3.74
1992	9608	23.39	5013	8.03	237107	18.22	136706	10.07	4.05	3.67
1993	12083	25.77	5691	13.52	275850	16.34	162467	18.84	4.38	3.50
1994	14770	22.24	6525	14.66	323977	17.45	175891	8.26	4.56	3.71
1995	17250	16.79	7798	19.5	379174	17.04	210939	19.93	4.55	3.70
1996	20105	16.55	8989	15.27	426120	12.38	254692	20.74	4.72	3.53
1997	23156	15.18	10587	17.78	500556	17.47	284373	11.65	4.63	3.72
1998	27650	19.4	12362	16.77	596469	19.16	329944	16.03	4.64	3.75
1999	33159	19.93	13850	12.04	698169	17.05	382425	15.91	4.75	3.62
2000	39045	17.75	16281	17.55	821420	17.65	460081	20.31	4.75	3.54
2001	44178	13.15	18697	14.84	949433	15.58	538434	17.03	4.65	3.47
2002	51667	16.95	22575	20.74	1123393	18.32	655993	21.83	4.60	3.44
2003	59522	15.2	25942	14.91	1276196	13.6	755969	15.24	4.66	3.43

Source: Same as table 3.2

Considering the period as a whole, deposits in Kerala had grown at an average rate of 19.4 percent per annum (see table 3.11). The growth rate of credit for the corresponding period was 16.9 percent; thus, compared to deposits, credit growth was about 2.5 percent less. Between Kerala and all-India, the growth rate of both the variables was higher in the State. The degree of difference, however, differs between the variables. Thus while the growth of deposits, compared to all-India, was 1.6 percent more in Kerala, in the case of credit, it was just 0.16 percent.

**Table 3-11** Compound Growth Rate of SCB Deposits and Credit;  
Kerala and All India

(per cent per annum)

Period	Deposits		Credit		Difference in growth rate			
	Kerala	All India	Kerala	All India	Deposit over Credit		Kerala <i>മുഖ്യ</i> India	
					Kerala	All India	Deposits	Credit
1972-2003	19.41	17.83	16.87	16.71	2.54	1.12	1.58	0.16
1972-1987	21.96	19.29	21.41	18.30	0.55	0.99	2.66	3.11
1988-2003	18.54	16.75	14.90	16.43	3.64	0.32	1.79	-1.53
1972-1980	24.49	19.95	22.15	19.79	2.34	0.16	4.54	2.36
1981-1990	17.62	17.91	15.87	15.73	1.75	2.18	-0.29	0.14
1991-2000	19.09	16.73	15.57	15.77	3.51	0.96	2.36	-0.19
1991-2003	18.14	16.74	15.88	16.51	2.27	0.24	1.40	-0.63
1990-1995	22.10	17.17	13.15	14.49	8.95	2.67	4.93	-1.35
1995-2000	17.90	17.09	15.80	16.24	2.10	0.85	0.81	-0.44
2001-2003	16.07	15.94	17.79	18.49	-1.72	-2.55	0.14	-0.70

Source: Same as table 3.2.

Looking at the average growth rates between the two broad sub-periods, 1972-87 and 1988-2003, the rates in both the variables in Kerala and all-India in the first period i.e. 1972-1987 were more than that in the second period. The average growth rate of deposits in Kerala, which was 21.96 percent during 1972-87, had fallen by about 3.4 percent in the second period. In the case of credit, the decline was almost double than that of deposits, about 6.5 percent. At all-India, the degree of the fall, compared to Kerala was much less. From 19.3 percent, the growth rate of deposits had fallen by about 2.6 percent. In the case of credit, the decline was only by 1.9 percent. Consequently, the margin of difference between Kerala and all-India in the growth rate of deposits, which was 2.7 percent higher in Kerala

in 1972-87, declined to 1.8 percent; however, the better position of Kerala in growth of deposits continued in the second period too. In the case of credit, the position got reversed. The credit growth in all-India, which was 3.1 percent less than that of Kerala during the first phase, had turned out to be 1.5 percent more in the second period.

Regarding the difference between deposits and credit growth for each sub-period, the margin was rather negligible (0.55 percent) for the first sub-period for Kerala. In all-India, though higher, it was not much significant—less than 1 percent. Hence, the relatively higher C-D ratio during the period for both Kerala and India. During the second phase, the gap between the growth of deposits and credit got widened and had become more than 3.6 percent in Kerala, so that the C-D ratio fell during the period. In all-India, the gap during the second phase is rather negligible, indicating the relatively higher growth rate of credit there for the period as a whole and hence the better C-D ratio during the second phase.

Looking at the situation decade wise, the seventies (1972-1980) was noted for the highest growth rate in deposits as well as credit in both Kerala and all-India. Kerala's position in growth was relatively better in both the variables. Between the variables, the margin of difference was more in deposits i.e. 4.54 percent. In the case of credit too, the difference was quite significant. With respect to the relative growth rates of deposits and credit, the former was 2.34 percent higher in Kerala. As against this, credit enjoyed a slightly higher growth rate in all-India. Being higher the gap in Kerala between deposits and credit growth, the State experienced a relatively lower C-D ratio, compared to all-India, during these years. Within this period, relatively much higher growth in deposits as well as credit had taken place in Kerala during the second half of the '70s. Thus the deposits growth rate in the State in 1977, compared to the previous year, had doubled i.e., from 19 to 38 percent. During the late '70s, credit too had shown such an accelerating tendency. Deposits and credit had grown at a higher rate in all-India also in those years. Between 1981 and 1990, the growth rate of both the variables declined in the State as well as the country at large and the degree of the fall was more in Kerala. Comparing the magnitude of the fall between the two variables in the State it was slightly higher in the case of deposits. Thus, while it had fallen by about 6.7 percent, the fall in credit was about 6.3 percent. In all-India, the fall in credit was relatively more, but compared to Kerala, the magnitude of it was much less. While deposits had fallen by 2.03 percent, credit had fallen by more than double that rate.

During the '90s, while credit continued the declining tendency of the '80s, the trend of deposits growth got reversed and showed an improvement by 1.46 percent; thus the gap between the two got widened to 3.5 percent. Unlike Kerala, in all-India, the fall in the growth rates exhibited by deposits in the '80s continued in the '90s. Credit shows slight improvement. Between the two variables, the decline was more in the case of deposits. Consequently, comparing Kerala and all-India, the State experienced relatively higher growth in deposits (about 2.4 percent), but in the case of credit, the situation in the State was slightly less than [0.19 percent] that of the all-India growth rate. For the period 1990-2003, the gap has become 0.63 percent. As the gap in the growth rates between deposits and credit got widened during the '90s, the C-D ratio in the State had fallen sharply during the period. Compared to Kerala, the margin between the two was lower in all-India and hence the relatively better position there.

The difference in relative growth trends in the variables that Kerala and all-India experienced is well reflected in the ratio of Kerala to all-India for deposits as well as credit given in Table 3.10. Regarding deposits, the ratio shows an increasing tendency till 1987 but got decelerated during the late '80s, and early '90s. During the '90s, the ratio improved much and comparing the two ends of the period under consideration, there is nearly 70 percent improvement during the latest years. The ratio with regard to credit had a relatively higher value compared to deposits during the early years and it improved till 1987. Thereafter it had shown a decelerating tendency throughout, implying relatively lower credit growth in the State, during the late '80s and the following years.

The growth trend and the turn around in deposits mobilisation and credit disbursal witnessed in the region during the period under consideration can further be depicted with some of the most often used indicators of bank development like per head/per branch deposits as well as credit (see table 3.11). Kerala's per capita deposits (PCD), which was below the national average till 1976-1977, surpassed the latter since then. Having shown fluctuating tendency during the late '70s, the gap between Kerala and all-India in PCD experienced a steady improvement over the years till 1987. Having slid in the next year i.e., 1988, the increasing trend in the gap between the two continued throughout the period since then. Thus the per capita deposits of Kerala, which was about 25 percent less than the all-India average during 1971-72, turned out to be 54 percent higher than that of the latter in 2002-2003.

**Table 3-12** Per Capita SCB Deposits and Credit: Kerala and all-India.

Year	P C D in Kerala (Rs.)	Difference in PC D in Kerala over India (in Rs.)	Ratio of Kerala to India (%)	P C C in Kerala (Rs.)	Difference in PC C in Kerala over India in(Rs.)	Ratio of Kerala to India (%)	Difference of PCC from PCD (in Rs.)	
							Kerala	India
1972	114	-35	76	84	-15	85	30	50
1973	128	-31	80	97	-13	88	31	49
1974	151	-33	82	113	-23	83	38	47
1975	178	-34	84	128	-24	84	50	59
1976	208	-41	84	153	-40	79	55	57
1977	283	-21	93	185	-34	84	98	83
1978	369	4	101	224	-31	88	145	110
1979	455	17	104	309	6	102	146	136
1980	515	16	103	355	20	106	160	164
1981	616	24	104	468	75	119	148	198
1982	704	48	107	508	66	115	196	214
1983	822	59	108	551	34	107	271	247
1984	994	111	113	735	111	118	259	259
1985	1166	121	112	797	87	112	369	335
1986	1357	144	112	872	118	116	485	459
1987	1593	198	114	1129	300	136	464	565
1988	1790	182	111	1205	301	133	585	704
1989	2005	192	111	1322	220	120	683	711
1990	2283	208	110	1440	181	114	843	816
1991	2676	306	113	1595	127	109	1081	902
1992	3272	525	119	1707	123	108	1565	1163
1993	4078	944	130	1921	75	104	2157	1288
1994	4941	1331	137	2183	223	111	2758	1650
1995	5718	1575	138	2585	280	112	3133	1838
1996	6605	2039	145	2953	224	108	3652	1837
1997	7539	2279	143	3447	458	115	4092	2272
1998	8921	2774	145	3989	588	117	4932	2747
1999	10603	3547	150	4429	564	115	6174	3191
2000	12373	4232	152	5160	600	113	7213	3581
2001	13874	4646	150	5872	638	112	8002	3995
2002	16081	5373	150	7026	773	112	9055	4455
2003	18359	6430	154	8002	935	113	10357	4863

Source: Same as table 3.2

Of the three decades, it was in the '90s that the gap got much wider; till then, the maximum difference between the State and all-India average remained less than 15 percent. Significantly, in the ranking of the major States with respect to per capita deposits, Kerala's position has improved over these years (see Appendix 3A-3). From the 6<sup>th</sup> place in 1971-72, the State now occupies the third position in per head deposits.

The position of the State in per capita credit (PCC), as in the case of deposits, was below the all-India average during the early years and the situation continued till 1979. Kerala surpassed all-India in PCC since then and remained so throughout. But unlike deposits, the position of Kerala in PCC shows much fluctuation. Between the two decades since the late '70s, the relatively better position in Kerala in PCC was more impressive during the '80s. The relatively better position of the State, compared to all-India, in PCC came down during the '90s, particularly during the first half of the decade. It is true that better deposits growth and relatively lower population growth gave acceleration to PCD. But credit in its turn moved in the opposite direction and this is despite population growth reaching near stagnation.

Table 3.13 provides information on the trend of the deposits mobilisation and credit disbursal per bank office.

**Table 3-13** Deposits as well as Credit per SCB Office: Kerala and All-India

Year	Deposits per office in Kerala (Rs.lakhs)	Difference in deposits per office Kerala over India	Ratio of Kerala/India	Credit per office in Kerala (Rs lakhs)	Difference in credit per office Kerala over India	Ratio of Kerala/India	Difference of deposit per office over credit per office (Rs.lakhs)	
							Kerala	India
1972-1975	30.3	-32.0	48.5	22.5	-21.6	51.1	7.8	18.3
1976-1979	44.3	-37.9	53.7	29.5	-29.6	49.7	14.8	23.1
1980-1983	71.1	-42.6	62.3	50.4	-26.1	65.8	20.7	37.3
1984-1987	126.5	-37.1	77.0	87.5	-18.0	82.5	39.0	58.1
1988-1991	216.6	-54.2	79.8	137.6	-25.3	85.3	79.0	108.0
1992-1995	443.6	-38.1	91.7	206.9	-64.8	76.2	236.6	209.9
1996-1999	805.7	-40.0	95.2	354.6	-122.0	74.4	451.1	369.1
2000-2003	1430.4	-109.6	93.2	614.2	-275.9	69.3	816.3	650.0

Source: Same as table 3.2.

Deposits per office in Kerala on average was Rs.30.3 lakhs during 1972- 75 and the value in the State in this regard was only 48.5 percent of the corresponding all-India average. The value of per office deposits increased over the years in both Kerala and all-India. The progress witnessed in the State was much more and it was reflected in the overall improvement in the ratio of the deposits per office in Kerala to all-India. The ratio declined slightly in recent years; however, its value in the State is much better than of the earlier situation.

Credit per office too has increased over the years. Compared to the country its increase was higher during the 80s. The relatively better growth of SCB offices in Kerala in recent years may be a reason for this; even giving allowance for it, the situation seems to be the same.

Thus, using a variety of parameters of banking performance, it can be unambiguously suggested that Kerala has experienced an asymmetric financial (banking) intermediation process i.e., relatively lower growth in credit, compared to deposits. Though growth in credit was relatively lower throughout, it was during the late '80s and '90s that the slackness assumed much significance. The rate of credit growth during the period was significantly lower not only in comparison with the earlier period/periods but also in comparison with the corresponding growth rate experienced in the country. While credit growth had shown decelerating tendency during the '90s, deposits growth during the period, compared to the previous decade, accelerated. The growth rate of it remained well ahead of India so as to bring down the C-D Ratio of the commercial banking system in the State. In all-India, while the growth of deposits during the '90s was relatively lower compared to the previous periods as well as the corresponding growth rate at the State level, the growth of credit remained more or less equal to the previous periods and was much ahead of deposits. Hence, the C-D ratio in all-India during the '90s, though had fallen compared to the '80s, remained much ahead that of Kerala. It was more or less equal to the country's position prior to the '90s. It is true that deposits growth was quite impressive during the one and a half decade since the mid-seventies, but during those years credit growth was quite matching with the deposits growth or the fall in credit was not as depressive as during the '90s. Thus comparing the two forces, the degree of fall in credit appears to be more significant in bringing down the C-D ratio in Kerala at least in relation to all India, over the past more than one and a half decades.



Looking the situation differently, through the provision of financial assets in the form of deposits to the savers, the SCBs in the region have made strides in surplus mobilisation. But in the provision of credit, corresponding progress has not been made. Thus the primary function of the SCBs in the State turns out to be more of gathering deposits and less of loan provision within the State.

### **3.1.5 CREDIT PLUS INVESTMENT TO DEPOSITS (C+I: D) RATIO**

It is often argued that the C-D ratio in a region/ State is a crude indicator of the proportion of deposits mobilised by the banking system, utilised in that region. Besides credit, the commercial banks inject funds into the States through investment in State government securities and in bonds and debentures of their State associated organisations and local bodies. Hence the credit plus investment to deposits ratio may be taken into consideration while discussing matters on the role of banking system in a State economy. The relevant data is provided in Table 3.14. (See Chart 3.2 also).

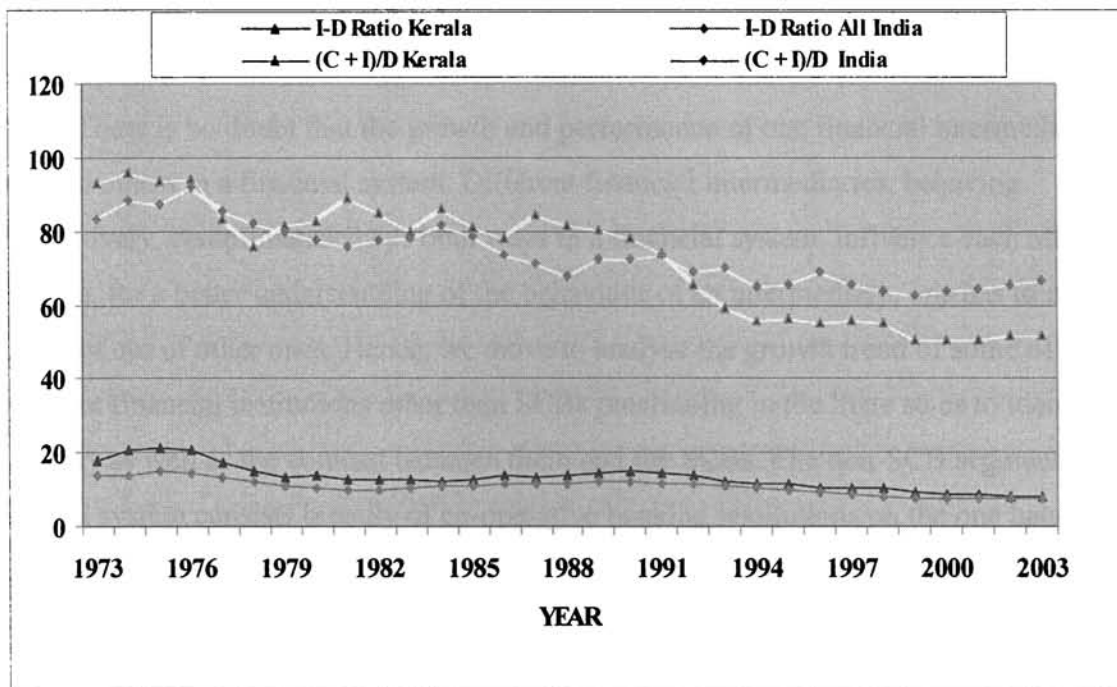
The investment to deposits ratio(I:D), like the C-D ratio, has moved in a fluctuating manner, and has shown sharp decline over the years. Thus the ratio, which was more than 21 percent during the mid-'70s, had fallen continuously throughout for about a decade since then. It reached little above 12 percent in 1984. During the second half of the '80s, the ratio had moved up. It reached 15 percent in 1990. Since then, the ratio fell again and reached less than 7 percent in 2003. The trend of the credit to investment ratio at all-India was more or less the same that of the State. The value of the ratio at the country level, compared to the State, is relatively lower. The gap between the two was quite significant during the early years; it got thin in later years.

**Table 3-14** Investment and Credit Plus Investment Deposits  
Ratio: Kerala and All-India

(per cent)

Year	Investment/ deposit ratio		Difference in I:D ratio of Kerala over India	Credit plus investment/ deposit ratio		Difference in C+I:D ratio of Kerala over India
	Kerala	India		Kerala	India	
1973	17.6	13.94	3.66	93.17	83.09	10.08
1974	20.77	13.95	6.82	95.91	88.32	7.59
1975	21.22	14.87	6.35	93.44	87.03	6.41
1976	20.84	14.48	6.36	94.04	91.71	2.33
1977	17.5	13.13	4.37	83.09	85.62	-2.53
1978	15.14	12.02	3.12	75.84	81.82	-5.98
1979	13.44	10.74	2.70	81.25	79.85	1.4
1980	13.59	10.19	3.40	82.56	77.36	5.2
1981	12.78	9.61	3.17	88.73	76.07	12.66
1982	12.91	10.01	2.90	85.12	77.45	7.67
1983	12.73	10.15	2.58	79.77	77.85	1.92
1984	12.15	10.67	1.48	86.13	81.36	4.77
1985	12.44	10.94	1.50	80.8	78.88	1.92
1986	13.87	11.26	2.61	78.14	73.4	4.74
1987	13.39	11.42	1.97	84.3	70.93	13.37
1988	13.99	11.62	2.37	81.3	67.81	13.49
1989	14.61	11.78	2.83	80.54	72.55	7.99
1990	14.91	11.92	2.99	77.97	72.59	5.38
1991	14.54	11.71	2.83	74.14	73.64	0.5
1992	13.56	11.49	2.07	65.74	69.14	-3.4
1993	12.1	11.12	0.98	59.2	70.01	-10.81
1994	11.27	10.62	0.65	55.45	64.92	-9.47
1995	11.23	9.65	1.58	56.43	65.28	-8.85
1996	10.56	9.25	1.31	55.27	69.02	-13.75
1997	10.24	8.54	1.70	55.95	65.35	-9.4
1998	10.45	8.26	2.19	55.16	63.58	-8.42
1999	9.04	7.7	1.34	50.8	62.47	-11.67
2000	8.72	7.63	1.09	50.42	63.64	-13.22
2001	8.45	7.55	0.90	50.77	64.26	-13.49
2002	8.05	7.22	0.83	51.74	65.61	-13.87
2003	7.98	7.19	0.79	51.56	66.42	-14.86

Source: Report on Statistical Tables Relating to Banks in India, RBI, Various issues.

**Chart 3-2** Trends in Credit plus Investment Deposit (C+I: D) Ratio

Given the falling trend of bank credit as well as investments, the resultant credit plus investment to deposit ratio too has naturally fallen in Kerala and India. From around 95 percent during the mid-'70s, the ratio has fallen to a little above 80 percent in the late '80s. Between the late '80s and late '90s, the fall was much sharper, by about 30 percent. The average credit plus investment to deposit ratio now remains at around 51 percent.

Kerala, being part of the all-India federal set up, and its financial system being an integral part of all-India financial network, the lower position of the C-D ratio as well as credit plus investment to deposit ratio of the SCBs in the State is often used from many quarters to hypothesise that the banking system operating in the State is helping to funnel financial resources from Kerala to other areas. It is also being suggested that the falling C-D ratio is a consequence of such drain of resources from the State to other areas. The trend in the behaviour of the ratio shown above, however, does not lead us to such a conclusion as the fall in the ratio is not only confined to Kerala but also to India as a whole. Given the national banking network such a flow of funds from Kerala to other States is possible but it need not be the cause for the fall in C-D ratio in Kerala.

## **Section 3.2**

### **Non- SCB Financial Intermediaries**

There is no doubt that the growth and performance of one financial intermediary is linked to others in a financial system. Different financial intermediaries, behaving competitively, complementarily or both ways in a financial system, influence each other. Being so, for a better understanding of the behaviour of an intermediary, one has to examine the behaviour of other ones. Hence, we move to analyse the growth trend of some of the important financial institutions other than SCBs functioning in the State so as to identify the similarity as well as the contrast between them and the SCBs. The non-SCB segment of the financial system consists broadly of co-operative banking institutions on the one hand and the non-banking financial intermediaries ranging from the informal credit institutions to the most sophisticated capital market on the other. Within this broad category, however, given the paucity of data, we may focus only on co-operative banking institutions and the all-India development financial institutions.

#### **3.2.1 CO-OPERATIVE CREDIT SOCIETIES AND BANKS**

The co-operative credit structure in the State consists of two wings: organisations for short-term credit and for long term credit. As we noted in the previous chapter, co-operative credit organisations for short-term have a three-tier structure consisting of the Kerala State Co-operative Bank (KSCB) at the apex/State level, District Co-operative Banks (DCBS) at the district level and Primary Agricultural Co-operative Societies (PACSS) at the primary/village level. The Long Term Co-operative Credit Structure in Kerala is federal with Kerala State Co-operative Agricultural and Rural Development Bank Ltd (KSCARDB) at the apex level and Primary Co-operative Agricultural and Rural Development Bank (PCARDBs) affiliated to it. These five institutions (which primarily deal with agricultural credit) are the most important constituents of the State's co-operative credit system. Besides them, the co-operative credit system in the State consists of non-agricultural credit institutions like Employees Credit Societies, Housing Societies, Urban Banks, etc.

### **3.2.1.1 Credit Co-Operative Network: Progress and the Present Status**

The network of the co-operative credit and banking system in the State has made substantial progress in terms of the number of societies, membership, deposits and advances during the period under consideration. Compared to other Indian States, the progress that Kerala has made in this regard is much more. At present, the region has an extensive network of co-operative credit societies. Altogether, more than 4000 Credit Societies had been working in the State in 2000. The short-term three-tier credit structure has around 1600 Agricultural Credit Societies at the primary level. The District Co-operative Banks, which are 14 in number, operate through a network of 447 branches. The apex bank has 20 branches affiliated to it. The KSCARDB constitutes the apex institution in the long term credit structure. It operates through 14 regional offices and 44 PARDBs (NABARD, 2001).

Between the short and long term co-operative credit institutions, the former occupies the predominant place in the overall co-operative system. Hence, in our analysis of the performance of the co-operative system attempted here, we proceed to look only at their performance. Among the three institutions, however, we have comparable data only in the case of the first two—the State and the district co-operatives and that too only for the period since the late '70s. Therefore, our focus will be on their performance over the two and a half decades since the late '70s. Their growth behaviour during the period is expected to represent the three tier co-operative system as a whole. Even though much of the operations of the co-operative system are done by the PACS, their dependence on the other tiers is significant and hence their operations would get reflected in the operations of the higher tiers and vice versa.

### **3.2.1.2 C-D Ratio of the Co-operative System**

As done earlier, we shall proceed with the discussion of the trend in the C-D ratio of the co-operative system (see Table 3.15). Considering the 25-year period since 1978 as a whole, the district as well as the State co-operative banking system had experienced fall in their respective credit-deposit ratios. Though there is slight difference in the degree and year wise movements, the nature of decline in both of them was more or less in the same pattern. Comparing '80s and '90s, the decline, as in the SCBs, was more during the latter decade. Out of the 13 years since 1990, the C-D ratio of the co-operative institutions has

fallen for eight years; but during the 13-year period till then, the fall in the C-D ratio was only for 5 years. Consequently, the average annual C-D ratio that was 115 percent during the '80s had fallen to 85 percent in the '90s. Interestingly, only for two years i.e.; 1985 and 1986 that the C-D ratio had fallen below 100 percent in the '80s. These years were noted for fall in C-D ratio for the SCB system, but for the cooperatives the falling tendency started earlier and its degree seems to be sharper. Also, in contrast to the SCB system, the C-D ratio of the co-operatives had shown an increasing trend during the later years of the '80s.

**Table 3-15** C-D ratio of the Co-Operative System:

Kerala and All -India

(per cent)

Year	Kerala				India				Difference in C-D ratio of Kerala over India for DCBS + SCBS
	DCBS	SCBS	DCBS + SCBS	Increasing/Decreasing	DCBS	SCBS	DCBS + SCBS	Increasing/Decreasing	
1978	124.5	131.6	126.4		153.6	133.4	145.1		-18.7
1979	96.1	92.5	95.0	-31.3	139.5	115.8	129.5	-15.6	-34.4
1980	114.5	113.2	114.1	19.1	132.3	106.1	121.3	-8.1	-7.2
1981	114.8	124.3	117.4	3.3	123.3	109.7	117.7	-3.6	-0.3
1982	136.1	169.2	145.1	27.8	134.8	131.8	133.6	15.9	11.6
1983	135.7	151.5	140.3	-4.9	137.3	138.3	137.7	4.2	2.6
1984	118.9	113.6	117.4	-22.8	128.5	117.6	124.1	-13.6	-6.7
1985	89.0	92.8	90.0	-27.4	117.2	108.3	113.7	-10.4	-23.6
1986	99.6	87.7	96.2	6.1	112.6	111.7	112.2	-1.4	-16.1
1987	112.7	129.8	117.3	21.2	114.4	106.4	111.4	-0.8	5.9
1988	100.0	169.2	120.1	2.8	118.0	107.9	114.3	2.9	5.8
1989	98.0	216.0	130.2	10.1	119.3	113.0	116.9	2.6	13.3
1990	100.1	116.4	104.9	-25.4	117.5	115.7	116.9	0.0	-12.0
1991	91.7	102.9	94.6	-10.2	107.8	117.7	111.5	-5.3	-16.9
1992	97.3	103.2	99.0	4.3	111.4	121.1	114.7	3.2	-15.7
1993	95.9	96.2	96.0	-3.0	108.8	122.0	113.6	-1.1	-17.6
1994	85.1	81.9	84.1	-11.9	95.9	91.9	94.4	-19.3	-10.3
1995	90.7	99.0	93.0	9.0	100.2	122.8	108.3	13.9	-15.2
1996	101.8	112.9	104.7	11.6	97.8	123.5	106.9	-1.4	-2.2
1997	88.0	90.2	88.6	-16.1	93.1	104.7	97.3	-9.6	-8.8
1998	79.3	66.8	76.0	-12.6	86.0	88.3	86.9	-10.4	-10.9
1999	66.3	37.9	57.7	-18.3	80.8	84.9	82.3	-4.6	-24.6
2000	62.9	66.1	63.8	6.1	80.5	87.0	82.8	0.5	-19.0
2001	72.6	69.9	71.9	8.1	84.7	92.0	87.2	4.5	-15.4
2002	72.7	64.0	70.3	-1.6	86.4	90.1	87.7	0.5	-17.4
2003	64.9	53.2	61.5	-8.8	86.7	88.4	87.3	-0.4	-25.8

Note: SCBS- State Co-operative Bank, DCBS-District Co-operative Banks

Source: RBI, Statistical Statement Relating to the Co-operative Movement in India, Various issues, GOK, the Registrar of Co-operative Societies, Kerala, Handbook on Co-operative Movement in Kerala, various issues.

During the '90s, in contrast to the '80s, only for one year i.e., 1996 that the C-D ratio in the State was more than 100 percent. During the last three years of the '90s, the C-D ratio had fallen continuously and sharply so that by 1999, the ratio of the two institutions together had reached 57.68, the lowest ratio in the whole period. In the next three years, the C-D ratio of the co-operatives improved, but in 2003, it again declined and was around 60 percent. The declining years of C-D ratio of the co-operative system at all-India, more or less coincided with those of the State. However, compared to Kerala, the degree of its fall in all-India was less sharp and less fluctuating year-wise. Thus, the average C-D ratio that was more than 116 for '80s at all-India declined to a little above 106 during the '90s. Looking at the average value of the C-D ratio between Kerala and all-India, the value in the State was relatively lower in both the decades and the gap between Kerala and all-India got widened during the '90s.

### **3.2.1.3 C-D Ratio: Co-operatives and SCBs Compared**

Even though there is year-wise difference in the movement of the C-D ratio, the falling tendency of the C-D ratio that the co-operative system exhibited during the '90s, needless to say, is in conformity with the trend of the same experienced by the scheduled commercial banking system. In table 3.16 and chart 3.3, information is provided on the C-D ratio of the commercial and co-operative system together and the value of it is higher than that of the C-D ratio of the SCBs taken alone. Interestingly, though the gap between the two shows fluctuations over the years, a declining trend of it can be discerned. The gap has become considerably thin since 1996. This in turn, indicates the relatively higher fall in C-D ratio that the co-operative system experienced during the later years of the '90s.

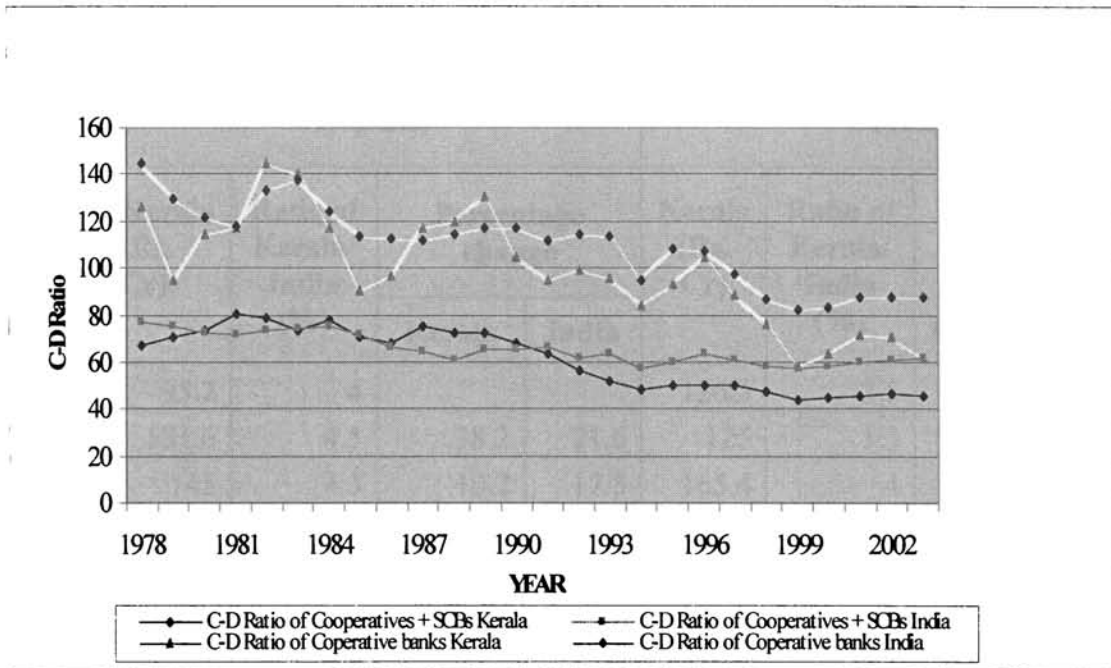


**Table 3-16** C-D Ratio of the Banking System: Kerala and All India  
(per cent)

Year	Scheduled Commercial Banks + DCBS + SCBS		Difference in the C-D ratio of SCBs from the Banking System		Difference in C-D ratio of Kerala from All-India	
	Kerala	All-India	Kerala	All-India	Banking System	Scheduled Banks
1978	67.05	76.77	-6.35	-6.97	-9.72	-9.1
1979	70.67	74.64	-2.86	-5.53	-3.97	-1.3
1980	73.54	72.18	-4.57	-5.02	1.36	1.81
1981	80.16	71.17	-4.21	-4.72	8.99	9.5
1982	78.89	73.53	-6.67	-6.09	5.35	4.78
1983	73.28	73.9	-6.24	-6.2	-0.62	-0.66
1984	77.97	75.48	-3.99	-4.78	2.5	3.28
1985	70.42	71.88	-2.07	-3.94	-1.47	0.41
1986	67.61	66.45	-3.35	-4.3	1.16	2.12
1987	75.23	63.92	-4.32	-4.4	11.31	11.4
1988	72.05	61.12	-4.74	-4.93	10.93	11.12
1989	72.38	65.55	-6.45	-4.78	6.83	5.16
1990	67.49	65.42	-4.43	-4.74	2.07	2.39
1991	63.03	65.97	-3.43	-4.05	-2.94	-2.32
1992	56.44	61.85	-4.26	-4.2	-5.41	-5.48
1993	51.5	63.13	-4.40	-4.24	-11.63	-11.8
1994	48.03	57.54	-3.85	-3.25	-9.51	-10.11
1995	49.62	59.68	-4.42	-4.05	-10.05	-10.43
1996	49.71	63.63	-5.00	-3.86	-13.92	-15.06
1997	49.63	60.35	-3.91	-3.54	-10.72	-11.09
1998	47.69	58.15	-2.98	-2.83	-10.46	-10.61
1999	43.51	57.33	-1.74	-2.55	-13.82	-13.01
2000	44.43	58.52	-2.73	-2.51	-14.08	-14.31
2001	45.87	59.46	-3.55	-2.75	-13.6	-14.39
2002	46.81	60.9	-3.12	-2.5	-14.09	-14.7
2003	45.72	61.52	-2.14	-2.28	-15.8	-15.65

Source: Same as Table 3.2 and 3.15

**Chart 3-3** Trends in Credit Deposit Ratio of Co-Operatives and the Banking System (Co-operatives+SCBs)



#### **3.2.1.4 Growth Trends of Deposits and Credit:**

##### ***Co-operatives as well as the Banking System***

As the next logical step, the trend and pattern of the deposits and credit of the co-operative system is now looked at. As can be seen from table 3.17, both deposits and credit in Kerala show much fluctuation over the years. The fluctuating tendency, compared to that of Kerala, seems to be less in India. Between the variables, the fluctuation is found to be more in the case of credit.

**Table 3-17** :Trend of Co-Operative Deposits and Credit:  
Kerala and India

Year	Deposits				Credit			
	Kerala (Rs. Cr)	Ratio of Kerala/ India (%)	Percentage change		Kerala (Rs. Cr)	Ratio of Kerala/ India (%)	Percentage change	
			Kerala	India			Kerala	India
1978	95.2	4			120.3	3.5		
1979	131.6	4.5	38.2	21.6	125	3.3	4	8.5
1980	145	4.3	10.2	17.5	165.4	4	32.3	10.1
1981	177.4	4.3	22.3	20.4	208.2	4.3	25.9	16.8
1982	182.8	3.9	3	13.5	265.3	4.3	27.4	28.8
1983	200.4	3.8	9.6	13.8	281.1	3.9	6	17.4
1984	266.4	4.2	32.9	19.5	312.8	4	11.3	7.7
1985	329.3	4.5	23.6	16	296.5	3.6	-5.2	6.2
1986	433.1	5	31.5	18.1	416.5	4.3	40.5	16.6
1987	450.7	4.5	4.1	16	528.8	4.7	27	15.1
1988	493	4.2	9.4	17.8	592.1	4.4	12	20.8
1989	633	4.6	28.4	15.6	824.3	5.2	39.2	18.3
1990	775.7	4.9	22.5	15.7	813.4	4.4	-1.3	15.7
1991	845.6	4.7	9	12.7	800.3	4	-1.6	7.5
1992	963.2	5.1	13.9	5.5	953.4	4.4	19.1	8.6
1993	1196.7	5.2	24.2	23	1148.7	4.4	20.5	21.8
1994	1576.1	5.5	31.7	23.4	1325	4.9	15.3	2.5
1995	1755.8	5.6	11.4	10.5	1633.6	4.8	23.3	26.8
1996	1828.1	4.8	4.1	20.4	1913.6	4.7	17.1	18.8
1997	2325.7	4.9	27.2	26.2	2059.9	4.4	7.6	14.9
1998	2914.8	5	25.3	22.7	2215.6	4.3	7.6	9.5
1999	4063.9	5.7	39.4	21.4	2344.1	4	5.8	15
2000	5518.3	6.5	35.8	18.9	3518.9	5	50.1	19.6
2001	6019.8	6.4	9.1	10.9	4326.4	5.3	22.9	16.9
2002	6858	6.5	13.9	11.4	4820.6	5.2	11.4	12.1
2003	8036.8	7.1	17.2	7.9	4944.3	5	2.6	7.4

Source: Same as Table 3.15

During the 26 years period taken together, deposits mobilisation by these two institutions had grown at a rate more than 19 percent (see table 3.18). Credit lagged behind deposits growth by about 3 percent. For both the variables, the rate of growth is more in Kerala than in India. The deposits growth in all-India was about 2.25 percent less than that of Kerala. The value of the average growth of credit in India was about 14.7 percent; about 2.2 percent less than that of its own deposits and 1.3 percent less than the corresponding credit growth at the State level.

**Table 3-18** Period wise, Average Annual Growth Rate of  
Co-operative Deposits and Credit: Kerala and India

(per cent per annum)

Year	Deposits		Credit		Difference			
	Kerala	India	Kerala	India	Deposits over Credit		Kerala over India	
					Kerala	India	Deposits	Credit
1978-2003	19.15	16.90	16.02	14.69	3.13	2.21	2.25	1.33
1978-1987	18.31	17.00	17.03	14.54	1.29	2.47	1.31	2.49
1988-2003	20.71	17.51	15.43	14.57	5.28	2.95	3.20	0.86
1981-1990	18.73	16.57	16.95	14.98	1.78	1.59	2.16	1.97
1991-2000	21.86	19.77	15.93	15.31	5.93	4.47	2.08	0.62
1991-2003	21.67	18.32	16.72	15.11	4.95	3.22	3.34	1.61
1990-1995	13.95	11.49	13.07	11.52	0.88	-0.03	2.46	1.55
1995-2000	26.94	22.29	11.95	14.71	14.99	7.59	4.65	-2.76
2000-2003	13.41	10.21	11.95	12.04	1.46	-1.83	3.20	-0.09

Source: Same as 3.15

Looking at the trend period wise, the growth rate of deposits in both Kerala and all-India, compared to the '80s, was higher during the '90s. Comparing the State and the country, the difference between the two periods is slightly higher in India; 3.2 percent as against 3.1 percent in Kerala. However, the growth rate of deposits in Kerala is higher than that of India. In the case of credit, the growth rate was relatively lower in the '90s. While it declined by about one percent in Kerala, the rate increased slightly i.e.; 0.33 percent in the country.

Regarding the difference between the growth rates of deposits and credit, the gap was just 1.78 percent during the '80s. It got widened in the '90s and had turned out to be nearly 6 percent. For the country, the gap increased from 1.6 percent to 4.47 percent in the

respective decades. Thus Kerala has experienced a much lower growth in its credit, in comparison with the growth of the deposits during the '90s and credit growth of the previous years. Consequently, the C-D ratio had fallen in the State more. Though the co-operative system had fared better in its deposit mobilisation during the '90s, its spread is rather uneven. The higher growth in deposits that the region experienced in the '90s was more towards the end of the decade. Thus, during the first half of the decade, the performance was relatively poor. The average growth rate of deposits during 1990-'95 was about 6.9 percent less than the average rate of the '90s as a whole (21.86). Interestingly, the average growth rate of deposits during the '80s too was much higher than what was achieved during the first half of the '90s. As against this, during the years from 1997 to 2000, the annual growth rate of deposits improved much and was about 5.1 percent higher than the growth rate of the '90s. For the last three years since 2001, the deposits growth rate again declined and hence the lower growth rate for the period 1991-2003 as a whole, compared to the '90s alone. With respect to credit, the relatively lower growth rate of it during the '90s was spread towards both ends of the decade. The performance of credit during the initial years of the '90s was much low and hence the relatively lower C-D ratio at the beginning of the decade. Similarly, the higher growth in deposits during the latter half of the '90s coincided with the deceleration in credit growth; so the sharp decline in the C-D ratio during the period.

The analysis of the performance of the co-operative banking system done so far shows that the trend and pattern of the growth in deposits and credit of the co-operatives were quite similar to that found with the scheduled commercial banking system. Both had shown better deposits mobilisation during the '90s, but their performance in credit disbursement during the period was much poor. In table 3.19, an attempt is made to look at the growth behaviour of the variables for the SCBs and the co-operatives together. For the period as a whole and for many of the sub-periods considered, the growth rate of both the banking variables for the co-operative banking system as a whole was more than that of the SCBs in Kerala. Between the two periods, however, some divergence in the degree of difference in the growth rates of the variables can be seen. Compared to 1981-'90, the difference in the growth rate of co-operative deposits as well as credit with that of the corresponding SCB deposits and credit is more in the '90s.

**Table 3-19** Period wise, Average Annual Growth Rate of Deposits and Credit of the Banking System, in Kerala and All India

(per cent per annum)

Year	Deposits				Credit			
	Difference of Cooperatives from SCBs		Banking System (SCBs + DCBS + SCBS)		Difference of Co-operatives from SCBs		Banking System SCB + DCBS + SCBS	
	Kerala	All-India	Kerala	All-India	Kerala	All-India	Kerala	All-India
1978-2003	-0.77	0.34	18.46	17.22	-0.65	1.47	15.47	15.95
1978-1987	0.82	1.35	19.06	18.23	2.71	2.44	19.31	16.59
1988-2003	-2.17	-0.76	18.77	16.81	-0.53	1.87	14.99	16.18
1981-1990	-1.11	1.34	17.73	17.79	-1.08	0.75	16.04	15.61
1991-2000	-2.77	-3.04	19.38	16.99	-0.36	0.46	15.64	15.71
1991-2003	-3.52	-1.58	18.51	16.87	-0.84	1.40	16.02	16.32
1990-1995	8.15	5.68	16.82	13.55	0.08	2.98	11.23	12.20
1995-2000	-9.04	-5.20	18.80	17.53	3.85	1.54	15.48	16.03
2000-2003	1.87	5.86	15.05	15.54	5.24	6.34	16.27	17.57

Note: SCBs-Scheduled Commercial Banks, SCBS- State Co-operative Bank, DCBS-District Co-operative Banks

Source: Same as Table 3.2 and 3.15

Between the two variables, the difference during the '90s is found to be more in the case of deposits. During the '80s, however, the degree of difference was more or less the same for the two variables. It implies that compared to the SCB system, there had been a greater acceleration in deposits growth and higher deceleration in credit growth in the co-operative system. This tendency, as is to be expected, was more pronounced during the last more than one and a half decade. Thus the difference in the growth rate between SCB deposits and co-operative deposits during the years between 1995 and 2000 had become 9.04 higher for the latter; but with regard to credit it was 3.85 percent less than that of the SCB credit. The difference in the growth behaviour of the variables between the SCBs and the co-operatives would suggest a kind of competitive behaviour in deposits mobilisation as against an apparent complementary behaviour in credit disbursal.

Compared to Kerala, the growth rate of the variables for the banking system as a whole in India for the entire period was less than that of the SCBs alone, indicative of the relatively poor performance of the co-operative system at all-India level. Its performance is poor not only in comparison with that of the SCBs but also with the performance of the co-operatives system in the State. Hence, the ratio of co-operative deposits as well as credit in Kerala to in India was relatively better as shown in table 3.18. The ratio for deposits as well as credit was fairly good during the early years itself and it improved further over the years.

The relatively better position that the co-operatives enjoy in the State can be further understood with the information on per capita co-operative deposits and credit given in table 3.20. Between the two, the position of Kerala was much better in the case of deposits.

**Table 3-20** Per Capita Deposits and Credit of the Co-operative System

4- YEAR AVERAGE ( in Rs)										
Period	DCBS + SCBS (Amt)		Ratio of K/AI(%)	SCBs + DCBS + SCBS (Amt)		DCBS + SCBS (Amt)		Ratio of K/AI(%)	SCBs + DCBS + SCBS (Amt)	
	Kerala	India		Kerala	India	Kerala	India		Kerala	India
1978-1981	54	47	114	534	513	61	61	100	389	378
1980-1983	69	62	110	723	682	88	80	111	552	496
1984-1987	134	106	126	1392	1224	140	122	115	1012	848
1988-1991	236	178	132	2400	2124	263	205	128	1647	1370
1992-1995	449	282	160	4856	3650	417	303	138	2491	2209
1996-1999	863	547	158	9153	6229	690	508	136	4353	3726
2000-2003	2045	950	215	17050	10849	1364	819	166	7792	6519
Decade- Wise Average										
1981-1990	129	106	122	1350	1214	151	127	119	991	834
1991-2000	640	398	161	6627	4778	540	395	137	3319	2893

Note: SCBs-Scheduled Commercial Banks, SCBS- State Co-operative Bank, DCBS- District Co-operative Banks

Source: For SCBs and Population, same as Table 3.2; For Co-operatives, same as Table 3.15.

Though Kerala's relative position in deposits was better throughout, it was in the later years that the gap got widened, indicating better intermediation between the savers and banks than between the banks and users of funds.

### 3.2.1.5 Primary Agricultural Credit Societies (PACS)

We had excluded the performance of the primary agriculture credit societies in our above analysis due to the lack of comparable data on the same. In table 3.21, available data on the PACS, is provided.

**Table 3-21** Performance of PACS and its Relative Significance  
(Amt Rs. in Crores)

Year	Deposit in Kerala (Amt in Rs)	Ratio of Deposits Kerala/India(%)	Credit in Kerala (Amount in Rs. Crores)	Ratio of Credit Kerala/India(%)	C-D RATIO (%)		SHARE IN TOTAL BANKDEPOSITS (%)			SHARE IN TOTAL BANK CREDIT (%)		
					Kerala	India	PACS	DCBS + SCBS	DCBS + SCBS + PACS	PACS	DCBS + SCBS	DCBS + SCBS + PACS
1980	114	46	171	7	151	951	7.36	9.37	16.74	13.99	13.5	27.49
1981	144	49	220	8	153	902	7.6	9.39	17	13.58	12.87	26.45
1982	148	47	235	8	159	937	6.89	8.51	15.41	12.95	14.65	27.59
1983	190	52	277	9	146	877	7.48	7.89	15.37	13.84	14.06	27.91
1984	232	52	328	9	142	835	7.4	8.51	15.9	12.67	12.09	24.75
1985	304	56	398	10	131	738	8.06	8.75	16.81	14.05	10.46	24.5
1986	380	58	490	11	129	677	8.43	9.61	18.04	14.95	12.7	27.64
1987	424	57	578	12	136	673	8.04	8.56	16.6	13.69	12.53	26.21
1988	524	58	676	12	129	632	8.7	8.19	16.89	14.59	12.77	27.36
1989	604	58	766	12	127	607	8.73	9.15	17.88	14.35	15.45	29.81
1990	743	59	875	13	118	532	9.2	9.61	18.81	15.03	13.97	29
1991	889	61	972	16	109	412	9.34	8.88	18.22	15.15	12.48	27.63
1992	1178	63	1236	16	105	409	10.02	8.2	18.22	17.16	13.24	30.4
1993	1506	66	1495	18	99	369	10.19	8.09	18.28	17.93	13.78	31.72
1994	1891	69	1840	20	97	346	10.37	8.64	19.01	18.99	13.67	32.66
1995	2442	85	2284	23	94	348	11.38	8.19	19.57	19.5	13.94	33.44
1998	3496		3209		92		10.26	8.56	18.82	18.04	12.46	30.5
1999	4457		3693		83		10.69	9.75	20.44	18.57	11.79	30.36
2000	5623		4420		79		11.2	11	22.2	18.25	14.53	32.78
2003	8018		6873		86		10.61	10.63	21.24	18.2	13.09	31.3

Note: SCBS- State Co-operative Bank, DCBS-District Co-operative Banks, PACS-Primary Agricultural Credit Societies

Source: Same as Table3.15



Considering the period as a whole, it depicts a behavior quite similar to that of the other two co-operative institutions and the commercial banking system. The PACS too had experienced sharp fall in the C-D ratio, a phenomenon consequent of the lower credit growth and higher deposits mobilisation. As a proportion of total bank deposits, the share of PACS has increased over the years, implying relatively higher rate of deposits accretion to them. Their proportion in total deposits of the banking system improved during the first half of the '90s, but during the later years, the ratio remains more or less constant, implying a similar pattern in deposits accretion as in the SCB system and quite divergent from the other two co-operative institutions. Credit, in its turn, has come down during the later years implying deceleration in the credit growth of the PACs, like the other two co-operative institutions.

It comes out from our discussion above that the banking system as a whole shows asymmetric financial intermediation in the form of quite impressive deposits mobilisation coinciding with poor credit disbursal. The falling tendency of the C-D ratio of the Cooperative system gives further evidence to counter the perception that the fall in the CD ratio is a consequence to the flow of resources from the State to other regions. For, even though the loan operations of the Co-operative system are confined largely to the State boundaries, they too were prone to very sharp decline in C-D ratio.

### **3.2.2 DEVELOPMENT FINANCIAL INSTITUTIONS**

In order to provide long-term funds at cheaper rates for industrial projects and agricultural development, a good number of term lending institutions, called Development Financial Institutions (DFIs) had been set up in the country over the years. They consist mainly of three group of institutions: (1) All-India Development Banks (AIDBs), (2) Specialized Financial Institutions, and (3) Investment Institutions. Unlike banks, the DFIs do not mobilize deposits, but are provided with resources through other means-market borrowing programmes at concessional rates or concessional loans from RBI – and disburse long-term credit to productive investments. The All-India Development Banks (AIDBs) consist mainly of Industrial Development Bank of India (IDBI), Industrial Financial Corporation of India (IFCI), Industrial Credit and Investment Corporation of India (ICICI), Small Industries Development Bank of India (SIDBI), and Industrial Investment Bank of

India (IIBI). The important Specialized Financial Institutions are IFCI Venture Capital Funds Ltd. (former RCTC), ICICI Venture Ltd (erstwhile TDICI Ltd.) and Tourism Finance Corporation of India Ltd. (TFCI). The investment institutions that participate in providing long-term credit to industrial development are mainly LIC, GIC and UTI. While the AIDBs provide long term project funds for industry, National Bank for Agricultural and Rural Development (NABARD) caters primarily to agricultural development. Parallel to these national level institutions, State Financial Corporation (SFCs) and State Industrial Development Bank of India are set up to provide adequate industrial credit and other services at the State level.

Being part of the national financial structure, Kerala too benefited from these specialized institutions. The trend and magnitude of funds disbursed in Kerala by All India Development Financial Institutions (AIDFIs), and their State level counterparts, State Development Financial Institutions (SDFIs) as well as both together, called All Development Financial Institutions (ADFIs) are given in table 3.22. The data is presented with a view to finding out whether credit from these institutions exhibits the same trend that of SCBs and the Co-op credit institutions.

The year wise movement of the volume of credit by both the constituents is characterized by wide fluctuations. As with the banking intermediaries, Kerala, compared to India, seems to have higher degree of fluctuations in the loan operations of AFIs.

**Table 3-22** Trend of Credit Disbursed by All Development Financial Institutions: Kerala and All-India

(Amt. In Rs. lakhs)

Year	All India Development Financial Institutions			State Development Financial Institutions			All Development Financial Institutions		
	Kerala	% change	Ratio of Kerala/ India	Kerala	% change	Ratio of Kerala/ India	Kerala	% change	Ratio of Kerala/ India
1980	3041		2.68	275		2.56	3316		2.67
1981	4500	47.98	3.15	492	78.91	3.25	4992	50.54	3.16
1982	6391	42.02	3.55	588	19.51	2.31	6979	39.80	3.39
1983	5735	-10.26	2.72	688	17.01	2.79	6423	-7.97	2.73
1984	6262	9.19	2.41	343	-50.15	1.21	6605	2.83	2.29
1985	8662	38.33	2.81	1247	263.56	3.50	9909	50.02	2.88
1986	8695	0.38	2.05	1596	27.99	3.82	10291	3.86	2.21
1987	10642	22.39	2.18	1766	10.65	3.39	12408	20.57	2.30
1988	11589	8.90	1.95	1561	-11.61	2.31	13150	5.98	1.99
1989	15330	32.28	1.90	2560	64.00	4.11	17890	36.05	2.06
1990	17870	16.57	2.16	4160	62.50	6.19	22030	23.14	2.46
1991	20000	11.92	1.93	3880	-6.73	5.37	23880	8.40	2.15
1992	26420	32.10	1.79	4600	18.56	5.01	31020	29.90	1.98
1993	28870	9.27	1.36	4160	-9.57	4.11	33030	6.48	1.49
1994	34750	20.37	1.42	6320	51.92	6.07	41070	24.34	1.61
1995	28070	-19.22	0.91	7870	24.53	4.56	35940	-12.49	1.11
1996	35439	26.25	1.02	13581	72.57	5.20	49020	36.39	1.31
1997	61756	74.26	1.61	18089	33.19	6.15	79845	62.88	1.93
1998	54266	-12.13	1.08	13388	-25.99	6.14	67654	-15.27	1.29
1999	64015	17.97	1.21	15055	12.45	6.09	79070	16.87	1.42
2000	75513	17.96	1.21	10257	-31.87	4.98	85770	8.47	1.33
2001	106050	40.44	1.44	18340	78.80	8.03	124390	45.03	1.64
2002	100780	-4.97	1.69	12090	-34.08	4.90	112870	-9.26	1.82
2003	57000	-43.44	2.22	11780	-2.56	5.37	68780	-39.06	2.47

Source: IDBI, Report on Development Banking in India, Various Issues.

During the 25 year period 1980-2003 as a whole, as shown in the summary of growth trends given in table 3.23, the total credit disbursed by the AIFIs and SFIs together i.e.; AIFIs, has increased at an annual . rate of 16.12 percent in Kerala. The corresponding growth rate at all India was 3.62 percent more.

**Table 3-23** Average Annual Growth Rate of Credit Disbursed by All India Financial Institutions: Kerala and All India  
(per cent per annum)

Year	All Development Financial Institutions		Scheduled Commercial Banks + DCBS + SCBS+AIFIs		Difference of ADFIs from(SCBs+ DCBS + SCBS+ADFI)		Difference of Kerala from India	
	Kerala	All-India	Kerala	All-India	Kerala	All-India	AIFIs	All the Three
1980-2003	16.12	19.74	15.07	16.22	1.06	3.52	-3.62	-1.15
1980-1987	18.04	23.09	17.75	16.79	0.30	6.30	-5.04	0.96
1988-2003	14.45	16.06	14.99	16.26	-0.54	-0.20	-1.62	-1.27
1981-1990	16.69	22.18	16.06	15.99	0.62	6.19	-5.49	0.07
1991-2000	15.62	20.40	15.64	16.14	-0.02	4.26	-4.78	-0.50
1991-2003	12.98	12.58	15.92	16.12	-2.93	-3.54	0.41	-0.20
1990-1995	12.55	30.32	13.56	15.60	-1.02	14.72	-17.78	-2.04
1995-2000	17.41	14.88	15.55	15.90	1.86	-1.02	2.53	-0.35
2000-2003	-7.31	-23.76	15.42	14.29	-22.74	-38.04	16.44	1.13
1991-2002	15.79	17.49	15.99	16.33	-0.20	1.16	-1.70	-0.34

**Note:** SCBs-Scheduled Commercial Banks, SCBS- State Co-operative Bank, DCBS-District Co-operative Banks, AIFIs-All India Financial Institutions, ADFIs-All Development Financial Institutions.

**Source:** for AIFIs, Same as Table 3.22, for the Co-operative System, same as Table 3.15, and for SCBs, Same as Table 3.2.

Regarding the growth trends during the two decades ie; '80s and '90s, the rate is found to be relatively lower during the latter in both Kerala and all India. Comparing the State and the country as a whole, the latter experienced higher growth in both the decades. The magnitude of difference between the two, though slightly declined during the '90s, was quite significant in both the decades. Though the '90s as a whole was characterised by lower growth of AFI credit, the fall was more pronounced during the first half of the '90s. During this period, the difference between Kerala and all India has turned out to be 17.78 percent. Looking at the period since 1991 as a whole, ie. 1991-2003, the growth rate of credit disbursed by AIFIs is considerably lower than that of '90s alone in both Kerala and all India. (The reason can be only statistical, for the data during the latest 2 years were exclusive of the amount of credit disbursed by Industrial Credit and Investment Corporation- a major constituent in total AIFI credit).

The growth trends analyzed thus show sharp decline in AFI credit in Kerala in the '90s and compared to all India, the operations of these institutions in the State are lagging way behind. Their not so impressive performance in the State can be appreciated with the information on the State's share in all India total, given in table 3.22. Consequent to the relatively lower growth in the State, the share of disbursement by AFIs in Kerala, which was rather low during the early '80s itself, has dwindled over the years. Thus from more than 3.1 percent, the share of Kerala has come down to a little above one percent during 1994-95. Since then, the share improved marginally and reached more than 1.6 percent during 2000-2001. However, the relatively lower share still remains. Interestingly, the deteriorating trend in the share of Kerala is worse in the case of AIFIs. The share of State level counterparts is quite good, but their relative significance is much less to bring out any perceptible improvement in the total share. Data on per capita assistance provided in table 3.24, further confirms the low position of Kerala (see Chart 3.4 also).

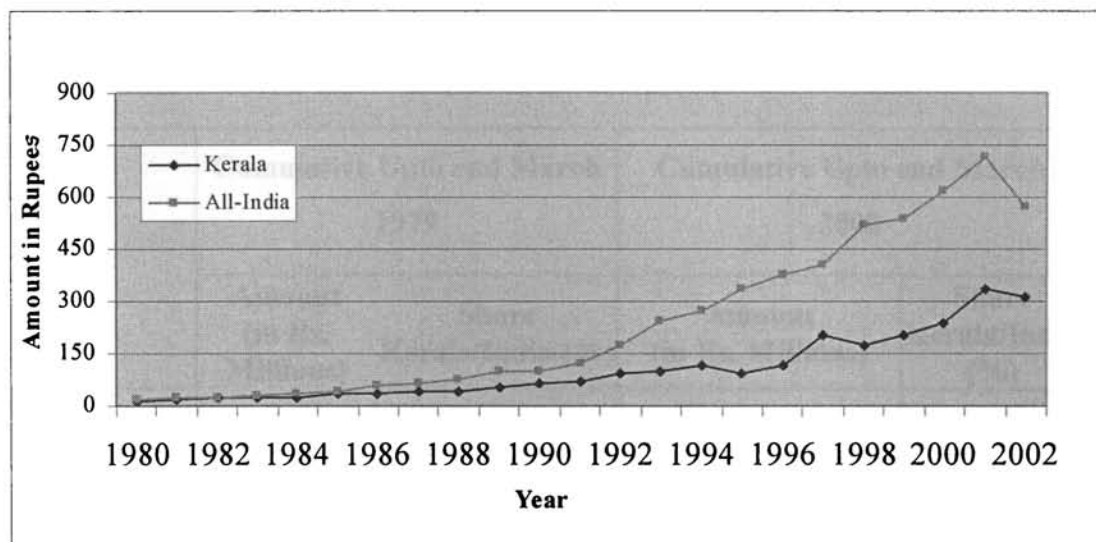
**Table 3-24** Per Capita Assistance by AIFIs: Kerala and all-India

(Amount in Rs.)

Year	All India Development Financial Institutions			All Development Financial Institutions			State Development Financial Institutions		
	Kerala	All-India	Ratio of Kerala/India (%)	Kerala (Amt)	All-India	Ratio of Kerala/India (%)	Kerala (Amt)	All-India	Ratio of Kerala/India (%)
1980-1983	19.14	23.31	81.61	21.12	26.04	80.61	1.99	2.73	73.55
1984-1987	31.61	48.93	65.69	36.16	54.15	67.30	4.55	5.23	83.06
1988-1991	56.64	99.19	57.04	67.25	107.40	62.25	10.61	8.21	129.51
1992-1995	99.18	254.56	40.94	118.41	267.71	46.16	19.24	13.15	147.49
1996-1999	174.32	458.24	38.21	223.03	484.83	46.31	48.71	26.59	183.74
2000-2003	265.46	535.67	53.41	306.48	557.32	59.05	41.02	21.65	189.04

Source: Same as 3.22

**Chart 3-4** Trends in Per Capita Assistance by All India Financial Institutions



The AIFI per capita assistance in Kerala has never been more than the national average. Per capita assistance by AIFIs in Kerala which was on average 18 percentage point less than that of all-India during the early '80s had become 60 percentage point less during the late '90s.

Consequent on the very low growth of the credit disbursal by the AIFIs in the State, the share of Kerala in cumulative assistance, naturally, had fallen sharply, as shown in Table 3.25. From a little more than 3 percent during 1978-79, the share of Kerala had fallen to 1.4 percent by 1999-2000. The rank order of Kerala, among the important States in India with respect to the credit disbursal by the all-India financial institutions, which was already at a low position of 10 during the early '70s, declined to 14 in 1999-2000. Only Assam has a position lower than that of Kerala. While Kerala's position got worsened, Maharashtra that was at the top by 1978-79, with a percentage share of 20.5 improved its share to more than 23 percent by 1999-2000. Maharashtra together with Gujarat, interestingly, account for about 40 percent of the cumulative ADFI credit disbursed.

**Table 3-25** Cumulative State-wise Assistance Disbursed by All India Financial Institutions

(Rs. Million)

States	Cumulative Upto end March 1979		Cumulative Upto end March 2000	
	Amount (in Rs. Millions)	Share Kerala/India (%)	Amount (in Rs. Millions)	Share Kerala/India (%)
Andhra Pradesh	717	6.7	256837	6.52
Assam	93	0.87	15191	0.39
Bihar	338	3.16	55785	1.42
Gujarat	1420	13.26	561524	14.25
Haryana	289	2.7	93052	2.36
Karnataka	849	7.93	239309	6.07
Kerala	331	3.09	56151	1.42
Madhya Pradesh	326	3.05	161153	4.09
Maharashtra	2192	20.48	918066	23.29
Orissa	246	2.3	62500	1.59
Punjab	323	3.02	86197	2.19
Rajasthan	461	4.31	140227	3.56
Tamil Nadu	1062	9.92	309860	7.86
Uttar Pradesh	794	7.42	242209	6.14
West Bengal	692	6.46	173175	4.39
All-India	10704	100	3371236	100

Source: Same as Table 3.22.

The fall in AIFIs credit witnessed during the '90s is in conformity with the fall in credit disbursement by the SCB and co-operative system. The degree of fall in AIFI credit, compared to SCBs, however, is much sharper, indicating greater deceleration on its part.

Our discussion in this chapter till now shows that Kerala has experienced marked deceleration in credit disbursement by all the three important organised financial intermediaries

during the '90s. The deposit mobilisation by the organised banking system, however, in its turn, accelerated during the period. Regarding the relative strength of the two trends, the degree of deceleration of credit seems to be more. Having looked at the trend and pattern of the deposits and credit growth of the organised banking system we may turn to the next logical question: what has brought out a situation like this? We propose to address this question in the next chapter.



## End Notes

1. *The slogan "class banking to mass banking" rent the air during late '60s, and early '70s in the country.*
2. *For providing credit in the rural areas, a new institutional arrangement-Regional Rural Banks (RRB) were set up in India in 1975. They were expected to combine local feel and familiarity with rural problems, which the co-operatives possessed on the one hand, and the modernized outlook of commercial banks, on the other. Though relatively less significant in the overall credit structure of the region, this institutional alternative has experienced growth momentum since its inception. Of the 196 RRBs, established in the country by the end of 1977, only two are in Kerala. They are South Malabar Gramin Bank (SMGB), sponsored by Canara Bank and North Malabar Gramin Bank (NMGB), sponsored by the Syndicate Bank.*
3. *The slogan of mass banking is no more heard. The social aspect of banking has lost its glitter with the economic reforms since 1991.*
4. *Data reported in BSR relate to last Friday of June for the years 1973 to 1989 and end of March for the years since 1990. Data for 1972 relate to last Friday of December.*
5. *Between the '60s and '70s the decade wise growth rate of population was about 26.7 percent in Kerala; the corresponding rate in the country was 24.8 percent. During the '70s, Kerala witnessed deceleration in population growth and the rate for the decade 1971-81 has turned out to be 19.2 percent. The corresponding growth rate for India, however, remained more or less the same as in the earlier decade ie 24.6. Between 1991-2001 there took place further fall in Kerala's population to 9.4 percent but the country's growth rate during the decade was 21.3 percent. Year wise population, in our analysis, is calculated on the basis of decade wise growth rates estimated from the population figures provided by Census of India for the corresponding decades.*
6. *Classification of banking offices according to different population groups is based on 1971 Census for the years from 1973 to 1985, 1981 Census for the years 1986 to 1994 and 1991 Census for the years since then. Centres with population over 10 lakhs are classified as Metropolitan and hence there are 4 population group wise classifications in the BSR data. The Metropolitan group, however, is added to the urban category in our data, as there are no metropolitan centers as defined above in Kerala.*

## Appendix

### Appendix 3 A1

Banks operating in Kerala as on March 2003

<b>I</b>	<b>SBI AND ITS ASSOCIATES</b>	<b>No of branch</b>	<b>III</b>	<b>PRIVATE BANKS</b>	
<b>1</b>	State Bank of India	228	<b>1</b>	Bharat Overseas Bank	3
<b>2</b>	State Bank of BIK and JA	1	<b>2</b>	Catholic Syrian Bank	209
<b>3</b>	State Bank of Mysore	10	<b>3</b>	Dhanalakshmi Bank Ltd.	117
<b>4</b>	State Bank of Sartra	2	<b>4</b>	The Federal Bank Ltd	308
<b>5</b>	State Bank of Hyderabad	6	<b>5</b>	Karnataka Bank Ltd	11
<b>6</b>	State Bank of Travancore	555	<b>6</b>	Karur Vysya Bank Ltd	7
	Sub-total	802	<b>7</b>	Laxmivilas Bank Ltd	4
<b>ii</b>	<b>NATIONALISED BANKS</b>		<b>8</b>	Lord Krishna Bank Ltd	68
<b>1</b>	Alahabad Bank	5	<b>9</b>	South Indian Bank Ltd	235
<b>2</b>	Andhra Bank	14	<b>10</b>	T. N Mercantile Bank	8
<b>3</b>	Bank of Baroda	44	<b>11</b>	ING Vysya Bank Ltd	20
<b>4</b>	Bank of India	71	<b>12</b>	IDBI Bank	4
<b>5</b>	Bank of Maharashtra	5	<b>13</b>	City Union Bank	6
<b>6</b>	Canara Bank	238	<b>14</b>	Centurian Bank	6
<b>7</b>	Central Bank of IND	73	<b>15</b>	Indus Ind Bank	2
<b>8</b>	Corporation Bank	52	<b>16</b>	HDFC Bank	10
<b>9</b>	Dena Bank	9	<b>17</b>	Global Trust Bank	2
<b>10</b>	Indian Bank	77	<b>18</b>	Bank of Rajastan	1
<b>11</b>	Indian Overseas Bank	113	<b>19</b>	ICICI Bank	12
<b>12</b>	RNTL Bank of COMM	8	<b>20</b>	Jammu and Kashmir Bank	2
<b>13</b>	Punjab National Bank	129		Sub-total	1035
<b>14</b>	Punjab and Sind Bank	3	<b>IV</b>	<b>FOREIGN BANKS</b>	
<b>15</b>	Sindicate Bank	118	<b>I</b>	Stan Chart Grindlay Bank	2
<b>16</b>	Union Bank of India	120	<b>2</b>	HSBC	1
<b>17</b>	United Bank of India	2	<b>3</b>	Oman International Bank	1
<b>18</b>	Uco Bank	19		Sub-total	4
<b>19</b>	Vijaya Bank	68	<b>v</b>	<b>REGIONAL RURAL BANKS</b>	
	<b>Sub-total</b>	<b>1168</b>	<b>1</b>	N. M. G. B	152
			<b>2</b>	S. M. G. B	202
				Sub-total	354
				Grand Total	3363

Source: Same as 3.1

### Appendix 3 A-2 State wise C-D Ratio

(per cent)

Year	A P	Assam	Bih	Guj	Har	Karna	Kera	M P	Maha	Oris	Punj	Raja	T N	U P	W B	India
1972	87	96	53	65	97	92	74	52	75	69	33	54	110	42	65	66
1973	91	85	43	64	103	94	76	48	75	77	53	55	114	49	62	69
1974	89	91	49	70	125	96	75	62	84	71	56	62	108	54	77	74
1975	84	92	64	67	123	101	72	67	73	70	63	72	104	63	63	72
1976	74	80	61	63	120	104	73	54	73	69	73	63	114	54	60	77
1977	69	63	54	57	108	91	66	54	65	71	76	68	100	52	60	72
1978	72	64	53	55	91	82	61	56	68	70	78	65	93	50	58	70
1979	72	63	50	56	109	80	68	58	71	73	71	73	91	53	55	69
1980	73	59	47	55	98	79	69	55	74	67	66	71	88	47	57	67
1981	72	63	47	58	94	76	76	62	75	76	54	77	98	50	52	66
1982	70	73	47	57	95	75	72	63	72	82	57	75	100	52	53	67
1983	69	61	50	55	99	80	67	64	90	84	54	74	87	50	55	68
1984	79	88	43	54	114	85	74	66	95	96	75	79	90	54	48	71
1985	76	77	39	56	108	81	68	62	91	89	80	73	85	44	54	68
1986	76	62	36	55	105	87	64	60	77	90	60	68	87	46	42	62
1987	75	66	34	55	88	95	71	62	69	98	47	62	91	42	44	60
1988	75	69	33	56	74	88	67	61	63	99	41	58	91	39	45	56
1989	79	81	33	59	76	87	66	70	69	109	43	65	98	43	55	61
1990	82	78	39	63	75	85	63	68	65	93	46	61	95	43	54	61
1991	81	70	39	63	76	81	60	67	68	72	50	61	97	48	51	62
1992	81	79	38	57	69	80	52	63	57	71	46	59	89	45	51	58
1993	81	76	41	58	69	67	47	63	60	78	44	60	86	45	52	59
1994	72	56	37	49	58	66	44	58	54	62	41	52	83	39	44	54
1995	75	47	34	50	56	65	45	52	67	56	43	51	87	37	52	56
1996	81	45	31	57	54	71	45	61	77	58	43	45	94	35	53	60
1997	77	42	30	52	53	72	46	56	72	48	40	50	97	35	49	57
1998	72	38	29	54	55	70	45	57	70	49	39	52	93	33	46	55
1999	69	39	27	54	55	67	42	52	73	44	41	49	90	31	43	55
2000	65	35	23	53	53	65	42	53	83	43	41	50	87	31	45	56
2001	65	38	21	54	54	62	42	52	84	42	42	50	91	32	43	57
2002	62	32	21	44	44	62	43	47	92	45	42	48	85	30	46	58
2003	69	62	24	56	58	71	44	52	77	57	43	55	93	36	50	59

Source: Same as Table3. 2

### Appendix 3 A-3 State wise Per Capita Deposits

(Amount in Rs.)

Year	A P	Assam	Bih	Guj	Har	Karna	Kera	M P	Maha	Oris	Punj	Raja	T N	U P	W B	India
1972	70	45	64	241	116	134	114	52	375	28	282	62	130	82	257	149
1973	75	50	72	258	125	142	128	59	393	32	309	65	138	92	264	160
1974	96	58	85	286	142	166	151	67	443	38	346	74	176	101	291	184
1975	118	66	93	315	160	192	178	76	496	47	419	82	200	115	354	211
1976	146	83	111	369	200	224	208	95	578	56	487	101	230	141	394	249
1977	182	109	126	451	249	278	283	116	715	69	590	129	272	168	459	303
1978	226	137	143	538	312	349	369	142	809	87	730	155	339	204	534	365
1979	282	171	176	630	395	407	455	173	935	112	889	190	411	247	639	439
1980	324	191	202	721	458	464	515	210	1019	138	1067	224	483	289	709	499
1981	396	219	249	846	552	550	616	246	1209	178	1287	267	544	354	836	591
1982	453	262	273	926	647	619	704	278	1281	195	1482	308	601	399	926	656
1983	547	302	322	1032	727	705	822	329	1470	238	1696	367	718	499	1048	763
1984	652	366	375	1223	842	818	994	387	1727	260	1949	428	829	552	1121	883
1985	775	464	463	1374	1005	969	1166	471	2089	323	2274	522	1008	661	1283	1045
1986	872	517	545	1528	1181	1102	1357	559	2483	372	2659	607	1117	760	1529	1213
1987	1004	613	640	1734	1411	1260	1593	677	2721	446	3121	710	1309	904	1730	1394
1988	1150	708	765	1994	1636	1459	1790	786	3101	538	3588	830	1492	1078	1943	1607
1989	1262	767	861	2276	1871	1640	2005	878	3606	615	3973	939	1725	1191	2154	1813
1990	1440	866	979	2525	2136	1902	2283	1036	4253	761	4355	1083	2059	1377	2329	2075
1991	1663	981	1084	2854	2430	2174	2676	1597	4855	875	4930	1267	2435	1554	2767	2370
1992	1848	1086	1155	3298	2662	2452	3272	1703	6550	984	5490	1409	2800	1709	3017	2747
1993	2056	1160	1270	3816	3004	2968	4078	1799	7610	1106	6137	1592	3359	1886	3443	3134
1994	2446	1336	1412	4363	3433	3353	4941	1984	8549	1251	7071	1855	3732	2143	3949	3610
1995	2873	1647	1668	5230	4110	4106	5718	2267	9319	1569	8195	2184	4420	2491	3861	4143
1996	3095	1790	1937	5543	4820	4828	6605	2552	9954	1774	9131	2445	4928	2821	4226	4566
1997	3683	2051	2280	6377	5550	5413	7539	2872	11449	2105	10558	2825	5572	3250	4811	5260
1998	4379	2415	2707	7303	6257	6335	8921	3248	13069	2476	12079	3285	6626	3868	5770	6147
1999	5180	2747	3206	8433	7086	7484	10603	3664	14308	2901	13977	3812	7513	4433	6643	7056
2000	6166	3223	3822	9734	8269	8828	12373	4096	15823	3515	16187	4326	8940	5090	7579	8141
2001	7144	3698	3204	10864	9405	10358	13874	4784	17805	4095	18186	4874	10106	5137	8473	9228
2002	8257	4246	3503	12623	10805	11721	16081	5343	22506	4908	20651	5453	11615	5793	9435	10708
2003	9325	4653	3795	13660	12242	13801	18359	5932	24737	5263	22492	5880	13241	6245	10387	11929

Source: Same as Table3. 2

### Appendix 3 A-4 Per Capita Credit: State Wise

(Amount in Rs.)

Year	A P	Assam	Bih	Guj	Har	Karna	Kera	M P	Maha	Oris	Punj	Raja	T N	U P	W B	India
1972	61	43	34	156	112	124	84	27	280	19	94	34	143	34	168	99
1973	68	42	31	166	129	134	97	28	293	24	164	36	158	45	163	111
1974	85	52	41	200	177	159	113	41	371	27	195	46	191	55	223	137
1975	99	61	59	213	197	194	128	51	363	33	263	59	208	72	223	152
1976	109	66	68	233	239	233	153	51	419	39	357	64	263	76	237	192
1977	126	68	68	258	269	254	185	62	466	49	449	87	271	88	278	220
1978	163	88	76	295	284	288	224	79	546	61	569	101	315	102	311	255
1979	205	108	87	352	429	324	309	100	660	81	627	138	373	131	353	303
1980	236	112	96	399	450	368	355	115	758	93	700	159	423	137	407	335
1981	287	137	118	487	517	416	468	153	901	136	697	206	535	179	434	393
1982	317	190	129	529	612	463	508	174	917	159	839	230	603	207	494	443
1983	376	183	163	564	723	564	551	211	1318	200	910	271	622	247	575	517
1984	515	323	163	664	957	693	735	254	1632	250	1457	338	746	300	538	624
1985	590	358	183	775	1085	784	797	290	1896	286	1821	384	855	293	697	710
1986	659	320	197	844	1234	961	872	336	1924	335	1606	413	973	347	647	754
1987	757	402	215	957	1235	1192	1129	421	1886	437	1469	441	1185	384	757	830
1988	865	488	253	1109	1208	1283	1205	480	1954	531	1481	477	1351	423	870	903
1989	1002	618	287	1338	1423	1434	1322	611	2478	672	1728	606	1698	509	1177	1102
1990	1180	679	382	1597	1603	1609	1440	705	2768	704	2013	666	1965	593	1256	1259
1991	1348	686	428	1789	1846	1763	1595	1066	3322	633	2452	766	2366	739	1403	1467
1992	1499	858	444	1890	1840	1974	1707	1076	3737	699	2545	835	2494	775	1540	1584
1993	1661	881	520	2208	2072	1996	1921	1141	4546	860	2708	958	2895	841	1795	1846
1994	1755	743	523	2150	2004	2225	2183	1141	4618	777	2900	966	3085	846	1754	1960
1995	2142	780	564	2595	2300	2673	2585	1174	6285	877	3551	1114	3835	928	2008	2305
1996	2513	813	603	3154	2600	3431	2953	1546	7696	1029	3949	1107	4652	987	2252	2729
1997	2850	852	677	3338	2952	3906	3447	1621	8223	1012	4260	1418	5422	1127	2340	2989
1998	3169	912	778	3925	3450	4452	3989	1842	9121	1223	4703	1699	6135	1266	2638	3400
1999	3581	1064	880	4568	3888	4989	4429	1911	10391	1283	5714	1878	6781	1378	2883	3865
2000	4036	1143	888	5206	4412	5779	5160	2152	13191	1504	6614	2167	7818	1571	3406	4560
2001	4638	1411	663	5819	5083	6406	5872	2511	14871	1702	7685	2418	9151	1636	3676	5233
2002	5114	1348	748	5573	4727	7223	6962	2489	20770	2185	8631	2640	9917	1731	4317	6253
2003	6465	2868	899	7654	7137	9809	8002	3069	19157	2994	9771	3250	12330	2246	5198	7067

Source: Same as Table 3. 2

## CHAPTER 4

### PERFORMANCE OF SCBs AND THE STATE ECONOMY COMPARED

#### **Structure of SCB Deposits, Credit and State Domestic Product**

The literature on economic growth has generally postulated a close correspondence between growth in financial intermediation and overall growth of an economy. Given such a notion about the relation between the two, we shall proceed our analysis by tracing the trends in the State's overall economic growth and situating them with the trends in deposits and credit of the banking system. It is followed by an analysis of the broad structural characteristics of SCB deposit as well as credit and their probable link to the broad economic sectors. To do the structure-wise analysis meaningfully, needless to say, economic activity-wise information on deposit as well as credit is needed. But we are left with only very little data of that kind covering both deposit and credit simultaneously. The available economic activity-wise information is largely confined to credit. Hence the structure and composition of the banking variables attempted here will be oriented more on the credit structure and its probable link to the broad economic sectors.

The discussion is organised in 4 sections. Section 4.1 will examine the State Domestic Product (SDP) of Kerala and compare it with those of the banking variables. For a State like Kerala that has large remittances from outside the State, this is obviously not the best measure, but will be the best possible indication. Section 4.2 will focus on the outward orientation of the State in the form of migration from the region and its impact on SCB deposits and the C-D ratio. It will also look at the broad trend of the type of bank deposits emerging in the State. Section 4.3 will examine the broad activity-wise structure of SCB credit and its association with the corresponding structural features of the economy. Section 4.4 will look at the population wise structure and characteristics of SCB deposit and credit.

## Section 4.1

### 4.1.1 TRENDS IN SDP

The secular as well as period wise growth rate of net domestic product at current prices<sup>1</sup> for Kerala and all-India are given in table 4.1. As it shows, the secular growth rate of NDP in Kerala over the 32 years since 1971-72 has been nearly 0.50 percent more than that of the national average. Of the two sub-periods<sup>2</sup> considered for our analysis of banking variables, Kerala experienced relatively lower growth rate (12 percent) for the first sub-period ie, 1971-72 to 1987-88. During this period, the growth rate of NDP at Kerala was lower than the corresponding all-India growth rate. During the second period ie; 1987-88 to 2002-03, Kerala registered an average annual growth of NDP not only more than the rate during the previous period but also the rate of growth in the country<sup>2</sup>.

**Table 4-1** Growth Rates of Net Domestic Product and Per Capita Net Domestic Product

(per cent per annum)

Period	NSDP		Per capita income		Difference of Kerala over India	
	Kerala	All India	All India	All India	NSDP	Per capita income
1972-2003	14.43	13.90	12.97	11.55	0.52	1.42
1972-1987	12.00	12.48	10.22	10.05	-0.48	0.17
1988-2003	16.91	14.36	15.79	12.12	2.55	3.66
1972-1980	10.14	10.85	9.17	8.98	-0.71	0.19
1981-1990	11.99	13.77	10.50	11.36	-1.78	-0.86
1991-2000	19.27	15.19	18.15	12.97	4.07	5.19
1991-2003	16.04	13.63	14.96	11.44	2.40	3.52
1990-1995	22.47	15.65	21.49	13.39	6.82	8.11
1995-2000	13.95	14.06	12.93	11.86	-0.11	1.07
2000-2003	6.90	8.65	4.66	6.79	-1.75	-2.13

Source: GOI, CSO, National Account Statistics and GOK Economic Review, various issues.

Looking at the growth trends decade wise, the margin between the sub periods would become more pronounced. Thus while the annual growth rate during 1981-1990 was

about 12 percent, the same during the '90s had turned out to be 19.3 percent. In India, the average growth rate during the '80s and '90s was about 13.8 and 15.2 respectively. As Kerala had experienced higher growth during the '90s, the margin between Kerala and all-India, which was 1.8 percent less in Kerala during the '80s, had changed to 4.1 percent more than that of India during the '90s. When the growth rate of the period 1991-2003 as a whole is considered, it was less than that of the '90s alone, signifying fall in the growth rate in the State during the years since the late '90s. However, the situation in Kerala is much better than during the previous decade as well as the corresponding all-India situation. The growth rate during the '70s, was relatively lower than the same in the '80s.

Thus the State experienced relatively lower growth in its domestic economy during the '70s, and '80s. This phase is being followed by a phase of revival since the late '80s. The growth trends of the banking indicators discussed in the previous sections, however, indicate acceleration in deposits growth during the '70s, followed by deceleration in the '80s, and then again acceleration in the '90s. Like deposits, credit too had accelerated during the '70s. The acceleration continued till the mid-'80s but was followed by sharp deceleration during the second half of the '80s. The falling tendency of credit continued during the '90s.

#### **4.1.2 TRENDS IN SDP, SCB DEPOSIT AND CREDIT COMPARED**

The trends in deposits and credit growth, looked against the backdrop of the trends in the State's overall economic growth, indeed, are rather incongruous. The former is incongruous given the fact that relatively better deposit mobilisation by the banking system during the '70s and the first half of the '80s coincided with slower growth in State Domestic Product. The inconsistency of credit growth stems from the fact that relatively poor economic performance during the '70s and major part of the '80s, coincided with relatively better credit disbursal by the banking system. But buoyancy in economic growth that the region witnessed during the decade since the late '80s was matched by deceleration in credit growth. A rough idea of it can be obtained from the difference between trend in banking variables and economic growth given in table 4.2. The margin between banking and economic variables was high and positive during the '70s and '80s. Comparing the two variables, it was more in the case of deposits and between the periods, during the '70s. It was the period noted for much lower growth rates among the three decades considered. During the '80s, the margin, compared to the '70s, had fallen significantly in both the



banking variables. Between the two variables, the fall was more in the case of deposits. During the '90s, the gap between deposits and income growth became less but still remained positive. Between credit and income, the margin is quite significant as earlier, but it carries a negative sign. The divergence in growth trends between banking and economic variables, evidently, indicates an incongruous behaviour of the two.

**Table 4-2** Comparative Picture of Growth Trends in Banking and Economic Variables

(per cent per annum)

Period	Deposits		Credit		Difference in Growth			
	Kerala	All India	Kerala	All India	Deposits over NSDP		Credit over NSDP	
					Kerala	All India	Kerala	All India
1972-2003	19.41	17.83	16.87	16.71	4.98	3.92	2.44	2.81
1972-1987	21.96	19.29	21.41	18.30	9.95	6.81	9.41	5.82
1988-2003	18.54	16.75	14.90	16.43	1.63	2.39	-2.00	2.07
1972-1980	24.49	19.95	22.15	19.79	14.35	9.09	12.01	8.93
1981-1990	17.62	17.91	15.87	15.73	5.63	4.14	3.88	1.96
1991-2000	19.09	16.73	15.57	15.77	-0.18	1.54	-3.69	0.57
1991-2003	18.14	16.74	15.88	16.51	2.10	3.11	-0.16	2.87
1990-1995	22.10	17.17	13.15	14.49	-0.37	1.52	-9.32	-1.16
1995-2000	17.90	17.09	15.80	16.24	3.95	3.03	1.84	2.18
2001-2003	16.07	15.94	17.79	18.49	9.18	7.29	10.89	9.84

Source: For Income Data, same as 4.1; For Banking data BSR various issues

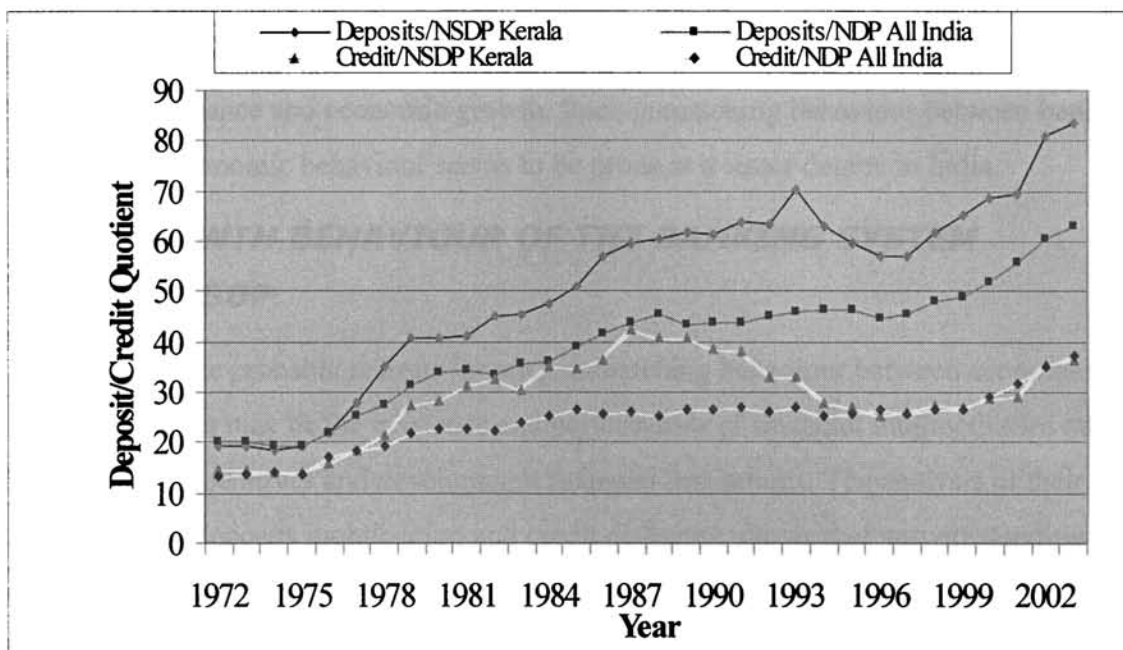
The inconsistency between the two variables shall be established further with two other indicators of banking development; the deposits/credit quotients, ie; the ratio of total deposits/credit toSDP given in table 4.3 and chart 4.1 The ratio of deposits to SDP in Kerala was less than 20 percent up to 1975 and the State's ratio then was about 2 percent lower than that of all-India. The credit quotient was around 14 percent and was slightly more than that of all-India. The lower values of the quotients were compatible with the not so impressive performance of the economy. The value of the deposits quotient increased during the years following the mid-'70s and it continued till 1990.

**Table 4-3** SCB Credit and Deposits as Ratio to NDP: Kerala and All India  
(per cent)

Year	Deposits /NDP		Credit/NDP		Difference of Kerala over India in		Difference of Deposits/NDP over Credit/NDP	
	Kerala	All India	Kerala	All India	Deposits/NDP	Credit/NDP	Kerala	All India
1972	19.38	20.08	14.38	13.34	-0.70	1.04	5.01	6.74
1973	19.50	20.04	14.73	13.86	-0.55	0.87	4.77	6.18
1974	18.61	19.13	13.98	14.23	-0.53	-0.25	4.62	4.90
1975	19.50	19.23	14.08	13.87	0.27	0.21	5.42	5.35
1976	21.80	22.03	15.96	17.01	-0.23	-1.05	5.84	5.02
1977	27.98	25.49	18.35	18.48	2.49	-0.13	9.63	7.01
1978	35.31	27.33	21.44	19.08	7.98	2.36	13.88	8.25
1979	40.64	31.43	27.56	21.72	9.21	5.83	13.08	9.71
1980	40.81	33.84	28.15	22.73	6.98	5.42	12.66	11.11
1981	41.00	34.28	31.14	22.78	6.72	8.36	9.86	11.50
1982	44.84	33.36	32.39	22.50	11.48	9.88	12.46	10.86
1983	45.62	35.74	30.58	24.19	9.88	6.39	15.04	11.54
1984	47.67	35.92	35.26	25.39	11.75	9.87	12.40	10.53
1985	50.99	38.84	34.85	26.39	12.15	8.46	16.14	12.45
1986	56.79	41.39	36.50	25.72	15.40	10.77	20.30	15.67
1987	59.74	43.71	42.36	26.01	16.03	16.35	17.38	17.70
1988	60.59	45.24	40.78	25.42	15.34	15.36	19.80	19.82
1989	61.86	43.40	40.79	26.38	18.46	14.41	21.07	17.02
1990	61.45	43.92	38.75	26.65	17.53	12.10	22.70	17.27
1991	63.96	43.82	38.12	27.14	20.14	10.98	25.84	16.68
1992	63.62	45.19	33.20	26.05	18.43	7.14	30.42	19.14
1993	70.35	46.07	33.14	27.14	24.28	6.00	37.22	18.94
1994	63.12	46.42	27.88	25.20	16.70	2.69	35.23	21.22
1995	59.44	46.29	26.87	25.75	13.14	1.11	32.57	20.54
1996	56.91	44.60	25.44	26.66	12.30	-1.22	31.47	17.94
1997	56.90	45.22	26.01	25.69	11.68	0.32	30.89	19.53
1998	61.60	48.17	27.54	26.65	13.43	0.89	34.06	21.53
1999	64.94	48.82	27.12	26.74	16.12	0.38	37.82	22.08
2000	68.59	52.01	28.60	29.13	16.58	-0.53	39.99	22.88
2001	69.34	55.68	29.34	31.58	13.66	-2.23	39.99	24.10
2002	80.96	60.27	35.37	35.20	20.69	0.18	45.59	25.08
2003	83.76	63.12	36.50	37.39	20.64	-0.88	47.25	25.73

Source: For income data, same as table 4.1; for banking data, same as table 4.2

**Chart 4-1** Trends in the Ratio of Deposit/Credit to NDP:  
Kerala and India



For the next 8 years, it showed a fluctuating trend and thereafter increased throughout. From an average value of 21 during the mid years of '70s, the ratio rose to nearly 41 during the early '80s, and further to a little above 61 by early '90s. In 1993, the ratio was more than 70 and thereafter it declined for the next 4 years and had become less than 57 percent in 1997. Then onwards, the ratio again picked up and reached more than 83 percent by 2003. The deposits quotient at all-India too showed substantial improvement since the mid-'70s. The value there, remained less than that of Kerala throughout and the gap was higher during the early '90s and the last two years of the period under consideration.

The value of credit quotient, though fluctuated, had made significant improvement during the years following the mid-'70s. Unlike deposits, the credit quotient had reached its peak value by the late '80s and thereafter it showed a declining tendency. It declined since the late '90s. Between the late '80s and late '90s, the ratio had fallen by nearly 12 percent. This is the period in which Kerala experienced much buoyancy in its economy. Except for a few years during the period since 1996, the credit to NDP ratio in Kerala was higher than that of all-India. However, the gap between the two was much pronounced during the '80s, and early '90s. But during the '90s, the gap was rather low or even negligible. The

economic growth in all-India was relatively higher than that of Kerala during the '80s and lower than that of the State during the '90s. Significant improvement in the deposits as well as credit quotient during the one and a half decade since the mid '70s, and the sharp fall in the credit quotient during the '90s, evidently, signifies incongruity in banking performance and economic growth. Such unmatching behaviour between banking variables and economic behaviour seems to be prone at a lesser degree in India.

#### **4.1.3 GROWTH BEHAVIOUR OF THE BANKING SYSTEM AND SDP**

One of the probable reasons for such unmatching behaviour between economic and *SCB* variables may be the existence and performance of financial intermediaries other than SCBs like Co-operatives and development financial institutions. The analysis of their performance in deposits mobilisation and credit disbursement, shows that notwithstanding year-wise difference and variation in the degree of growth rates, they behave more or less in the same pattern as the SCBs over the period as a whole. Incorporating their growth behaviour with that of the SCB system, the trend of deposits /credit to NDP ratio is provided in table 4-4.

**Table 4-4** Trend of Deposits as well as Credit/ NDP for the Banking System

(per cent)

YEAR	DEPOSITS				CREDIT					
	DCBS + SCBS		SCBs + DCBS + SCBS		DCBS + SCBS		SCBs + DCBS + SCBS		SCBs + DCBS + SCBS + AIFIs	
	Kerala	India	Kerala	India	Kerala	India	Kerala	India	Kerala	India
1978-2003	6.25	4.04	63.14	46.87	6.01	4.38	37.74	30.51	40.19	33.81
1978-1987	4.89	3.47	50.69	38.77	5.6	4.31	37.18	27.87	40.99	30.44
1988-2003	7.29	4.43	72.42	52.77	6.29	4.42	38.09	32.29	39.8	35.63
1981-1990	5.56	3.77	58.08	43.12	6.49	4.5	42.65	29.61	44.24	31.51
1991-2000	6.71	4.24	69.56	50.86	5.66	4.2	34.84	30.8	36.52	34.45
1991-2003	7.44	4.52	73.48	53.86	5.97	4.35	36.11	32.62	37.77	36.19
1990-1995	6.71	3.89	70.29	49.16	6.38	4.26	39.07	30.58	40.89	33.75
1995-2000	6.69	4.51	68.01	51.98	5.28	4.22	32.21	30.97	33.74	34.94
2001-2003	10.47	5.58	88.23	65.2	7.09	4.88	40.7	39.52	42.29	42.63

Note: SCBs-Scheduled Commercial Banks, SCBS- State Co-operative Bank, DCBS-District Co-operative Banks, AIFIs-All India Financial Institutions, ADFIs-All Development Financial Institutions.

Source: For income data, same as 4.1 and, for financial variables, same as 3.23.

For both deposits and credit, the ratio shows more or less the same trend and pattern as found with the SCBs alone so as to hypothesise a lack of harmony between economy's overall growth behaviour and that of the financial sector. Between the two banking variables, the incongruous behaviour appears to be very conspicuous in the case of credit. For it experienced sharp deceleration when the economy performed relatively well.

## **Section 4.2**

### **4.2.1 EXTERNAL INFLOWS**

It is often argued that the weak relation between the indicators of financial sector development like deposits and credit and the key measures of economic performance like the growth in State Domestic Product may be due to the flow of income from outside the State, which is not fully accounted for in the SDP data. Apart from the activities of its domestic sectors, two external transfers viz; transfer of funds from the Central Government and remittances received from other States and abroad have substantially augmented the cash flow in the State's economy. The federal transfers formed on average about 7 percent of Net Domestic Product of Kerala prior to the '90s (Nair P.R.G. 1994). Recent estimates show decline in its relative significance. The average share of transfer of Central Government is estimated to be about 4.28 percent of the SDP during the '90s. The share has fallen further to 3.34 percent between 2001-2003 (George K K, and Krishnakumar K.K, 2003). It is possible that the central transfers have enhanced the monetary flows to the State and hence may have contributed to its overall financial saving in the form of bank deposits. Alternative inflow towards the State- remittances from other States and abroad- may be other contributing factors to bank deposits. On the flow of funds from abroad to the banking sector, there is more reliable data for the recent years.

### **4.2.2 THE EXODUS**

The high density of population, the slow growth of the economy and the rising rates of unemployment have been compelling Keralites to migrate not only to other regions of the country (internal migration) but also to various parts of the world (international migration or emigration) (Commerce Research Bureau, 1978, Mathew E.T. and Nair P.R.G.1978, Radhakrishnan C. and Ibrahim 1981, Ravindran A.M. 1987, Zachariah K.C., Mathew E.T., Irudayarajan S., 1999, 2003, 2004, Zacharia K.C and Irudaya Rajan S, 2004)<sup>3</sup>. The scale of

migration is so large that it is often referred to as the Malayalee Diaspora (George K.K. 1997). Though migration plays a major role in the economy, the estimates of their number and the volume of their remittances, available in the literature, are not precise.

Based on a study of sample households in 1998, Zachariah, et al ( 1999,2003) made an estimate on the stock of migrants from the State. According to them, there were altogether 3.75 million migrants from the State in the second half of 1998. With an estimated 6.35 million households during the year, the study suggested that about 40 percent of the households had one or more migrants. Out of a total of 3.75 million migrants, 1.65 million were internal migrants and others emigrants to other countries. The study further estimates that during the eighties, the net external migration was about 555 thousand persons compared with a net internal migration of 189 thousand persons, resulting in the predominance of out migration from the State. Though international migration increased over the last quarter of the century as a whole, between 1988-'92 and 1993-'98 the number of emigrants increased very significantly: from 313 thousand to 692 thousand, an increase of 120 percent (ibid p .93).

The stock of migrants from the State is estimated by Zachariah, et al again in 2004. The number of emigrants from Kerala is estimated to be 18.4 lakh persons, roughly 27 emigrants per 100 households during the year (Zacharia, K C, Irudaya Rajan S, 2004). Thus there took place about 35 percent increase in the number of emigrants between 1999 and 2004. The number of non-resident Keralites (NRKs) defined as the sum of emigrants and return emigrants is estimated to be 27.3 lakh in 2004.

Kannan and Hari (2002) based on the 1998 study of Zacharia *et al*, mentioned above, made projection on the stock of Kerala migrants and have produced time series estimates on the stock of Kerala migrants for the period from 1972-73 to 1999-2000. According to their projection, the stock of Kerala emigrants during 1973 was around 3.4 lakhs. Having improved consistently since then, the number reached 13.18 lakhs in 1998. The study also made an estimate regarding Kerala's share in all-India emigrants. From less than 15 percent during the '70s, the percentage share of Kerala is estimated to have increased more than 35 percent during the '90s.

The large-scale international migration, because of its temporary nature ensured that there was a good inflow of remittances. The remittances of the emigrants take two forms:

money and goods. Monetary remittances have two components: (i) remittances through legal channels and (ii) remittances through illegal channels. The money transferred through the banking system makes up the money remittance through the legal channels. The illegal remittances are transmitted through 'havala' market (popularly known as tube money).

About the quantum of remittances, the magnitudes suggested by various studies differ widely. They ranged from Rs.300 crores to Rs 1000 crores per annum during the period between mid-'70s and late '80s. According to one estimate, through banking channels, Kerala is likely to have received more than Rs.7200 crores by way of inward remittances during 1975-'76 to 1987-'88. When the amounts brought home through other channels are added, the total amount should be well over Rs.10000 crores (Nair,1994). The estimate made by Isaac (1992) suggests that as a ratio of the domestic product of the region (SDP), the remittance inflow was negligible in 1970-'71. In 1975 -'76, the ratio was 3.6 percent and rose to a peak 18.7 percent in 1980-'81 and then gradually declined and reached the level of about 13 percent by the end of the 1980s. If the unofficial inflows were added, the ratio would be around 30 percent in the peak years of the Gulf boom. As per the study by Zacharia et al (2002), the remittance forms more than 20 percent of NSDP during the late '90s. In their recent study, Zacharia and Irudaya Rajan (2004) put the estimate of remittance as Rs. 18,465 crore, forming about 22 percent of the NSDP of Kerala.

According to Kannan and Hari (2002), the average annual remittances during the second half of the 1970s exceeded 137 crores. It ranged from Rs 536 crores during 1980-'85 to Rs.10835 crores during 1995-2000. Remittances formed, on an average, only less than 5 percent of the SDP, during the second half of the '70s. It increased to 11 percent during the '80s and further to around 21 percent during the '90s. The growth rate of remittances as per the study has accelerated to reach 22 percent during the '90s, compared to 18 percent earlier.

Thus remittances from the emigrants, which were quite insignificant prior to the mid-'70s, have acquired increasing significance since then. There is no gainsaying the fact that this extraneous flow of income would have positively influenced the household consumption, investment – physical as well as financial- and its counterpart saving<sup>4</sup>. Looking differently, the saving mobilisation and credit disbursal activities of the financial system may have been influenced by it, the former positively and the latter negatively. Due to the inadequacy of data we are unable to say anything conclusively about the uses to which the remittances are put to and its impact on credit.

### 4.2.3 TREND AND MAGNITUDE OF NRI DEPOSITS

With respect to SCB deposits, which is our immediate concern here, however, some relevant information in the form of NRI deposits is available<sup>5</sup>. One problem with respect to this data is that it is readily available only for a relatively shorter time period - from 1985 onwards for Kerala and from 1991 onwards for India.

The information on the trend and progress of NRI as well as domestic deposits annually is provided in Table 4.5. As it shows, having grown at a relatively slower pace during the second half of the '80s, the growth in NRI deposits in Kerala got accelerated during the '90s. The growth slowed down during the early years of the present decade.

**Table 4-5** Trend of NRI and Domestic Deposits: Kerala and All India.

Year	KERALA				ALL INDIA			
	NRI Deposits		Domestic Deposits		NRI Deposits		Domestic Deposits	
	Amount (Rs.Cr)	% Change	Amount (Rs.Cr)	% Change	Amount (Rs.Cr)	% Change	Amount (Rs.Cr)	% Change
1985	844		2288					
1986	894	5.92	2800	22.38				
1987	1193	33.45	3200	14.31				
1988	1369	14.77	3634	13.55				
1989	1584	15.67	4096	12.72				
1990	1933	22.05	4622	12.84				
1991	2317	19.85	5470	18.34	27400		173168	
1992	3116	34.51	6492	18.69	40304	47.09	196803	13.65
1993	4599	47.61	7484	15.29	46992	16.59	228858	16.29
1994	6152	33.76	8618	15.15	50916	8.35	273061	19.31
1995	7044	14.49	10206	18.43	54066	6.19	325108	19.06
1996	8256	17.22	11849	16.09	59927	10.84	366193	12.64
1997	10178	23.28	12978	9.53	73204	22.16	427352	16.7
1998	12735	25.12	14915	14.92	80460	9.91	516009	20.75
1999	13329	4.66	19831	32.96	86909	8.02	611260	18.46
2000	18724	40.48	20321	2.47	94544	8.79	726876	18.91
2001	21431	14.46	22747	11.94	107680	13.89	841753	15.8
2002	24534	14.48	27133	19.28	122772	14.02	1000621	18.87
2003	28696	16.96	30826	13.61	136088	10.85	1140108	13.94

Source: Economic Review, GOK, various years, Hand Book on Indian Economy, RBI, various years.



Considering the entire 19-years period (1985-2003), the NRI deposits in Kerala, has grown at an average annual rate of 24.25 percent (see table 4.6). Though the growth rate of NRI deposits was relatively higher during the '90s as a whole, it was during the first half of the decade that greater growth rate was experienced. Comparing the two quinquennia i.e. 1991-1995 and 1995-2000, the average annual growth rate during the former was more by about 13 percent than that of the latter.

**Table 4-6** Period wise Growth Rate of Domestic and NRI Deposits  
(per cent per annum)

Period	Kerala		All India		Difference Between Domestic and NRI Deposits		Difference of Kerala from India	
	NRI	Domestic	NRI	Domestic	Kerala	All India	NRI	Domestic
1985-2003	24.25	15.56			8.69			
1991-2003	22.29	15.42	12.60	17.40	6.87	-4.79	9.69	-1.97
1991-2000	24.19	15.98	13.16	17.33	8.21	-4.17	11.02	-1.36
1985-1990	18.69	14.65			4.04			
1991-1995	33.70	16.54	17.27	17.20	17.16	0.07	16.43	-0.66
1995-2000	20.58	15.78	12.12	17.85	4.80	-5.73	8.46	-2.07
2000-2003	15.21	15.33	13.02	16.45	-0.12	-3.43	2.19	-1.12

Source: Same as table 4.5

The domestic deposits compared to NRI deposits have grown at a much lower rate for the entire period as well as in the '90s. Among the sub-periods, the gap between the two during the first half of the '90s was more pronounced. The growth in NRI deposits then was more than double than that of the domestic deposits. Compared to Kerala, the growth rate of NRI deposits in all-India is considerably lower for the period for which comparable data is available. Coming to domestic deposits, interestingly, the period for which comparable data is available, the growth rate of it in India is higher than that of Kerala for the period as a whole as well as for all the sub-periods. The margin between the two is found to be higher during the second half of the '90s.

NRI deposits grew at a much higher rate in Kerala and the position of the State in this regard is well ahead of India. Consequent to its higher growth rates, the relative significance of NRE deposits in Kerala increased over the years. The relatively higher

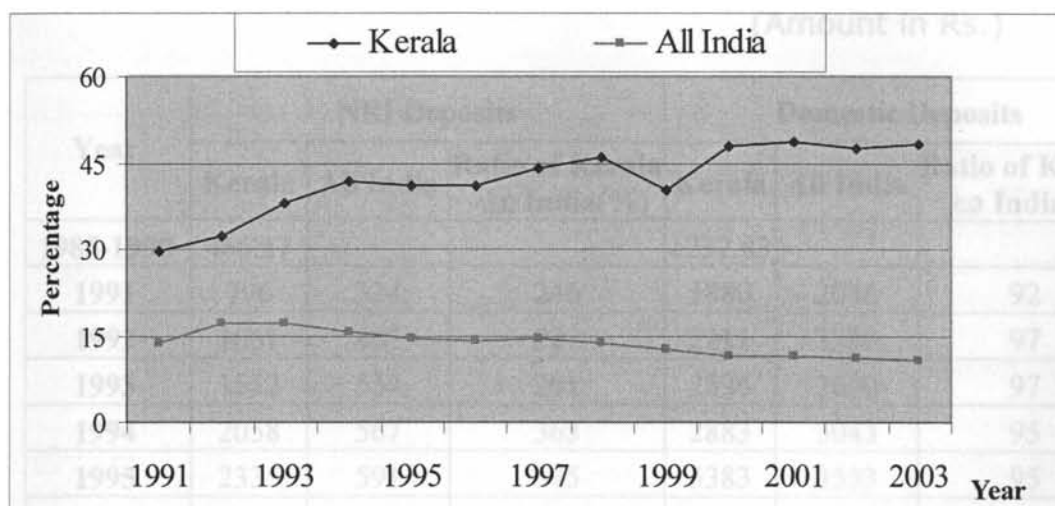
significance that the NRI deposits enjoy in the State can be appreciated better from the trend in the share of NRI and domestic deposits, given in Table 4.7 and Chart 4.2. The NRE deposits which constituted about 27 percent of the total scheduled commercial bank deposits in the State in 1985 increased to more than 48 percent in 2003. All over India too, its share improved over these years, but compared to Kerala, the proportion of NRE deposits in the country is far behind; only 11 percent during 2003.

**Table 4-7** Relative Significance of NRI and Domestic Deposits:  
Kerala and all India

(per cent)

Year	Ratio of NRI to Total SCB Deposits			Ratio of Kerala/ India	
	Kerala	All India	Difference Between Kerala and India	NRI Deposits	Domestic Deposits
<b>1985-1990</b>	27.18				
<b>1991</b>	29.75	13.66	16.09	8.45	3.16
<b>1992</b>	32.43	17	15.43	7.73	3.3
<b>1993</b>	38.06	17.04	21.03	9.79	3.27
<b>1994</b>	41.65	15.72	25.94	12.08	3.16
<b>1995</b>	40.83	14.26	26.57	13.03	3.14
<b>1996</b>	41.07	14.06	27	13.78	3.24
<b>1997</b>	43.95	14.62	29.33	13.9	3.04
<b>1998</b>	46.06	13.49	32.57	15.83	2.89
<b>1999</b>	40.2	12.45	27.75	15.34	3.24
<b>2000</b>	47.95	11.51	36.44	19.8	2.8
<b>2001</b>	48.51	11.34	37.17	19.9	2.7
<b>2002</b>	47.48	10.93	36.56	19.98	2.71
<b>2003</b>	48.21	10.66	37.55	21.09	2.7

Source: Calculated from source same as Table 4.5.

**Chart 4-2** Trends in the Ratio of NRI Deposits to Total SCB Deposits

Consequently, the gap between Kerala and all-India, in the proportional significance of NRI deposits got widened; from about 16 percent in 1991, it increased to nearly 38 percent in 2003. As NRI deposits have grown at a relatively higher pace in Kerala, as a proportion to all-India NRI deposits, Kerala improved its share from above 10 percent during the early '80s, to 20 percent in 2001. The State's share of domestic deposits, given its relatively lower growth rate compared to all India, naturally, shows a declining trend.

Data on the per head NRE deposits given in table 4.8 further confirms the higher significance of it in Kerala. Consequent on the progressively increasing significance of NRI deposits in the State, the per head NRI deposits in Kerala, improved very much. As a ratio to all-India, the per head NRI deposits in the State is much higher.

**Table 4-8** Percapita NRI and Domestic Deposits: Kerala and India

(Amount in Rs.)

Year	NRI Deposits			Domestic Deposits		
	Kerala	All India	Ratio of Kerala to India(%)	Kerala	All India	Ratio of Kerala to India(%)
1985-1990	466.17			1232.83		
1991	796	324	246	1880	2046	92
1992	1061	467	227	2211	2280	97
1993	1552	534	291	2526	2600	97
1994	2058	567	363	2883	3043	95
1995	2335	591	395	3383	3553	95
1996	2712	642	422	3893	3924	99
1997	3314	769	431	4225	4491	94
1998	4109	829	496	4812	5318	90
1999	4262	878	485	6341	6178	103
2000	5933	937	633	6440	7204	89
2001	6730	1047	643	7144	8182	87
2002	7636	1170	653	8445	9538	89
2003	8851	1272	696	9508	10657	89

Source: For Deposits; same as table 4.5; For Population; same as table 3.2

The trend since 1991 shows progressive increase over the years. Though per head domestic deposits are less than that of all-India, it is not too far behind.

#### **4.2.4 NRI AND DOMESTIC DEPOSITS IN RELATION TO SDP**

As in the previous chapter, we shall now move to look at the growth trend of NRI as well as domestic deposits against the backdrop of the overall performance of the economy. The better performance of the domestic economy during the '90s coincided with the relatively better growth of both types of deposits. However, between the two, the improvement witnessed in domestic deposits during the '90s, compared to the previous years, was much less. The trend in the ratio of both NRE and domestic SCB deposits to NDP is given in Table 4.9 and Chart 4.3. The ratio of NRE deposits to NDP picked up during the years since the late '90s.

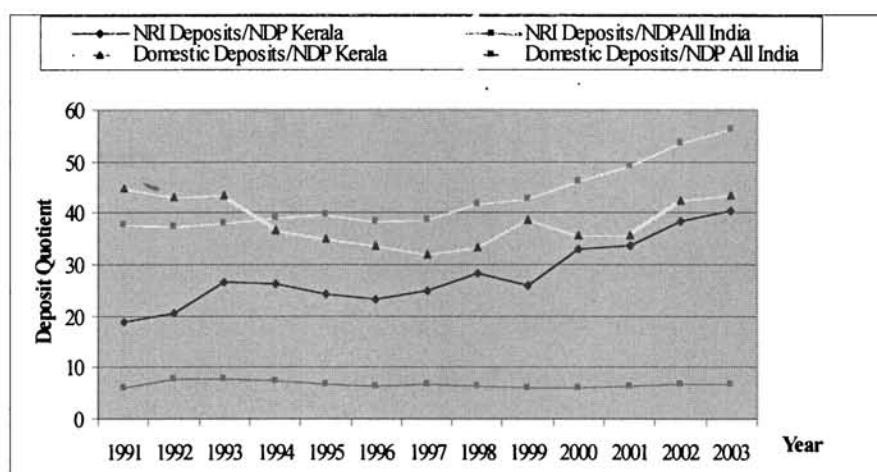
**Table 4-9** NRI and Domestic Deposits as a Ratio to net Domestic Product :Kerala and India

(per cent)

Year	NRI Deposits		Domestic Deposits		Difference in the ratio of Kerala over India		Difference in Domestic Deposits/SDP over Credit/SDP	
	Kerala	All India	Kerala	All India	NRI Deposits /NDP	Domestic Deposits/ NDP	Kerala	All India
1985-1990	15.94		42.63				3.62	
1991	19.03	5.99	44.93	37.84	13.04	7.1	6.81	10.7
1992	20.63	7.68	42.99	37.51	12.95	5.48	9.79	11.46
1993	26.78	7.85	43.57	38.23	18.93	5.35	10.43	11.09
1994	26.29	7.29	36.83	39.12	19	-2.29	8.95	13.92
1995	24.27	6.6	35.17	39.69	17.67	-4.53	8.3	13.94
1996	23.37	6.27	33.54	38.33	17.1	-4.79	8.1	11.67
1997	25.01	6.61	31.89	38.6	18.4	-6.71	5.88	12.91
1998	28.37	6.5	33.23	41.68	21.88	-8.45	5.69	15.03
1999	26.1	6.08	38.84	42.74	20.03	-3.91	11.72	16
2000	32.89	5.99	35.7	46.02	26.91	-10.32	7.1	16.89
2001	33.64	6.32	35.7	49.37	27.32	-13.67	6.36	17.79
2002	38.44	6.59	42.52	53.69	31.86	-11.17	7.15	18.49
2003	40.38	6.73	43.38	56.39	33.65	-13.01	6.88	19

Source: For Deposits; same as table 4.5; For Income; same as table 4.1

**Chart 4-3** Ratio of NRI/Domestic Deposit to NDP



Compared to Kerala, the ratio for All India was very small. The ratio of domestic deposits to SDP was declining during most of the years of the nineties. This is in sharp contrast with the corresponding ratios for the country. The ratio was more for India than for Kerala from 1995 onwards.

The acceleration in NRI deposits in the State during the '90s can be linked to the increasing quantum of foreign remittances and the depreciation of the rupee. But what about domestic deposits? The declining ratio during the better performing years of the economy may tend one to doubt whether even when the foreign sector is excluded, there still exists a lack of correspondence between the SCB deposits and the overall economy's performance in the nineties. It could possibly be attributed on the one hand to the progressive increase in investment in alternative forms- physical as well as financial or to the changing structure of SDP growth on the other. The deposits mobilisation by the co-operative system, as noted earlier, was quite impressive during these years. It is possible that investment in financial assets other than commercial bank deposits, like the post office savings, provident funds, chitty deposits, LIC policies, units of mutual funds, stocks and shares etc. may have contributed to this. We are left with very little data to establish this. A rough indication of the significance of this, however, can be had from the pieces of information on a few of them provided below.

#### **4.2.5 NON- BANKING SAVING MOBILISING FINANCIAL INTERMEDIARIES**

Among the category of non- banking saving mobilising financial intermediaries, those dealing with insurance business assume a relatively higher significance<sup>6</sup>. Table 4.10 gives some indication of LIC's business in the State. As is evident, Kerala's position, among the major States, is at the highest in both Life Insurance Penetration and Life Insurance density in 1999-2000. More significantly, Kerala has improved its relative position over the years.

**Table 4-10** Significance of Life Insurance: Major States and India

States	Life Insurance Penetration*(%)			Life Insurance Density**		
	1980-81	1990-91	1999-2000	1980-81	1990-91	1999-2000
Jammu and Kashmir	0.12	0.44	1.61	7.41	27.75	138.17
Rajasthan	0.2	0.61	1.97	9.53	45.91	192.72
Punjab	0.22	0.67	2.28	20.23	86.26	395.84
Haryana	0.15	0.43	1.75	12.97	54.03	263.8
Uttar Pradesh	0.17	0.59	2.48	7.69	35.09	151.34
Madhya Pradesh	0.11	0.45	1.72	5.98	31.94	149.05
West Bengal	0.27	0.89	2.72	14.58	57.93	276.22
Bihar	0.12	0.53	2.51	4.35	24.88	115.05
Orissa	0.08	0.54	2.08	3.58	26.15	129.29
Maharashtra	0.37	0.85	2.09	28.99	95.48	356.04
Gujarat	0.3	0.99	2.28	21.94	99.58	344.83
Andhra Pradesh	0.24	0.84	2.42	12.04	63.26	257.14
Karnataka	0.31	0.91	2.24	16.93	67.33	281.27
Tamil Nadu	0.24	0.76	2.3	14.19	66.16	320.6
Kerala	0.22	0.89	2.91	13.2	67.46	339.33
India	0.22	0.69	2.1	13	56.74	241.04

Note: \*Life insurance penetration is the percentage of life insurance premium income paid during a given year to the volume of gross domestic product.\*\* Life insurance density is the life insurance premiums paid during a given year to the total population in that year.

Source: Annual Report and Yogakshema (various issues), Life Insurance Corporation of India

The higher degree of insurance penetration naturally is followed by insurance business in Kerala. The share of Kerala in the total all-India new business as well as business in force was found to be better during the '70s and the first half of the '80s (George, 1991). Kerala improved its share during the '90s indicating a relatively higher growth of insurance sector in the State over the years (LIC Annual Report, various years).

Table 4.11 provides strands of information on another significant player in the State's financial system ie; post office saving system. Evidently, Kerala has improved its position in small saving collection through the post office saving system. Compared to the years during the second half of the '80s, the situation during the '90s is much better.

**Table 4-11** Small Savings Collection through the Post Office Saving System: Kerala and All-India.

Year	Kerala ( Amt Rs. In Crores)			Ratio of Kerala to India (%)		
	Gross	Net.	Saving Bank Deposits	Gross	Net.	Saving Bank Deposits
1986-1987	188.23	87.33	92.56	2.32	2.66	1.05
1987-1988	230.82	116.04	122.83	2.43	3.19	1.48
1988-1989	304.04	164.84	128.03	2.42	3.04	1.78
1989-1990	377.67	217.54		2.33	2.73	
1990-1991	406.66	199.61		2.36	2.50	
1991-1992	446.84	182.46			3.23	
1992-1993	470.04	157.43		2.67	3.60	
1993-1994	740.00	280.00	142.16	3.10	4.27	2.09
1994-1995	1182.00	255.07	188.86	3.43	1.77	2.57
1995-1996	982.11	389.88	202.05	2.99	3.87	2.39
1996-1997	928.08	325.02	217.54	2.78	2.68	2.52
1997-1998	1204.06	440.06	234.58	2.61	2.16	2.04
1998-1999	1449.67	600.61	269.00	2.64	2.17	2.24

Source: National Savings Organization, Annual Report, Various Years.

It is generally held that Kerala's position in capital market in the country was rather insignificant prior to the late '80s (L.C. Gupta, 1984 George K.K, 1991 Ram Mohan, 1991). Since then, however, the State is found to have made progress in it. Thus household investment in shares as well as institutional set up facilitating such investment made strides over the last one and a half decades. The relatively weak position of Kerala with respect to investment in securities prior to late '80s, as well as the growth momentum since then can be found from the data given in table 4.12

Kerala accounted for only 0.8 percent of India's share owning population during 1983-84. The State improved its share to 1.72 during 1992. Thus, Kerala attained 0.916 percentage point increase in the country's share owning population between these two years. Similarly, the shareholder density- number of shareholders for every 100 people- in Kerala during 1983-84 was only 0.09 percent as against 0.44 percent at all-India level. It increased to 2.79 percent in 1992.



**Table 4-12** State-Wise Significance of Investment in Shares for Selected Years

State/Union Territory	Percentage share of States in all-India share owning population		Percentage Points Increase/ Decrease	Shareowner incidence (No. of share owners per 100 persons)		Beneficial Accounts with NSDL February 2002	
	1983-84	1992		1983-84	1992	Number	% to Total
Maharashtra	40.36	32.250 (33.621)	8.11-	1.93(5.51)	5.12(13.22)	911997	28.52
Gujarat	16.19	19.37 (13.923)	3.18+	1.43(4.58)	5.88(17.09)	536720	16.78
West Bengal	10.41	9.426 (10.414)	0.984-	0.57(2.16)	1.73(6.33)	214432	6.71
Delhi	9.5	8.299 (8.309)	1.201-	4.60(4.94)	11.07(12.31)	323693	10.12
Tamil Nadu	6.19	5.339 (5.475)	0.851-	0.39(1.16)	1.20(3.51)	230407	7.2
Uttar Pradesh	3.67	4.320 (3.949)	0.65+	0.10(0.55)	0.39(1.95)	188835	5.9
Karnataka	3.86	3.996 (3.671)	0.136+	0.31(1.08)	1.11(3.61)	195159	6.1
Andhra Pradesh	2.14	3.205 (2.935)	1.065+	0.12(0.51)	0.60(2.25)	194405	6.08
Rajasthan	2.23	2.931 (2.142)	0.701+	0.20(0.93)	0.83(3.65)	72316	2.26
Madhya Pradesh	1.17	1.852 (1.547)	0.682+	0.07(0.33)	(0.35)(1.51)	71158	2.23
Kerala	0.8	1.716 (1.706)	0.916+	0.09(0.50)	0.74(2.79)	76793	2.4
Bihar	0.73	1.522 (1.500)	0.792+	0.03(0.25)	0.22(1.67)	27340	0.85
Punjab	0.94	1.468 (1.347)	0.528+	0.17(0.61)	0.91(3.06)	52434	1.64
Haryana	0.67	1.024 (0.847)	0.354+	0.16(0.71)	0.78(3.16)	32521	1.08
Assam	0.09	0.355 (0.306)	0.265+	0.02(0.15)	0.20(1.80)	4879	0.16
Orissa	0.17	0.311 (0.289)	0.141+	0.02(0.16)	0.12(0.92)	14701	0.46
All-India	100	100			0.44	3197964	100

Note: (1) Figures within brackets for column 2 are percentage shares based on face values of shareholdings held by individuals.

(2) Figures within brackets for column 5 and 6 represent only the urban shareholder incidence. They have been arrived at by computing each State's estimated number of shareowners as percentage of the State's urban population.

Source: L C Gupta 1994, shareowners geographic distribution, pp. 51-53. NSDL, 2002.

The growth momentum that Kerala witnessed in security market during the late '80s and early '90s was in convergence with the national trend. In the year 2001, Kerala accounted for about 2.25 percent of the beneficial accounts with National Securities Depository Limited (NSDL) <sup>7</sup>.

Among other things, the growing significance of investment in asset offered by the non-banking intermediaries like capital market indicate the preference of Keralites for assets with higher yields and it shall be corroborated with the data furnished in table 4.13.

#### 4.2.6 SCB DEPOSITS: TERM-WISE STRUCTURE

The share of fixed deposits shows increasing tendency over the years. These deposits constitute the largest share in the State as well as in India. In Kerala, from about 56 percent during the '70s, the share of it declined to around 52 percent during the early '80s. From 1988 onwards, the share of it increased steadily and reached around 74 percent by later years; about 22 percent point increase over a period of 2 decades.

Comparing Kerala's position with all-India, the share of fixed deposits of Kerala was higher than the corresponding all-India average during the early years. The share of it in the State has become lower than the corresponding share in all-India during the decade prior to mid-'80s. During the second half of the 80 onwards, again, Kerala's share exceeded the all India share and now its share in Kerala is more than 10 percentage points that of all India. The increasing share of fixed deposits was at the cost of both saving and current deposits.

**Table 4-13** Type-wise Distribution of Total SCB Deposits  
(per cent)

Year	Current		Savings		Term		Ratio of Kerala to all India		
	Kerala	India	Kerala	India	Kerala	India	Current	Savings	Term
	<b>4-Year Average</b>								
1972-1975	14.92	20.68	28.45	26.03	56.51	53.24	2.25	3.41	3.35
1976-1979	10.65	16.71	32.69	26.16	56.43	57.08	2.29	4.49	3.55
1980-1983	8.85	15.23	39.15	29.23	51.97	55.53	2.27	5.24	3.66
1984-1987	7.72	15.05	37.37	29.33	54.71	55.59	2.07	5.15	3.98
1988-1991	7.06	14.48	28.88	28.24	64.03	57.26	1.89	3.96	4.33
1992-1995	6.20	16.63	24.58	24.86	69.12	58.45	1.64	4.33	5.18
1996-1999	6.00	13.93	20.28	24.08	73.70	61.96	2.02	3.94	5.57
2000-2003	5.46	11.75	20.65	24.51	73.86	63.71	2.17	3.93	5.41
	<b>Decade-wise Average</b>								
1972-1980	12.16	18.20	31.19	26.35	56.14	55.25	2.27	4.03	3.47
1981-1990	7.83	14.86	35.38	29.07	56.20	56.03	2.08	4.81	3.97
1991-2000	6.13	14.95	22.63	24.78	70.98	60.10	1.84	4.09	5.29

Source: BSR, Various years

Between the other two types of deposits, saving deposits come in the order of importance in both Kerala and all-India. The trend of its share shows more fluctuations in the State. It showed increasing tendency till the mid '80s, but is followed by down turn since then. The share of the State in all-India saving deposits has moved accordingly; however, the State still maintains a fairly good share in all-India saving deposits. The Current deposits constitute the lowest share in both Kerala and all-India. Its share has been coming down. Comparing Kerala and all-India, the share of Current deposits in total deposits in the State, is only about half of the corresponding all-India share.

The shift in the pattern of deposits may throw up some tentative hypothesis. The higher share of fixed deposits coincides with the increasing significance of NRI deposits and this may make us to think of some kind of positive association between the two. The period also coincided with the higher growth of the Kerala economy. The share of current deposits is declining and it is much lower in the State. This may lead us to think of the lower use of banking services in the State for transaction purposes usually by industrial and business houses. From such shifts in deposits pattern, it can also be subsumed that consideration of returns rather than liquidity is getting importance in bank deposits.

Not only in commercial banks but also in co-operative banks, the category of fixed deposits is assuming higher proportion. Such a trend in favour of fixed deposits could also be seen with respect to deposits in chitties<sup>8</sup> as well as post office savings. In table 4.14, some information on the former is provided. During the 11-year period from 1992 to 2003, the fixed deposits in Kerala State Financial Enterprises (KSFE)<sup>9</sup>, a chitty institution managed by the State Government, has increased by about 37 percent. The corresponding growth trend of fixed deposits with the commercial banking system was half of it.

**Table 4-14** Trend of Fixed Deposits (FD) in Chitty (KSFE) and SCB Compared

Year	Chitty (KSFE)		SCB		Ratio of Chitty FD/SCB FD (%)
	Amt Rs. Lakhs	Percentage Change	Amt Rs. Lakhs	Percentage Change	
1992	3084		631305		0.49
1993	4422	43.37	850963	34.79	0.52
1994	6061	37.07	1044742	22.77	0.58
1995	9039	49.13	1202773	15.13	0.75
1996	16100	78.12	1449404	20.51	1.11
1997	24610	52.86	1716102	18.40	1.43
1998	39840	61.89	2067228	20.46	1.93
1999	59471	49.27	2449273	18.48	2.43
2000	67133	12.88	2881465	17.65	2.33
2001	77998	16.18	3260902	13.17	2.39
2002	108631	39.27	3843218	17.86	2.83
2003	125462	15.49	4370983	13.73	2.87

Source: KSFE Annual Report, Various Years BSR Various Years.

The interest offered for deposits by co-operative banks and chitties are relatively higher than that of commercial banks.

#### **4.2.7 NRI DEPOSITS: INFLUENCE ON C-D RATIO**

As the C-D ratio is inversely related to deposits and directly to credit, the declining trend seen in the C-D ratio of the banking system, particularly of the commercial banks, can be partially attributed to the NRI deposits. The falling C-D ratio thus is the net result of the increasing (substantial) inflow of inward remittances with slower expansion of credit. The effect of NRE deposits in bringing down C-D ratio could be seen from table 4. 15. Without NRE deposits, the value of the C-D ratio is very high. Compared to all-India, the ratio in the State is well ahead also.

**Table 4-15** C-D Ratio without NRE Deposits and its Difference from C-D Ratio with NRE Deposits

(per cent)

Year	C-D Ratio without NRI Deposits		Difference in C-D ratio with NRI Deposits over that without NRI Deposits		Difference in C-D ratio of Kerala from India	
	Kerala	All India	Kerala	All India	Without NRI	With NRI
1985-1990	91.54		24.90			
1991	84.85	71.72	25.24	9.8	13.12	-2.32
1992	77.23	69.46	25.05	11.81	7.76	-5.48
1993	76.04	70.99	28.95	12.09	5.05	-11.8
1994	75.72	64.41	31.54	10.12	11.3	-10.11
1995	76.4	64.88	31.2	9.25	11.52	-10.43
1996	75.86	69.55	31.15	9.78	6.31	-15.06
1997	81.57	66.54	35.85	9.73	15.03	-11.09
1998	82.88	63.94	38.17	8.63	18.94	-10.61
1999	69.84	62.56	28.07	7.79	7.28	-13.01
2000	80.12	63.3	38.42	7.29	16.82	-14.31
2001	82.19	63.97	39.87	7.25	18.23	-14.39
2002	83.2	65.56	39.51	7.16	17.64	-14.7
2003	84.15	66.31	40.57	7.07	17.85	-15.65

Source: Same as Table 4.5, BSR various years.

Even though the non- NRE deposits C-D ratio is quite high, it indicates a declining tendency in the '90s particularly in the early years. The average ratio which was as high as 91.5 percent in the second half of the '80s had fallen to 79.8 percent in the first half of the '90s, and further to 77.7 percent during the second half of it (see table 4.16). The ratio improved during the later years.

**Table 4-16** Average Values of C-D Ratio without NRE Deposits

(per cent)

Period	C-D Ratio without NRI Deposits		Difference in C-D ratio with NRI Deposits from that without NRI Deposits		Difference of Kerala over India in C-D ratio without NRI Deposits
	Kerala	All India	Kerala	All India	
1985-2003	82.82		30.10		
1991-2000	77.94	66.66	31.03	9.52	10.39
1991-2003	79.12	66.34	32.90	8.91	11.78
1985-1990	91.46		24.81		
1990-1995	79.78	68.01	27.93	9.67	10.71
1995-2000	77.65	65.09	33.58	8.69	11.68
2001-2003	83.18	65.27	39.98	7.16	17.91

Source: Same as Table 4.15

While NRE deposits explain the deposits component of the falling C-D ratio, it is the unmatching credit expansion, which may require further explanation. Prima facie, this may be due to the low credit absorption capacity of the region or low deployment of credit by the commercial banking system in the State.

The credit absorption, in the ultimate analysis, is governed by the nature and size of the loan project put up for funding, which in turn may depend on the level and kind of investment. The nature and pattern of investment, in turn, are reflected in the structural characteristics of the economy on the one hand and the structure of credit deployed by the banking system on the other. Hence an examination of the nature and composition of the SDP and the credit utilisation is required to understand the falling tendency of the credit intake in the State.

## Section 4.3

### 4.3.1 BROAD PATTERN OF SCB CREDIT

The decomposition of SCB credit according to the principal sectors of the economy - agriculture, industry, and services - is a useful starting point for understanding the structural pattern of credit of the banking system. In table 4.17, information on the compound growth rate of SCB credit to the key economic sectors is provided. In both Kerala and all-India,

credit to the service sector registered the highest growth rate over the three decades since 1971-72, followed respectively by agriculture and industrial sectors. The growth rate of service sector credit in Kerala was about 0.9 percentage more for all-India during the whole period. The growth rate of industrial sector credit in Kerala was about 1.7 percent point less than that of all-India; the rate of growth of agricultural credit was 0.45 percent higher in Kerala.

**Table 4-17** Growth Rate of SCB credit to Broad Economic Sectors:  
Kerala and all-India

(per cent per annum)

Period	Kerala			India			Difference (Kerala over India)		
	Agriculture	Industry	Service	Agriculture	Industry	Service	Agriculture	Industry	Service
1972-2003	17.07	14.39	18.73	16.62	16.11	17.86	0.45	-1.71	0.87
1972-1987	27.06	18.56	22.10	24.58	15.25	19.55	2.48	3.31	2.55
1988-2003	11.40	11.62	17.62	11.60	15.68	18.93	-0.20	-4.06	-1.31
1972-1980	30.52	19.91	20.60	26.73	14.79	23.46	3.79	5.12	-2.86
1981-1990	17.28	13.61	17.93	16.52	16.62	16.68	0.75	-3.01	1.25
1991-2000	11.90	12.03	18.74	10.50	15.87	17.32	1.40	-3.83	1.42
1991-2003	12.47	11.47	19.07	12.16	15.26	19.08	0.32	-3.80	-0.01
1990-1995	8.78	10.25	16.58	8.14	13.59	17.98	0.64	-3.34	-1.40
1995-2000	13.36	12.44	18.17	12.68	16.75	16.60	0.68	-4.31	1.57
2000-2003	12.44	8.55	21.71	19.01	13.34	23.17	-6.57	-4.79	-1.46

**Source:** Calculated from BSR, various issues.

Looking at the growth trends of SCB credit to the broad sectors for the two sub-periods i.e; 1972-1987 and 1988-2003, Kerala registered relatively higher value for all the three sectors during the first sub period. During this phase, the agricultural credit registered the highest growth rate and it was followed by service sector and industrial sector credit in that order. The growth rate of credit to all the three broad sectors in the State during this period was more than the corresponding rate at all-India. Also, the margin between the two sub-periods for the sectors was much significant.

Kerala witnessed deceleration of credit growth in all the three sectors during the years since the late '80s. Among the three sectors, the fall was much sharper in agriculture (15.7 percent), followed by industry (7 percent). The fall in service sector credit too was quite significant, nearly 5 percent. As against the sharp decline in credit in all the three

sectors in Kerala, only agriculture credit registered considerably lower growth rate during the second phase at all-India level. In India, while the compound growth rate of agriculture sector credit has fallen by about 13 percent, the decline of service sector credit was only by 0.63 percent. With regard to industrial credit, the growth rate, however, has improved by about 0.43 percent. Consequently, the growth rate of agriculture and tertiary sector credit in Kerala and all-India remained more or less same, but for the industrial sector, it has fallen much in Kerala compared to all-India. Further, the gap between Kerala and all-India in the growth rate has become thin in the case of primary and service sector credit during the second period; but for industry it got widened.

The decade wise growth trends also show decelerating tendency for all the three broad sectors in consecutive decades in Kerala. Regarding the degree of fall, it is found to be more between the '70s and '80s; the lower base during the '70s may be a reason for it. The degree of fall was more in agriculture credit, followed by industrial sector credit, in both the decades-'80s and '90s. Tertiary sector credit, compared to the 80s, improved during the '90s, but the rate of its increase was much less. As against Kerala, only agricultural credit shows a decelerating tendency consecutively at all India. The growth trends of the other two sectors depict fluctuating tendency. Industrial credit after having picked up in the '80s showed deceleration during the '90s. Service sector credit, on the other hand, showed decline during the '80s but revival during the '90s.

Though credit for all the sub sectors experienced deceleration during the '90s and the relatively longer sub period (1988-2003) as a whole, the trend of the shorter quinquennial sub periods show some interesting patterns. Relatively much lower growth was experienced by all the sub sectors during the period from 1990-1995. During this period, the average growth rate of agricultural credit was very low. During the later years of the period under consideration, the agriculture credit experienced some improvement, but industry shows further deceleration. Service sector credit also shows improving trends in the later years; its position, compared to the other two, is much ahead. In the country as a whole, these years are noted for better credit growth. Compared to Kerala, the rate at the national level was higher in all the three sectors.

The resultant change in the share of commercial bank credit to broad sectors in Kerala and all India is depicted in table 4.18.



**Table 4-18** Relative Share of Broad Sub-sectoral SCB Credit : Kerala and All India

(per cent)

Year	Kerala			India			Kerala's share in India		
	Agriculture	Industry	Service	Agriculture	Industry	Service	Agriculture	Industry	Service
1972	10.14	46.14	43.72	9.02	61.16	29.82	3.71	2.49	4.84
1973	9.8	46.5	43.7	9.03	57.38	33.59	3.68	2.75	4.41
1974	10.6	46.72	42.68	8.86	59.13	32.01	3.81	2.52	4.25
1975	12.31	47.52	40.17	10.75	58.39	30.86	3.68	2.62	4.19
1976	14.66	44.95	40.39	10.4	50.37	39.23	4.23	2.68	3.09
1977	13.79	46.17	40.04	10.4	47.94	41.66	4.25	3.09	3.08
1978	15.25	43.58	41.17	12.29	47.68	40.03	4.13	3.04	3.43
1979	15.7	43.46	40.84	13.16	46.77	40.07	4.52	3.52	3.86
1980	16.83	41.41	41.77	14.79	48.03	37.18	4.59	3.48	4.53
1981	17.71	43.03	39.26	16.72	49.13	34.14	4.92	4.07	5.34
1982	18.25	36.84	44.91	17.15	47.35	35.5	4.72	3.45	5.61
1983	16.36	38.18	45.46	16.52	47.5	35.98	4.02	3.26	5.13
1984	17.33	36.32	46.34	17.67	42.34	40	4.21	3.69	4.98
1985	17.14	36.74	46.13	17.64	41.32	41.04	4.15	3.79	4.8
1986	17.81	38.01	44.18	17.39	42.67	39.94	4.31	3.75	4.66
1987	23.21	31.27	45.52	17.29	44.46	38.25	6.55	3.43	5.81
1988	19.24	31.79	48.97	17.56	46.63	35.81	5.17	3.21	6.45
1989	17.96	33.5	48.53	17.34	47.32	35.34	4.42	3.02	5.86
1990	17.51	35.51	46.97	15.94	48.74	35.32	4.35	2.89	5.27
1991	17.25	35.29	47.45	14.95	47.58	37.47	4.31	2.77	4.73
1992	16.98	34.7	48.32	14.8	47.7	37.49	4.21	2.67	4.73
1993	15.99	33.5	50.51	13.58	48.6	37.82	4.12	2.41	4.68
1994	14.97	32.73	52.3	13	48.15	38.85	4.27	2.52	4.99
1995	14.66	31.2	54.15	11.83	45.61	42.56	4.58	2.53	4.7
1996	14.29	31.02	54.69	11.31	48	40.69	4.46	2.28	4.74
1997	13.24	29.12	57.65	11.12	49.34	39.53	4.43	2.2	5.43
1998	13.82	27.69	58.49	10.69	48.83	40.49	4.84	2.12	5.41
1999	13.33	27.94	58.73	10.69	49.15	40.16	4.52	2.06	5.3
2000	13.06	27.31	59.64	9.92	46.47	43.61	4.66	2.08	4.84
2001	13.29	25.19	61.52	9.61	43.91	46.48	4.8	1.99	4.6
2002	11.9	22.25	65.85	9.76	41.41	48.84	4.2	1.85	4.64
2003	11.8	22.05	66.15	10.04	40.98	48.97	4.03	1.85	4.64
<b>Average</b>									
1972-1980	13.23	45.16	41.61	10.97	52.98	36.05	4.07	2.91	3.96
1981-1990	18.25	36.12	45.63	17.12	45.75	37.13	4.68	3.46	5.39
1991-2000	14.76	31.05	54.19	12.19	47.94	39.87	4.44	2.36	4.96
2001-2003	12.33	23.16	64.51	9.80	42.10	48.10	4.34	1.90	4.63

Source: Same as Table 4.17

During the early years of the period under consideration, the industrial sector accounted for the largest share of total SCB credit in Kerala as well as in India. Compared to Kerala, however, the share of this sector was much more in all-India ie, more than 10 percentage higher than that of the latter. The share of industrial sector credit has fallen over the years in both; indicative of its lower growth rate compared to the other two sectors. Further, the fall in the share of it in Kerala, compared to the all India, was much sharper.

While the declining trend of the share of industrial sector credit at all-India showed fluctuations, there was a steady fall in its share in Kerala. Hence the gap between Kerala and all-India with respect to the share of SCB credit to this sector has widened through time. At present credit to the industrial sector accounts for only about a quarter of the total SCB credit in the State. In all-India, however, its share is more than 20 percentage points higher than that of Kerala and it still constitutes the largest segment there. Notwithstanding the better growth rate of industrial credit during the first phase, the lower share of it, compared to the other two sectors in Kerala then, may be attributed to the lower base of it. The fall in the share of industrial credit was followed by improvement in the share of tertiary sector credit. Now it accounts for the largest share in total SCB credit in Kerala and the position of the State in its share is much ahead of all-India. While it constitutes more than 65 percent of the total SCB credit in Kerala, the percentage share of the sector at all-India is about 49 percent in 2003. Of the three decades, it was during the '90s that the highest increase in the tertiary sector's credit share had occurred.

Like the tertiary sector, the share of agricultural sector in total SCB credit in Kerala is relatively higher than that of all-India. Significantly, its share in both Kerala and all-India, after having shown improvement till the late '80s, declined considerably since then. With regard to Kerala's broad sectoral credit in all-India, it can be seen from the table that the State improved its share in all India in all the three broad sectors during the '80s, compared to the '70s. The share of Kerala in all the three broad sectors, however, declined during the '90s. The fall in Kerala's share, as is to be expected, was much pronounced in the case of industrial sector credit during the recent period. Significantly, Kerala's share in total all India industrial credit is only half of that found with the other two sectors.

Yet another indicator-the per head sectoral credit- is given in table 4.19. For agriculture and service sectors, the situation in Kerala is better than all- India. In the case of industry, the credit per head in Kerala is much below that of all India. While the gap

between Kerala and all India with respect to per head credit for the agriculture and tertiary sectors have fallen, in the case of industrial credit, the reverse trend could be seen.

**Table 4-19** Per Capita SCB Credit to Broad Economic Sectors:  
Kerala and India

(Amt in Rs)

Year	AGRICULTURE			INDUSTRY			SERVICE		
	Kerala	Difference of Kerala Over India	Ratio of Kerala/India (%)	Kerala	Difference of Kerala Over India	Ratio of Kerala/India (%)	Kerala	Difference of Kerala Over India	Ratio of Kerala/India (%)
	4-Year Average								
1972-1975	11.42	-0.38	96.75	49.29	-23.89	67.36	44.63	5.42	113.83
1976-1979	31.77	3.92	114.06	93.98	-19.84	82.57	86.21	-9.23	90.33
1980-1983	80	14.53	122.2	183.17	-8.31	95.66	199.37	56.88	139.92
1984-1987	168.65	45.19	136.6	307.57	5.29	101.75	397.42	116.87	141.66
1988-1991	249.19	57.67	130.11	475.07	-86.02	84.67	666.29	241.38	156.81
1992-1995	325.62	72.46	128.62	689.22	-222.7	75.58	1084.2	325.53	142.91
1996-1999	504.96	150.5	142.46	1065.4	-520.7	67.17	2134	828.73	163.49
2000-2003	808.55	239.78	142.16	1554	-921.6	62.77	4152.4	1418.4	151.88
Decade-wise Average									
1972-1980	25.62	2.76	112.05	79.49	-20.64	79.38	74.1	1.08	101.48
1981-1990	165.83	40.32	132.12	315.81	-21	93.77	415.2	142.85	152.45
1991-2000	427.12	116.89	137.68	899.03	-381.9	70.19	1670.6	591.21	154.77

Source: For Sectoral Credit, Same as Table 4.17; for Population Data, Census of India, various years.

Significantly, even though the per head credit of the agriculture and tertiary sectors are quite impressive in the State, it is with a much lower growth of population, compared to the country. Despite that, per capita industrial credit in Kerala is much low.

### 4.3.2 SIZE OF SCB CREDIT TO BROAD SECTORS

In table 4.20, an attempt is made to look at the size of credit to the broad sectors in the State. During 1980, the average size of credit for the broad sectors as well as total SCB credit in Kerala was much lower than all India. Though there was much fluctuation, Kerala improved its average size of credit in relation to all-India for the agriculture and service sectors over the years. Between the two, the relative improvement

was found to be more or less equal. While it is so, the relative size of credit for the secondary sector shows decline over the years.

**Table 4-20** Per Account SCB Credit to Broad Sectors for Selected Years: Kerala and India

(Amount in Rs.)

Year	Kerala/India	Agriculture	Industry	Service Sector	Total Bank Credit
1980	Kerala	1607	83191	4014	4157
	India	3499	135131	13261	11818
	Percentage of Kerala to India	45.93	61.56	30.27	35.18
1990	Kerala	4894	75337	8762	10005
	India	6780	123251	15077	19371
	Percentage of Kerala to India	72	61.12	58.12	51.65
2000	Kerala	17279	148183	47085	45880
	India	22227	399278	64815	84620
	Percentage of Kerala to India	77.74	37.11	72.65	54.22
2003	Kerala	22394	325284	106361	66854
	India	36436	807306	232971	127072
	Percentage of Kerala to India	61.46	40.29	45.65	52.61

Source: Same as Table 4.17

Despite the lower size of secondary sector credit, given the higher significance of the service sector credit in the State, the size of total bank credit, however, increased over the years. However, it is still about half the size of all-India total credit. In 2003, while the average size of Kerala's agriculture credit accounts for about 62 percent of the respective all-India credit, the relative size of tertiary sector credit is a little above 45 percent of the country's average. The size of secondary sector credit is extremely low: only one third of the corresponding all-India size. Thus the size of credit for Kerala is lower for all the three sectors and the phenomena is more pronounced in the case of secondary sector credit. Further, though the size of credit for the primary sector credit is somewhat equal in Kerala and all-India in 2000, the sector is characterised by extremely low amount of credit per account. At all-India, its size is about 26 percent of the overall average. In the other two

sectors, particularly secondary, where the size of credit is relatively higher, the size in Kerala is far behind.

From the growth trend of the SCB credit to broad economic sectors analyzed above, it can be inferred that the deceleration in credit growth for all the key sectors contributed to lower growth of overall credit in the State since the late '80s. Given the much sharper decline in agriculture and industrial sector credit, the falling tendency of total credit may largely be attributed to these two. The sharp fall in agricultural sector credit, though the relative significance of it is very low, however, was an all-India phenomenon.

Having looked at the broad structural features of bank credit, now let us try to examine the growth trends in sectoral credit in the context of the growth trends in the economy.

### 4.3.3 BROAD STRUCTURAL CHANGES IN THE REAL ECONOMY

The growth trends of the broad sectors of the economy are given in table 4.21. The tertiary sector enjoys the lead role in the growth process. Considering the two sub periods, higher growth was experienced by all the three sectors during the second sub period 1988-2003. But regarding the relative growth trends of the sectors, the rate of growth of the service sector was much more pronounced.

**Table 4-21** Growth Rates of Broad Sub-sectors of the Economy:  
Kerala and All India

(per cent per annum)

Period	Kerala			India			Difference of Kerala QVEY . India		
	Agriculture	Industry	Service	Agriculture	Industry	Service	Agriculture	Industry	Service
1972-2003	11.66	15.26	16.21	11.73	14.58	15.42	-0.07	0.68	0.79
1972-1987	9.40	13.46	13.07	10.23	14.44	13.84	-0.83	-0.98	-0.77
1988-2003	12.44	15.38	20.31	11.84	13.90	16.27	0.60	1.49	4.04
1972-1980	9.50	12.84	12.28	8.69	14.20	13.08	0.81	-1.36	-0.80
1981-1990	9.94	12.61	13.49	11.22	14.89	15.52	-1.28	-2.28	-2.03
1991-2000	14.88	16.57	23.83	12.91	14.64	17.10	1.97	1.93	6.73
1991-2003	9.83	14.70	20.39	10.56	13.11	15.88	-0.73	1.59	4.51
1990-1995	21.95	15.67	27.32	15.12	14.42	16.81	6.83	1.25	10.51
1995-2000	8.23	14.47	17.21	11.22	12.18	16.99	-2.99	2.29	0.22
2001-2003	-3.81	6.84	8.61	3.89	9.29	11.22	-7.70	-2.45	-2.61

Source: GOI, CSO, National Account Statistics and GOK Economic Review, various issues.

While it registered growth rate of more than 20 percent, the growth rate of industry and agriculture respectively were about 5 percent and 8 percent less than that. Looking at the trends over the decades, the growth rate of service sector is much higher. The tertiary sector enjoys the highest growth rate at all India too. Compared to Kerala, the growth rate of this sector at all India is relatively lower for the long period and the better position of Kerala is an aftermath to the impressive performance of the sector during the '90s. The performance of the sector was relatively better in all India during the earlier decades. In the case of industrial sector also, the position at all India was better during the '70s and '90s. With regard to agriculture too, a similar situation could be found. However, a reverse trend seems to be taking place in the later years.

Due to the higher rates of growth of the tertiary sector, the structure of the regional economy, which was predominantly agrarian at the time of independence, has been transformed over the years into one where the tertiary sector dominates (See Table 4.22). Such surging services sector conforms to the all India pattern, as mentioned before.

**Table 4-22** Period-wise Average Share of Broad Economic Sub-Sectors : Kerala and All India

(per cent)

Year	Kerala			India			Ratio of Kerala/ India		
	Agriculture	Industry	Service	Agriculture	Industry	Service	Agriculture	Industry	Service
1972-2003	34.84	21.89	41.51	35.33	23.26	40.43	3.13	2.99	3.26
1972-1987	41.64	20.72	37.05	40.99	22.21	36.45	3.14	2.89	3.15
1988-2003	29.15	23.12	46.52	30.46	24.35	44.85	3.12	3.10	3.38
1972-1980	45.71	18.18	35.98	43.72	20.97	35.09	3.28	2.72	3.21
1981-1990	35.81	24.25	39.79	36.53	24.31	39.02	2.91	3.04	2.97
1991-2000	31.33	22.64	45.34	31.23	24.38	44.26	3.34	3.09	3.41
1991-2003	28.26	22.57	47.91	29.71	24.22	45.76	3.22	3.15	3.54
1990-1995	33.94	24.40	41.19	33.02	24.63	42.34	3.08	2.97	2.92
1995-2000	29.23	21.49	49.09	30.02	24.38	45.51	3.52	3.19	3.90
2001-2003	20.04	22.32	57.56	25.16	23.67	51.13	2.83	3.35	4.00

Source: Same as Table 4.21

Looking at the phenomena decade-wise, the agriculture sector accounted for nearly 46 percent of the SDP and it occupied the major part during the 70s. During the 80s, however, services overtook primary sector as the lead sector. The shift away from the

primary sector has been more towards the tertiary sector. Though the industrial sector has increased its contribution over the years, the share of this sector in the State's SDP is still relatively small. Significantly, the share of the industrial sector in Domestic Product in Kerala has always been lower than that of the national economy.

The share of tertiary sector in Kerala, particularly during the two decades before the '90s, has always been equal to or above its share in the national economy. Kerala has achieved this position of the higher share of the tertiary sector earlier than the national economy. The tertiary sector's share in Kerala as well as all India is almost similar to that in some of the lower middle-income countries of the world (Sundrum R.M 1987).

The structural changes in the economy towards the tertiary sector can also be shown in terms of the changing pattern of sectoral distribution of the workforce. It shows many differences between Kerala and the country. In 1990-'91, the primary sector accounted for only 48 percent of the main workers in Kerala as against 66.7 percent in the country. The share of industrial sector, compared to all-India, was higher in Kerala (18.2 percent as against 12.2 percent at all-India).

Kerala's tertiary sector accounted for nearly 34 percent of the labour force as against just above 20 percent for all – India. While the tertiary sector's share of total workforce increased by about 8.5 percent in Kerala between 1960-'61 and 1990-'91, the increase of all-India during the same period was only 4 percent. The margin between Kerala and all India, with respect to the share of the tertiary sector in total labour force, is much higher than the respective share of the sector in total domestic product. Thus the sectoral distribution of the labour force in Kerala is more balanced than all India and is similar to some of the South and South East Asian countries (Kannan 1998 P.7).

Though the primary sector's share in employment came down throughout the post independence years, most of the decline was in the eighties and nineties. With regard to the share of the workforce in the secondary sector also, a declining trend could be observed. The tertiary sector's share in employment, however, was going up during all the decades. But steep increase in its share took place during the eighties. Looking at the over all structural transformation in the State from another angle, it can be suggested that Kerala economy is skipping the intermediate stage of development. (Subrahmanian K.K.1999).

#### 4.3.4 COMPARING THE BROAD SECTORS OF SCB CREDIT AND SDP

The broad structural features of SCB credit discussed earlier, indeed, is in conformity with the emerging structural characteristics of the economy in the form of increasing tertiarization and the resultant preponderance of the sector in the State economy. But there is a great deal of inconsistency in the growth behaviour of sectoral credit of the banking system and the broad economic sectors. While the growth experience of the economy during the period under consideration shows accelerating trend for all the key sectors, particularly, industry and tertiary sectors for the '90s, this coincided with decelerating tendencies of SCB credit growth in these sectors, implying mismatch between the growth rates of the two sets of variables.

Looking at the situation for the earlier period/ periods, better credit growth was witnessed for all the three sectors then, but it coincided with relatively lower growth trends of the broad economic sectors. The inconsistency in the growth behaviour between the two sets of variables can be shown by the difference in their growth rates, provided in table 4.23.

Table 4-23 Difference\*in Growth Rates between the Broad Banking and Economic Sub- sectors

(per cent)

Year	KERALA			INDIA		
	Agriculture	Industry	Service	Agriculture	Industry	Service
1972-2003	5.41	-0.87	2.52	4.89	1.53	2.44
1972-1987	17.66	5.1	9.03	14.35	0.81	5.71
1988-2003	-1.04	-3.76	-2.69	-0.24	1.78	2.66
1972-1980	21.02	7.07	8.32	18.04	0.59	10.38
1981-1990	7.34	1	4.44	5.3	1.73	1.16
1991-2000	-2.98	-4.54	-5.09	-2.41	1.23	0.22
1991-2003	2.64	-3.23	-1.32	1.6	2.15	3.2
1990-1995	-13.17	-5.42	-10.74	-6.98	-0.83	1.17
1995-2000	5.13	-2.03	0.96	1.46	4.57	-0.39
2001-2003	16.25	1.71	13.1	15.12	4.05	11.95

\* Indicates the difference of banking variables over economic variables.

Source: For Banking Data, BSR various years, For Economic Variables, Same as table 4.21

On the whole, the magnitudes on the margin between the two sets are quite significant in both '80s and '90s. During the '80s, it takes a positive value implying better



credit growth for the broad SCB sectors, compared to the corresponding economic sectors. Among the sub sectors the margin is higher for the agricultural sector.

During the '90s, compared to the previous decade, the values carry negative signs, signifying a reverse situation during the decade. Among the sub sectors, the margin is higher in tertiary sector credit. In the case of industrial credit also, the difference is quite high. For the country as a whole, the magnitudes of the difference had come down, but it is still positive, except for agricultural sector. The degree of inconsistency in the growth behaviour of the broad sectors seems to be less at the country level.

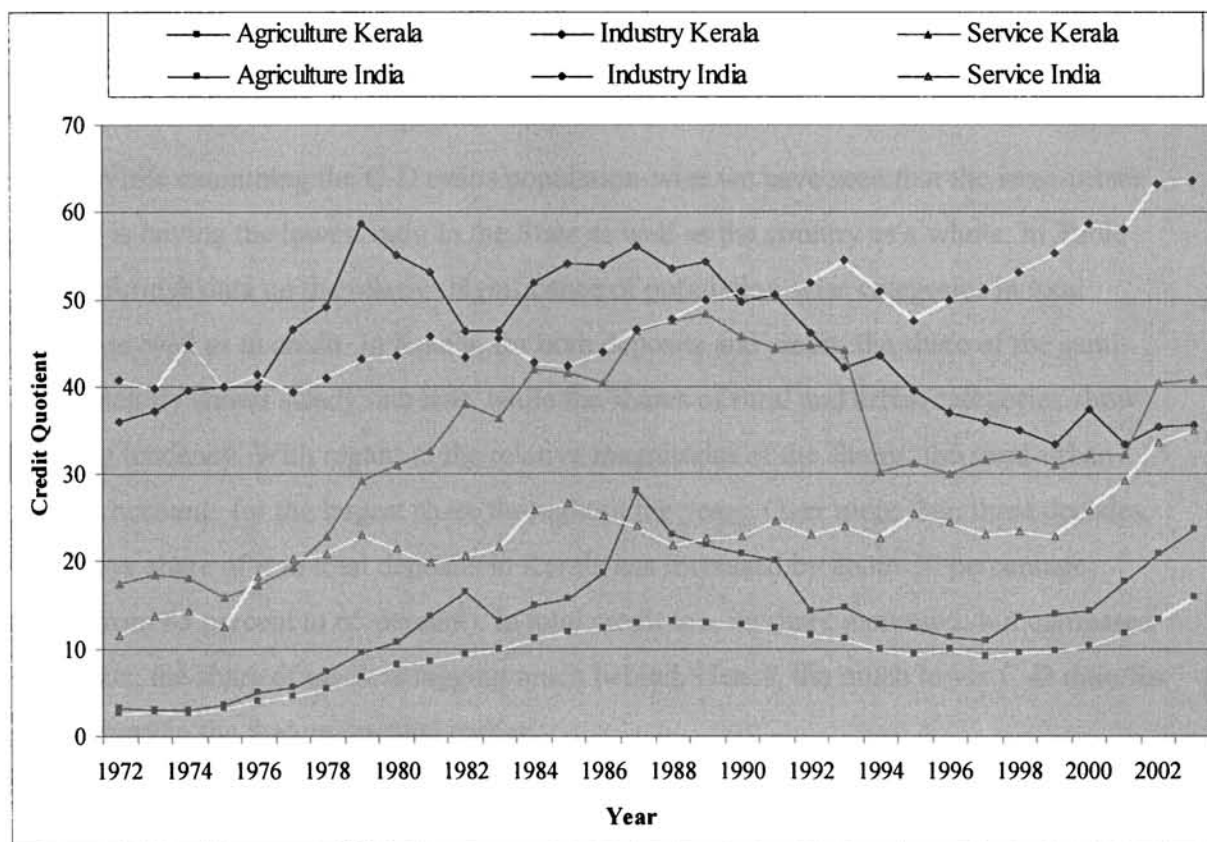
Data on the year wise movement of the ratio of sectoral credit to their corresponding income is provided in table 4.24 (see chart 4.4 also) and a perusal of it would make the unmatching growth behaviour of the key economic sectors and bank credit further clear. In Kerala, the values of all the three quotients show increasing trend over the years till the late '80s. Since then, it shows a declining tendency, and during the latest years it got reversed. Among the three quotients, the degree of fall was more with regard to the industrial sector. In fact, it experienced a steady decline. The tertiary sector credit quotient, though it shows improving tendency in the later years, the degree of its increase seems to be rather small, and compared to the '80s, the value of it during these years is much lower.

The trend of the broad sectoral credit quotients at all-India too shows fluctuating movements, but compared to Kerala, they are steadier. Further, considering the period as a whole, the quotients show an increasing tendency; again, indicative of fairly matching growth behaviour between the two sets of the variables. Another interesting aspect with respect to the comparative picture between Kerala and India is that the value of industrial credit quotient was relatively higher in the State than that in the country as a whole till the early '90s. Since then, it had turned out to be less than that of all-India, and the gap between the two gets progressively widened over the years. Regarding the service sector credit quotient, Kerala was having an edge throughout the years. During the '80s, the value of the service sector quotient in Kerala was about double than that of the corresponding all-India value. The gap between the two got reduced during the '90s.

**Table 4-24** Trend of Broad Sectoral Credit Quotient : Kerala and India  
(per cent)

Year	Kerala			India		
	Agriculture	Industry	Service	Agriculture	Industry	Service
1972	3.19	36.03	17.53	2.61	40.85	11.63
1973	3.07	37.24	18.59	2.71	39.82	13.64
1974	2.93	39.59	18.16	2.53	44.71	14.32
1975	3.53	40.03	15.94	3.17	40.02	12.54
1976	5.07	40.04	17.23	4.04	41.38	18.26
1977	5.52	46.6	19.34	4.57	39.47	20.33
1978	7.45	49.15	22.77	5.39	40.9	20.97
1979	9.46	58.67	29.33	6.77	43.08	23.14
1980	10.7	55.13	30.96	8.25	43.64	21.38
1981	13.69	53.12	32.61	8.62	45.73	19.79
1982	16.45	46.32	37.96	9.37	43.34	20.66
1983	13.21	46.27	36.4	10.01	45.58	21.7
1984	14.91	51.86	41.96	11.05	42.82	25.88
1985	15.74	54.01	41.58	11.85	42.39	26.62
1986	18.79	53.85	40.38	12.27	44.04	25.28
1987	28.12	56.01	46.42	12.87	46.56	24.04
1988	23.13	53.4	47.53	13.13	47.7	21.81
1989	21.83	54.23	48.32	12.97	49.98	22.58
1990	20.87	49.78	45.69	12.81	50.84	22.79
1991	20.15	50.55	44.4	12.24	50.5	24.64
1992	14.41	46.08	44.69	11.49	51.86	23.01
1993	14.8	42.09	44.23	11.18	54.39	23.98
1994	12.79	43.63	30.16	9.95	50.94	22.63
1995	12.25	39.56	31.17	9.42	47.61	25.5
1996	11.31	36.93	29.93	10.03	49.91	24.49
1997	10.93	36.05	31.58	9.18	51.16	23.02
1998	13.44	35.06	32.26	9.61	53.18	23.51
1999	13.89	33.36	31.08	9.72	55.37	22.92
2000	14.37	37.31	32.13	10.42	58.72	25.82
2001	17.75	33.44	32.28	11.67	58.01	29.29
2002	20.92	35.4	40.4	13.25	63.21	33.68
2003	23.64	35.58	40.82	15.88	63.64	35.03
<b>Average</b>						
1972-1980	5.66	44.72	21.09	4.45	41.54	17.36
1981-1990	18.67	51.89	41.89	11.5	45.9	23.12
1991-2000	13.83	40.06	35.16	10.32	52.36	23.95
2001-2003	20.77	34.81	37.83	13.6	61.62	32.67

Source: For Banking Data, BSR various years, For Economic Variables, Same as Table4.21

**Chart 4-4 Broad Sectoral Credit Quotients: Kerala and All India**

Like the service sector, the value of the agricultural credit quotient too was relatively higher in Kerala throughout the period and the gap in the ratio between the State and the country was quite substantial during the late '80s, and early '90s. The relatively higher value during the years prior to early '90s, needless to repeat, is a reflection of better credit growth in the broad sectors coinciding with relatively poor performance of the corresponding economic sectors. The lower values of the ratios during the '90s, similarly, are an aftermath to the growth trends of the banking and economic sectoral variables in the opposite directions. Thus the analysis of the broad sectoral credit quotients confirms the incongruity in the growth behaviour of the key economic and the corresponding SCB credit sectors. Among the sectors, it shows significant difference in the nature and degree of inconsistency.

In order to understand why the key sectors despite their better performance failed to elicit demand for credit, the growth in the broad sub sectors as well as its credit absorption are to be examined further. Before moving to such further disaggregated analysis, it will be good to look at another structural feature of banking intermediation - the population-wise trend and pattern of SCB performance.

## **Section 4.4**

### **4.4.1 DEPOSITS AND CREDIT: POPULATION-WISE STRUCTURE**

While examining the C-D ratios population-wise we have seen that the semi-urban category is having the lowest ratio in the State as well as the country as a whole. In Table 4.25 we furnish data on the relative significance of population-wise categories in total deposits as well as in credit. In Kerala, for both deposits and credit, the share of the semi-urban category shows steady increase, while the shares of rural and urban categories show declining tendency. With regard to the relative magnitudes of the shares, the semi-urban category accounts for the largest share throughout the years. Over more than three decades, the relative share of it in total deposits in Kerala has increased by about 20 percentage points (from 45 percent to 65 percent). In total credit too, its share increased; but compared to deposits, the share of credit is lagging much behind. Hence, the much lower C-D ratio for this category in the State witnessed earlier.

The urban category comes second in importance in both deposits and credit. Compared to the semi-urban group, the gap between the share of deposits and credit is less for the urban sector, so the relatively higher C-D ratio of this category. The relative share of the rural category in both deposits and credit is much lower. Compared to deposits, however, credit accounts for a relatively higher share; hence its better C-D ratio. Though the C-D ratio of these categories are better in the State, given their lower weightage in deposits and also in credit, they are not enough to make any significant dent in the overall declining C-D Ratio of the region.

As against Kerala, urban centers account for the largest share in total deposits and credit in the country. The trend of its relative share shows fluctuations: moving down during the '70s, and '80s, and then moving up in the '90s. At present, the urban category accounts for more than one third of total deposits and credit in India. Between deposits and credit, the latter enjoys slight edge over the other; so the urban C-D ratio at the country level takes a relatively higher value. At all-India too, the rural segment accounts for the lowest share in both deposits and credit.

**Table 4-25** Population Wise Share of SCB Deposits and Credit:  
Kerala and All India

(per cent)

YEAR	DEPOSITS						CREDIT					
	Rural		Semi-urban		Urban		Rural		Semi urban		Urban	
	Kerala	India	Kerala	India	Kerala	India	Kerala	India	Kerala	India	Kerala	India
1972	14.7	6.5	45.3	22.4	40	71.2	12.6	4.6	32.9	14	54.5	81.5
1973	15.6	7.1	45.6	23.3	38.9	69.6	12.3	4.8	32	14.3	55.7	80.8
1974	16.8	7.8	46.3	22.7	36.9	69.6	12	5.3	32.5	14.7	55.6	80
1975	16.3	8.1	47.3	22.2	36.4	69.6	13.6	5.9	33.9	15.1	52.5	79
1976	14.4	8.7	49	22.6	36.6	68.7	12.6	5.8	35.4	13.3	52.1	80.9
1977	14.3	9	47.8	22.3	37.8	68.7	11.6	6.5	32.9	13.8	55.5	79.7
1978	16.1	9.9	49.3	22.3	34.6	67.8	12.7	7.5	33.1	15	54.2	77.6
1979	16.9	10.6	48.9	22.5	34.2	66.9	14.1	8.4	33.8	15.6	52.1	76
1980	17.7	11.9	49.9	23.2	32.4	65	14.8	9.7	34.8	16.3	50.5	74.1
1981	16.7	13	52.8	23.2	30.6	63.8	14.4	11.4	37.7	17.3	48	71.4
1982	17.2	13.8	52.7	22.9	30.2	63.3	15.2	12.1	39.9	17.2	45	70.6
1983	13	14.1	59	23.5	28.1	62.4	11.6	12.4	45.2	17.7	43.2	70
1984	10.5	14.4	59.5	20.7	30.1	64.9	15.5	14.8	42.3	16.4	42.2	68.8
1985	9.7	13.4	61.1	21.6	29.3	65.1	9.8	13.8	47.6	17.5	42.6	68.8
1986	9.6	13.9	61.1	21.2	29.3	65	9.8	14.7	47.7	17.6	42.5	67.7
1987	9.3	14.3	61.2	21.3	29.4	64.4	9.1	15.1	52.9	17.7	38	67.2
1988	9.1	15.1	61.3	21.7	29.6	63.3	9.8	15.8	52	18.4	38.2	65.7
1989	8.6	15	61.9	21.4	29.5	63.6	10.8	16.3	50.5	17.3	38.8	66.4
1990	8	15.3	62.4	21.2	29.6	63.6	13.8	24.4	50.6	16.9	35.6	58.7
1991	7.9	15.5	63.3	20.7	28.8	63.9	10.2	21.5	51.9	16.8	37.9	61.8
1992	8.1	15.1	64	19.7	27.9	65.3	9.9	20.1	51.6	16.7	38.5	63.2
1993	8.1	15	63.8	19.4	28.1	65.6	9.4	18.7	53.5	15.6	37.1	65.7
1994	8	15.2	64	19.5	28	65.3	9.7	17.6	52.3	15.1	38.1	67.4
1995	5.2	13.7	65.4	18.9	29.4	67.5	7.9	15.9	54.3	15.1	37.7	69
1996	5.2	14.4	65.5	19.5	29.3	66.1	8.1	15.2	53	14.5	38.9	70.4
1997	5.2	14.7	65.8	19.6	29	65.7	7.5	14.2	54	14.3	38.5	71.6
1998	5.1	14.5	65	19.4	29.9	66.1	8.1	14.6	54.2	14.1	37.8	71.3
1999	5.1	14.7	65.4	19.5	29.5	65.8	7.3	14.1	54.5	14.3	38.2	71.6
2000	5.1	14.7	65.8	19.7	29.1	65.6	8.5	12.9	54.3	14.1	37.3	73
2001	5.1	14.7	65.5	19.6	29.4	65.7	8.3	12.8	52.5	13.2	39.2	74
2002	5.1	14.2	65.6	19.1	29.3	66.7	6.7	13.4	53.3	13.7	40	72.9
2003	5.1	13.8	65.8	18.9	29.1	67.2	6.1	14.1	53.4	13.8	40.5	72.1
	Average											
1972-1980	15.8	8.7	47.7	22.6	36.4	68.5	12.9	6.3	33.5	14.7	53.6	78.8
1981-1990	10.8	14.2	59.2	21.9	29.6	63.9	11.8	14.7	46.4	17.4	41.3	67.4
1991-2000	6.1	14.7	64.8	19.6	28.9	65.7	8.6	16.3	53.3	15.0	38.0	68.4
2001-2003	5.1	14.2	65.6	19.2	29.3	66.5	7.0	13.4	53.1	13.6	39.9	73.0

Source: Same as table 4.17

The relative significance of the rural sector in both the banking variables in India, compared to Kerala, however, is quite high. But considering the rural and semi-urban groups together, the situation at all-India is far behind that of Kerala. Together their share is one-third as against two-thirds in all India.

Given the difference in the settlement pattern and the development of physical infrastructure and availability of social amenities in the villages in Kerala, the rural and urban categorization<sup>10</sup> based solely on population made by the RBI is not strictly comparable for Kerala and all-India. Though it is so, the relatively higher semi-urban bias in banking development in Kerala than at all-India, cannot be overlooked. In fact, this was a phenomenon found historically in Kerala and the State still has that.

#### **4.4.2 ECONOMIC ACTIVITY-WISE CUM POPULATION-WISE SCB CREDIT**

Disaggregation of the credit disbursed to various sectors in different categories of areas is provided in Table 4.26. The service sector credit constituted the largest segment for all the three population-wise categories during the period as a whole. The relative significance of it in total credit of each population wise category had increased over the years. Comparing the three categories, the share of service sector credit was more or less equal for the rural and semi urban categories; the latter was having a slight edge over the other. Though all the three categories made improvement in their share in *service sector credit* increase was found more in the urban category. The relative share of service sector credit in the urban category is now more or less the same as in the semi-urban group. Next to the service sector, agriculture occupies the second position in rural credit. In urban areas, industry occupies the corresponding place. In the semi-urban category, share of industry had the second place earlier; but the significance of it has come down there over the years and now the share of industrial and agricultural credit is more or less equal.

**Table 4-26** Population Group-wise cum Broad Economic Activity-wise  
Distribution of SCB Credit

(per cent)

Year	KERALA								
	Rural			Semi Urban			Urban		
	Agriculture	Industry	Service	Agriculture	Industry	Service	Agriculture	Industry	Service
1990	28.11	24.38	47.51	22.49	28.86	48.64	6.33	49.27	44.40
1991	33.66	20.99	45.35	22.60	29.04	48.36	5.52	47.70	46.78
1992	34.34	21.11	44.55	23.32	28.16	48.52	4.01	46.95	49.03
1993	32.75	20.01	47.25	20.46	27.12	52.42	5.27	46.14	48.59
1994	31.51	16.30	52.19	18.65	26.51	54.84	5.71	45.43	48.85
1995	22.32	22.85	54.83	19.11	24.69	56.20	6.64	42.32	51.04
1996	22.20	21.34	56.46	19.10	22.50	58.40	6.07	44.66	49.26
1997	24.71	19.55	55.75	17.71	20.83	61.46	4.74	42.60	52.67
1998	23.09	20.06	56.85	18.24	19.87	61.89	5.50	40.53	53.96
1999	24.18	17.29	58.52	17.91	20.89	61.19	4.73	40.02	55.25
2000	20.69	22.16	57.15	17.81	20.63	61.56	4.41	38.21	57.39
2001	22.01	20.70	57.29	18.49	18.95	62.56	4.46	34.50	61.04
2002	24.74	19.92	55.33	16.52	17.29	66.20	3.58	29.27	67.15
2003	25.60	14.13	60.27	16.54	15.83	67.63	3.46	31.45	65.08
	INDIA								
1990	36.23	35.86	27.91	27.98	34.17	37.85	4.04	58.29	37.67
1991	37.81	33.60	28.58	26.59	34.76	38.65	3.87	55.90	40.23
1992	40.08	30.59	29.32	27.09	34.29	38.63	3.50	56.71	39.80
1993	39.02	31.41	29.56	26.29	34.07	39.64	3.31	56.95	39.73
1994	40.47	26.72	32.80	24.90	33.63	41.47	3.19	56.97	39.83
1995	39.25	27.24	33.52	24.28	34.52	41.20	2.79	52.27	44.94
1996	38.56	27.53	33.90	22.91	35.52	41.57	3.05	54.98	41.97
1997	39.87	24.52	35.61	22.52	34.65	42.83	3.16	57.18	39.65
1998	37.66	25.89	36.45	21.78	33.84	44.38	2.98	56.48	40.54
1999	36.49	27.30	36.21	22.18	35.95	41.88	3.31	56.09	40.60
2000	37.42	24.91	37.67	21.41	33.39	45.19	2.84	52.80	44.36
2001	36.24	25.08	38.68	21.35	33.58	45.07	2.91	49.01	48.08
2002	32.66	23.59	43.76	19.80	34.09	46.10	3.66	46.05	50.28
2003	32.33	24.23	43.44	19.97	32.39	47.64	3.80	45.90	50.31

Source: Same as 4.17

The declining trend of industrial credit in total semi-urban credit is reflected in the share of semi-urban segment in total industrial credit, as shown in Table 4.27. Like the semi-urban group, the rural category also has witnessed deceleration in the share of industrial credit.

**Table 4-27** Relative Significance of Population- wise Categories in Economic Activity- wise Credit

(per cent)

Year	KERALA								
	Share in Agriculture			Share in Industry			Share in Service		
	Rural	Semi Urban	Urban	Rural	Semi Urban	Urban	Rural	Semi Urban	Urban
1990	22.18	64.95	12.87	9.49	41.11	49.41	13.98	52.37	33.65
1991	19.86	68.02	12.12	6.06	42.73	51.21	9.73	52.92	37.35
1992	20.03	70.86	9.10	6.02	41.87	52.10	9.13	51.80	39.07
1993	19.32	68.47	12.21	5.63	43.32	51.05	8.82	55.52	35.65
1994	20.34	65.13	14.54	4.81	42.32	52.87	9.64	54.79	35.58
1995	12.10	70.80	17.10	5.82	42.99	51.19	8.04	56.38	35.58
1996	12.63	70.86	16.51	5.59	38.47	55.94	8.39	56.62	34.99
1997	13.93	72.28	13.79	5.01	38.63	56.36	7.22	57.58	35.20
1998	13.44	71.51	15.05	5.83	38.88	55.29	7.82	57.33	34.85
1999	13.21	73.22	13.57	4.50	40.74	54.76	7.25	56.78	35.97
2000	13.40	74.03	12.57	6.86	41.01	52.13	8.11	56.04	35.85
2001	13.72	73.12	13.15	6.81	39.53	53.66	7.71	53.42	38.86
2002	13.92	74.03	12.05	5.99	41.42	52.59	5.62	53.60	40.77
2003	13.27	74.85	11.88	3.92	38.34	57.74	5.58	54.60	39.82
	INDIA								
1990	55.49	29.61	14.89	17.96	11.83	70.21	19.29	18.08	62.63
1991	54.24	29.78	15.98	15.15	12.23	72.61	16.37	17.27	66.36
1992	54.51	30.57	14.92	12.91	12.01	75.08	15.74	17.21	67.04
1993	53.75	30.23	16.02	12.09	10.94	76.97	14.62	16.37	69.01
1994	54.61	28.83	16.55	9.74	10.52	79.75	14.82	16.08	69.11
1995	52.75	30.96	16.30	9.49	11.41	79.10	12.52	14.60	72.89
1996	51.69	29.34	18.97	8.70	10.72	80.58	12.63	14.80	72.57
1997	50.74	28.90	20.36	7.04	10.03	82.94	12.75	15.47	71.78
1998	51.41	28.73	19.87	7.74	9.77	82.49	13.13	15.45	71.42
1999	48.11	29.73	22.16	7.83	10.49	81.68	12.71	14.95	72.34
2000	48.72	30.40	20.88	6.92	10.12	82.96	11.16	14.59	74.25
2001	48.25	29.34	22.41	7.31	10.10	82.59	10.65	12.81	76.55
2002	44.75	27.89	27.36	7.62	11.32	81.07	11.98	12.97	75.04
2003	45.34	27.39	27.27	8.33	10.89	80.79	12.49	13.40	74.10

Source: Same as 4.17



The share of the urban centers in industrial credit has shown slight improvement over the years, but given the lower share of it in over all credit, it was not enough to make any perceptible improvement in total industrial credit.

Similar to Kerala, service credit accounts for the largest share in all the three categories in all-India also. But unlike the State, the urban category accounts for the predominant share in service (nearly three fourth) credit in all-India. The movement of the urban sector's share in total the economic sectors shows an increasing trend also. In agricultural credit too, this category shows an increasing trend and now it accounts for more than one-fourth of the total agricultural credit. Given the progressive increase of urban credit in overall credit at the country level, such a tendency is something to be expected. But what strikes here is the counter part of it, the falling tendency of the share of rural and semi-urban categories in industrial as well as service sector credit.

## Summing Up

Our analysis in this chapter first established that the external inflows have a strong bearing on the deposit mobilisation of the SCB system in the State. Remittances from gulf may explain to some extent the inconsistency in the form of better deposit mobilisation coinciding with the poor performance of the economy during the one and a half decades prior to the late '80s. More significantly, it may explain the better deposits growth in the region during the post '80s also, when the domestic economy experienced buoyancy. While the deposits linked to the external sector (NRI deposits) has shown much increase over the years, its counterpart, the domestic deposits, notwithstanding the better performance of the economy during the '90s, has grown at a less impressive manner. The unmatched growth trends between the two may tend one to doubt about the degree and nature of association between the economy's performance and domestic deposits.

The higher growth momentum experienced by the NRI deposits has pushed the growth of overall deposits in the State higher and it coincided with decelerating trend in credit growth; resultantly the C-D ratio has fallen. Thus contrary to the popular perception, the fall in C-D ratio in the State is not simply an outcome of NRI deposits alone, but more importantly, an aftermath to the decelerating tendency of credit growth too.

The fall in overall credit growth was shared by all the three broad sectors. But comparing the three sectors, the tertiary sector experienced better credit growth. While the other two sectors showed considerable decline in the credit share, the share of service sector credit improved. In all-India also such a shift in credit share could be seen. The position of the State, however, was way ahead in service sector credit, and was way behind industrial credit. Compared to all India, the average size of credit for the broad sectors and the overall credit is much low.

When the credit growth trends of the key sectors are placed against the backdrop of the growth trends in the corresponding economic sectors, lack of harmonious behaviour is found for all the three sectors. Among the sectors, however, the degree of inconsistency differs. In order to understand the lack of association between the two sets of variables, a much more detailed examination of the structure of the banking credit and the economy is required. Such a task is undertaken in the ensuing chapter.

## End Notes

1. *The source of macro economic data in India is the National Accounts Statistics (NAS) prepared by the Central Statistical Organisation (CSO). The first National Accounts Statistics (NAS) series of India was with the base year 1948-'49, which was followed by a series with the base year 1960-'61 in 1967. The base year of the NAS series was further changed to 1970-'71 in January 1978, to 1980-'81 in February 1988 and to 1993-'94 in February 1999. NSDP figures, under the new series compared to those based on the old series, are substantially higher.*
2. *Kerala's experience of deceleration in economic growth during the one and half decades since the mid '70s has been noted by Kannan and Pushpangathan (1988) in an earlier study. The revival that set in the region since late '80s has been noted by Kannan (1998), Subramanian and Asiz (2000) and Pushpangathan (2003).*
3. *The literature on migration from the region has identified two distinct turnarounds in the historical trend in the migration experience of Kerala. The first turn around occurred in the 1940s. Until then, Kerala was a net in-migration State; more persons from neighbouring States came to Kerala than the number of persons who moved to these States. (Zachariah et al 1999). After World War II and with the Indian Independence of 1947, Kerala became a net out-migration State. The type of migration during the period was internal ie; within the country. The second turn around in the migration history of Kerala took place in the 1970s viz. the Gulf migration, following the oil-price hike in 1973-'74. Since then, migration to countries outside India (emigration) has grown rapidly. At present emigration has become all pervasive with the economic and social life in the State and has outpaced migration within India.*
4. *Studies examining the impact of remittances on Kerala indicate a higher marginal propensity to save (MPS) for Kerala. It is suggested that consequent on higher MPS during the '90s, the savings rate of the State that was around 21 percent during 1972-'73 to 1990-'91 (around the national average) more than doubled to cross 50 percent during 1991-'92 and 1999-2000. The national average during the '90s is around 25 percent. Kerala's case is similar to the saving rates of the high growth economies of East and South East Asia (Kannan and Hari 2002)*

5. *The impact of remittances on commercial bank deposits , indeed, is related to the mode as well as channel through which it is transferred. Admittedly, remittances in kind have nothing to do with it; only monetary transfers matter. Of the latter the one through the illegal channels is unlikely to enter the banking system, at least in the initial rounds. Being so, the deposits mobilisation performance of banks is influenced mainly by the mode of remittance through the banking system. The transfer of remittance income through the banking network by the emigrants itself takes two forms; (1) Savings remitted through regular banking channels in the form of bank drafts etc. to spouses /relatives at home, and (2) savings directly deposited by the migrants in the special repatriable accounts for non-resident Indian. The former, unrequited transfer of migrants savings appear as an item in the current account of the balance of payments and may influence the savings/expenditure of the State depending upon whether it has been kept as a saving by the migrant household in the banks or withdrawn for current expenditure. The latter is essentially in the nature of short term external loans. It appears as an item in the capital account and would have a direct impact on the bank deposit (Ram Babu,1996 p 56)*
6. *The insurance sector, though fairly small at independence, consisted primarily of a large number of generally small privately owned and operated life and property insurance companies; a good number of them foreign. Following the developments at the national level, the life insurance companies in the region were nationalised in 1956 and merged in to the Life Insurance Corporation of India (LIC) which since then has monopolized the sector. Property insurance companies were taken over by the Central government in 1972 but as yet operate as four separate entities— National Insurance, Oriental Insurance, New India Assurance and United India Insurance- under the common head of General Insurance Corporation. In Kerala, LIC operates through a network of 85 offices spread among 4 divisions- Trivandrum, Kozhikode, Ernakulam and Kottayam. It was during the second half of the '80s and first half of the '90s respectively that the last two divisions have been set up.*
7. *The database of beneficial accounts with the depositories is an indirect, but a dependable source of information about distribution of investors*

8. *The indigenous financial intermediary in the form of chitty/kuri, which continued to flourish in the immediate decade after the State's formation experienced a downswing in their business since the mid '70s (Prakash B.A. 1984). This, however, was reversed during the '80s and 90s. At the end of 1984-85, Kerala was reported to have 10847 functioning chitties/kuries and the number has become more than 17000 during 1994-95. Among the total number of chitties functioning during the year, the largest number has been conducted by the co-operatives, followed by private individuals and Kerala State Financial Enterprises Limited (KSFE) -20 percent (Registrar of chitties Trivandrum, Kerala).*
9. *Kerala State Financial Enterprises Limited (KSFE) was established by the end of the 1960s as a government concern to conduct chitties. The number of branches of KSFE was only 10 at the beginning. It rose to 205 in 2000. The number of subscribers that was around 80000 during the mid-'70s, increased to more than five lakhs by 2000*
10. *The Kerala situation is referred to as rurban, meaning neither rural nor urban (Sreekumar 1990)*

## CHAPTER 5

### SCB CREDIT AND ECONOMIC GROWTH: A DISAGGREGATED SUB-SECTORAL ANALYSIS

Analysis of SCB credit by broad sectors done in the previous chapter has shown that all the three key sectors experienced decelerating tendency in credit growth and together they contributed to the overall decline in SCB credit in Kerala over the years, particularly since the late '80s. Among the three sectors, however, the service sector credit performed relatively better; hence the progressive increase in the share of credit to the tertiary sector, followed by decline in the relative importance of credit to the other two sectors. Though such a pattern of credit growth is an all-India phenomenon, the situation in the State stands out; for, the relative significance of tertiary sector credit in Kerala is much more than all-India and that of its industrial sector credit is much lower than that of the latter. The decelerating tendency in the credit growth of the three broad sectors, while looking against the buoyancy that the corresponding real economic sectors experienced in the State during the period and also against the experience at all-India appears rather puzzling.

In this Chapter, it is proposed to analyse the credit structure in a more disaggregated manner so as to identify the important factors behind the mismatch between broad sectoral credit growth and the growth trends in the corresponding economic sectors. The discussion is arranged in three sections. Section 5.1 will examine some of the important structural features of agricultural credit and its association with the pattern of agricultural development. In a similar vein, Section 5.2 and Section 5.3 respectively will examine the broad structural features of the industrial and tertiary sector SCB credit and the underlying growth pattern in the corresponding subsectors of the economy.

## Section 5.1

### Agricultural Credit

#### 5.1.1 RELATIVELY BETTER POSITION IN KERALA.

Estimates of the growth rate of outstanding SCB credit to agriculture furnished in the last chapter shows a declining trend of the same over the years in both Kerala and all India. The degree of the fall was slightly higher in the State; hence the State's share in all-India SCB agricultural credit has come down over the years. In terms of per capita SCB agricultural credit and agricultural credit quotient, the position of the State is found to be still better. In table 5.1, data on yet another commonly used index viz; SCB agricultural credit per hectare of gross cropped area is provided. The position of Kerala, in relation to all India, is far ahead.

**Table 5-1** SCB Agricultural Credit Per Hectare Gross Cropped Area, Kerala and All-India.

Period	SCB Agricultural Credit Per Hectare Gross Cropped Area (amt in Rs)		Kerala as a Percentage of All India	
	Kerala	All India	SCB Agricultural Credit per GCA	Gross Cropped Area
1973-77	130.74	57.3	228.17	1.77
1978-82	540.71	194.12	278.54	1.67
1983-87	1439.7	486.91	295.67	1.62
1988-92	2474.5	914.91	270.46	1.65
1993-97	3754.3	1389.3	270.22	1.62
1998-2002	6457.8	2119.5	304.69	1.53

Source: Calculated from BSR various issues; RBI, Handbook on Indian Economy.

The higher credit needs of perennial crops with long gestation period may be one of the reasons for the better position of Kerala. Even in this index we find a decline in the '90s over the '80s.

### **5.1.2 ALTERNATIVE SOURCES**

The inconsistent growth behaviour between SCB agricultural credit and the corresponding real sector output, among other things, may be due to alternative sources of credit. In the third chapter, we had already seen that the position of the State in the progress of the co-operative system is relatively better. Consistent data on loans issued to the agricultural sector by the formal credit system (commercial and cooperative banks) as a whole is not readily available. From the pieces of information available, however we may make some inference on the relative significance of these two key players in the formal agricultural credit system. As can be seen from table 5. 2, the cooperatives played the dominant place (more than 50 percent) in total agricultural credit during the '80s and early '90s.

**Table 5-2** Distribution of Institution Credit to Agriculture  
(1972-73 to 1991-92)

(per cent)

Years	PACs	PADB	Total coops	Commercial
1972-73	58.38	15.01	73.39	26.61
1977-78	43.1	16.21	59.32	40.68
1983-84	44.03	14.42	58.45	41.55
1988-89	46.66	5.65	52.31	47.69
1991-92	56.76	7.45	64.22	35.78

Source: Ram Babu, 1996.

The table also shows the declining share of commercial bank credit between 1988-89 and 1991-92. The dominant place that the cooperatives had in agricultural credit seems to have lost over the years (see table 5.3).



**Table 5-3** Institution-wise Share in Total Agricultural Credit  
(per cent)

Year	Commercial banks	RRBs	Cooperatives
1999-2000	63.79	10.08	26.13
2000-2001	63.54	10.78	25.68
2001-2002	65.11	9.75	25.12
2002-2003	67.66	10.58	21.75
2003-2004	67.41	12.17	20.42

Source: State Focus Paper-Kerala 2005-06, NABARD, Trivandrum

The share of it is only about one-fourth in 1999-2000. During 2003-2004, the share of it has fallen further to one-fifth. The data on the distribution of cooperative credit to agricultural and non-agricultural purposes provided in table 5.4 gives further evidence to this. The share of credit for agricultural purposes, as against around 67 percent in 1980, is only about 30 percent in 2002-2003.

**Table 5-4** Percentage Shares of Agricultural and Non Agricultural Credit in the Cooperative System

(per cent)

Year	1980	1985	1990	1995	2000	2003
Agriculture	66.53	55.15	42.3	39.45	30.52	29.39
Non-agriculture	33.47	44.85	57.7	60.55	69.48	70.61

Source: GOK, The Registrar of Cooperative Societies, Kerala, Handbook on Cooperative movement in Kerala, various issues

Apart from the banking system, the non-banking financial intermediaries in the form of private money lenders occupy a significant place in Kerala's credit market. According to the latest available estimate, the State has about 5700 moneylenders during 2003. Besides, there is a vast informal sector with numerous unregistered institutions in the State doing

money lending business (GOK, 2004). Indeed, their operations may have strong bearing on Kerala's credit system in general and that on its agricultural credit in particular.

### **5.1.3 FARM AND NON- FARM SECTORS**

The agricultural production sector encompasses cultivation of crops and subsidiary farm activities like dairy, fishing, poultry, etc. The principal constituent among these is; the crop cultivating agricultural sector witnessed deceleration during the more than a decade since the mid-'70s, compared to the growth momentum prior to then. Consequent to the absolute decline in the production of most of the agricultural crops during the period, the annual growth of the agricultural sector between 1975-'76 to 1987-'88 was negative (Kannan K.P. 1998). The growth of the agricultural sector picked up momentum since the second half of the '80s and it continued for about a decade (Thomas P M ,1999). The sector showed a growth rate above 3.5 percent between 1988-'89 and 1995-'96. The revival since the mid-'80s was followed by significant deceleration during the late '90s and the present decade. The crisis in the agricultural sector during the later years is attributed mainly to fall in prices, stiff competition for its exports and increased imports after the trade liberalisation (GOK, 2003). The crisis affected both the farming and non-farming sectors. Between the two, however, the impact was felt more in the crop producing sectors (GOK, 2003)<sup>1</sup>.

The readily available information on institutional credit on farm and non farm activities is furnished in table 5.5. The farm sector accounts for about 70 percent of the total formal credit to the agricultural sector.

**Table 5-5** Significance of Farm and Non-Farm Sector Credit  
(per cent)

Year	Commercial Banks	RRBs	Co-operatives	Total
	Farm Sector Credit			
1999-2000	58.54	95.94	90.72	70.72
2000-2001	58.11	96.13	90.73	70.56
2001-2002	50.82	95.59	88.66	64.70
2002-2003	53.19	96.44	91.86	66.18
2003-2004	59.42	96.30	92.48	70.65
	Non- Farm Sector Credit			
1999-2000	41.46	4.06	9.28	29.28
2000-2001	41.89	3.87	9.27	29.44
2001-2002	49.18	4.41	11.34	35.30
2002-2003	46.81	3.56	8.14	33.82
2003-2004	40.58	3.70	7.52	29.35

Source: Same as Table 5.3

Though relatively less, the significance of non farm sector in total formal agricultural credit is quite considerable. Compared to commercial banks, the share of non farm credit is much lower for the cooperative sector. Table 5.6 provides information on the institutional wise significance of farm and non farm sector credit. The commercial banking system accounts for an overwhelming share in total non-farm credit (more than 90 percent) in the formal sector. In total farm sector also, it assumes the dominant place.

**Table 5-6** Institution- wise Significance of Farm and Non-Farm Sector Credit

(per cent)

Year	Farm Sector			Non- Farm Sector		
	Commercial Banks	RRBs	Co-operatives	Commercial Banks	RRBs	Co-operatives
1999-2000	52.81	13.68	33.51	90.32	1.40	8.28
2000-2001	52.33	14.68	33.02	90.41	1.42	8.09
2001-2002	51.14	14.40	34.43	90.71	1.22	8.07
2002-2003	54.38	15.42	30.19	93.65	1.11	5.23
2003-2004	56.69	16.58	26.73	93.23	1.53	5.24

Source: Same as Table 5.3

The significance of non –farm agricultural credit may also be cited as a probable reason for inconsistent behaviour between SCB credit and performance of agriculture for the fluctuations in the agricultural production sector was felt more in the farming segment. To establish this, again we are constrained of data.

#### **5.1.4 DIRECT AND INDIRECT CREDIT**

The commercial banking system provides agricultural credit directly as well as indirectly. Table 5.7 furnishes information on the relative significance of each type. Direct agricultural credit accounts for the dominant share throughout the period in both Kerala and all India. Comparing the situation between the State and India, the share is higher in Kerala throughout the period. Given the fairly good overall SCB agricultural credit in the State, the share of direct credit in Kerala, as a proportion to all-India, is quite impressive. While it is so, the share of its counterpart ie, indirect agricultural credit in Kerala as a proportion to all-India is rather negligible. The reasons are not clear<sup>2</sup>.

**Table 5-7** Share of Direct and Indirect SCB Credit:  
Kerala and All-India

(per cent)

Year	Kerala		India		Ratio of Kerala and India		Direct Finance as a ratio to net domestic product from Agriculture	
	Direct	Indirect	Direct	Indirect	Direct	Indirect	Kerala	India
1978	83.85	16.15	71.65	28.35	4.84	2.36	6.25	3.86
1979	84.57	15.43	77.18	22.82	4.95	3.06	8	5.22
1980	87.85	12.15	76.71	23.29	5.25	2.39	9.4	6.33
1981	90.04	9.96	72.9	27.1	6.08	1.81	12.32	6.28
1982	93.24	6.76	74.92	25.08	5.87	1.27	15.34	7.02
1983	93.11	6.89	73.62	26.38	5.09	1.05	12.3	7.37
1984	90.27	9.73	80.26	19.74	4.74	2.08	13.46	8.87
1985	88.55	11.45	83.21	16.79	4.41	2.83	13.94	9.86
1986	89.51	10.49	85.08	14.92	4.54	3.03	16.82	10.44
1987	84.43	15.57	84.57	15.43	6.54	6.61	23.74	10.88
1988	83.03	16.97	86.23	13.77	4.97	6.37	19.21	11.32
1989	94.57	5.43	87.71	12.29	4.76	1.95	20.64	11.37
1990	93.64	6.36	86.82	13.18	4.7	2.1	19.54	11.12
1991	91.37	8.63	85.99	14.01	4.58	2.66	18.41	10.52
1992	90.02	9.98	88.13	11.87	4.3	3.54	12.97	10.12
1993	90.08	9.92	88.36	11.64	4.2	3.52	13.33	9.88
1994	89.8	10.2	86	14	4.46	3.11	11.48	8.56
1995	88.09	11.91	85.86	14.14	4.7	3.86	10.79	8.08
1996	89.55	10.45	85.24	14.76	4.68	3.16	10.13	8.55
1997	92.13	7.87	86.04	13.96	4.74	2.5	10.07	7.9
1998	92.21	7.79	86.52	13.48	5.16	2.8	12.39	8.31
1999	93.41	6.59	83.01	16.99	5.08	1.75	12.97	8.07
2000	92.98	7.02	84.49	15.51	5.13	2.11	13.36	8.8
2001	91.68	8.32	83.94	16.06	5.25	2.49	16.27	9.8
2002	90.83	9.17	74.1	25.9	5.14	1.49	19	9.82
2003	92.51	7.49	77.77	22.23	4.8	1.36	21.87	12.35

Source: BSR Various Years, For Net Domestic Product from Agriculture, GOI, CSO, National Accounts Statistics and GOK, Economic Review, various issues

Direct agricultural credit as a ratio to agricultural income also is shown in table 5.7. Like the total SCB agricultural credit ratio, it moves in a fluctuating manner indicating inconsistent behaviour between the two.

### 5.1.5 SMALLER SIZE OF AGRICULTURAL CREDIT

Compared to all-India, the relative per account agricultural credit is much lower in Kerala (see table 5.8). As compared to 1990, the State has improved its relative size of both direct and indirect credit in 2000. During 2003, the relative size of credit, however, has fallen and is below the 1990 level; implying the widening gap between Kerala and India.

**Table 5-8** Size of SCB Agricultural Credit Per Account

(Amount in Rs.)

Year	Kerala/India	Direct	Indirect	Total
1990	Kerala	4617	42589	4894
	All-India	5995	49733	6780
	Ratio of Kerala and India	77	86	72
2000	Kerala	16139	268833	17279
	All-India	19076	222184	22227
	Ratio of Kerala and India	85	121	78
2003	Kerala	21028	113347	22394
	All-India	29243	261681	36436
	Ratio of Kerala and India	72	43	61

Source: Same as Table 5.7

The lower average size may imply the higher incidence of agricultural credit in the State and small size of agricultural holdings. Thus the State accounts for about more than 6.5 percent of all India agricultural credit accounts in 2003. It reflects, on the one hand the better spread in the use of bank credit among the agriculturalists and on the other the smaller size of agricultural operations. Also, it reflects the lower use of agricultural credit for mechanization of agriculture, minor irrigation, etc. which may incur larger expenses. The small-scale operations in its turn, is a natural sequel to the average land size available for cultivation.

In table 5.1, it was already noted that the gross cultivable land available in the state is much low. Given the relatively higher population in the state, naturally the average size of land available in the state would be smaller. The population pressure on land along with land reforms has led to the dominance of small and marginal holdings in Kerala's farm sector. The size-wise distribution of agricultural land holdings is given in Table 5.9. The marginal and small holders together constitute about 98 percent of the total land holders and 74 percent of the total area operated.

**Table 5-9** Size-wise Distribution of Land in Kerala: 1995-96

(Amount in Rs)

Sl No.	Size of Holdings (Hectares)	Number of holdings	% Share in Total	Area (Hectares)	% Share in Total	Average Size (Hectares)	Average Size All-India (Hectares)
1	Below 0.5	5453211	86.6	587542	34.3	0.11	
2	Between 0.5 to 1.0	464714	7.4	324907	19	0.7	
	<b>Marginal (1+2)</b>	5917925	94	912449	53.3	0.15	0.4
3	Between 1.0 to 2.0 (Small)	262291	4.2	349541	20.4	1.33	1.42
4	Above 2.0	118173	1.9	450233	26.3	3.81	
	<b>Total</b>	6298389	100.1	1712223	100	0.27	1.41

Source: Statistics for Planning, 2001

Only 1.9 percent of the land holdings are having area above 2.0 hectares. The average size of holdings in the State is only 0.27 hectares. At all-India, it is 1.41 hectares.

### **5.1.6 LAND SIZE-WISE DISTRIBUTION OF CREDIT**

Information on the land size-wise distribution of SCB agricultural credit is furnished in table 5.10. In both short and long term credit, the share of land holders with marginal and medium size, compared to all-India, is much higher in Kerala; signifying relatively higher degree of evenness in the distribution of agricultural credit in the State.

**Table 5-10** Land Size- wise Distribution of Agricultural Credit:  
Kerala and All India

(per cent)

Year	Term	Upto 2.5 acres		Above 2.5 to 5 Acres		Above 5 Acres	
		Kerala	India	Kerala	India	Kerala	India
1980-1985	Short	69.90	34.33	16.48	25.93	13.62	39.74
	Long	41.93	13.64	20.36	15.39	37.71	70.97
1986-1990	Short	68.97	33.29	18.10	30.29	12.93	36.42
	Long	45.28	17.21	21.34	18.51	33.38	64.28
1991-1995	Short	68.48	34.16	21.62	30.16	9.90	35.68
	Long	46.04	18.45	23.71	19.11	30.25	62.44
1996-1997	Short	60.05	32.02	24.46	30.23	15.50	37.77
	Long	49.09	18.47	23.27	20.19	27.65	61.35

Source: Currency and Finance, RBI, various issues

Admittedly, the better position of Kerala in this regard goes in tune with the size wise distribution of land shown in table 5.9.

### **5.1.7 PROGRESSIVELY INCREASING COMMERCIALISATION OF AGRICULTURE.**

The relatively better position of Kerala in agriculture credit can also be attributed to the cropping pattern in the State and the higher value of its crops. Historically Kerala was noted for expanding commercial cultivation. The trend continued progressively in the recent decades also. Perennial crops like coconut, rubber, tea, coffee, etc, now occupy the predominant place in Kerala's agricultural sector. A perusal of the data provided in Table 5.11 would give an idea of it.

The absolute area under the food crops, particularly rice, witnessed a drastic decline since 1975-'76. From 876.02 thousand hectares (29.69 percent of GCA) in 1975-'76, it declined to 559.45 thousand hectares (18.53 percent of GCA) in 1990-'91 and further to 350.04 (12 percent of GCA) in 1999-2000. This falling trend of the area under food crops coincided with increasing shift to commercial cultivation.



**Table 5-11** Relative Share of Area under Major Crops in Kerala

(per cent)

	Crops	Triennium Ending					
		1970-71	1975-76	1980-81	1985-86	1990-91	1999-00
1	Rice	30.1	29.69	27.79	23.66	18.53	12
2	Tapioca	10.13	10.97	8.49	7.08	4.85	3.84
3	1+2	40.23	40.66	36.28	30.74	23.38	15.84
4	Banana and other plantains	1.66	1.75	1.71	1.5	2.17	2.78
5	Total fruit crops		10.62	11.98	11.26	11.69	13.03
6	Vegetables		11	10.85	9.27	7.32	6.61
7	Coconut	24.3	23.24	22.58	24.58	28.81	31.72
8	Rubber	6.1	6.93	8.24	11.52	13.63	16.21
9	Pepper	4.01	3.63	3.75	4.24	5.58	6.8
10	Cashew	3.5	3.66	4.9	4.8	3.83	3.07
11	Arecanut	2.4	2.57	2.12	2.05	2.15	2.81
12	Tea	1.3	1.26	1.25	1.21	1.15	1.19
13	Cardamom	1.6	0	0	0	0	0
14	Coffee	1.1	1.4	2.01	2.29	2.49	2.88
15	sum of 7 to 13	44.31	42.69	44.85	50.69	57.64	64.68
16	All crops (in 00 hectares)	100 (2917)	100 (2981)	100 (2885)	100 (2501)	100 (3020)	100 (2917)

Source: Computed from data given in Government of Kerala, Statistics for Planning and Economic Review, various issues.

While the major food crops ie; rice and tapioca account for about one-sixth (16 percent) of the total gross cropped area, the perennial crops like rubber, tea coconut, etc, account for about two third (64.7 percent) in 1999-2000. Of all the crops, coconut still occupies the single largest area. Paddy, rubber, pepper, tapioca and cashew follow it in the order of importance.

Though all important plantation crops and cash crops showed substantial increase in their area, the growth rate registered by rubber was the most striking. A distinctive feature of the recent commercial cultivation is that irrespective of the size of holdings, all types of peasants have moved into the cultivation of perennial crops, particularly rubber (Krishnaji, *N.*,

1992). The higher share of non-food crops in area cultivated in Kerala (more than 50 percent) during 1989-'90, noticeably, is not only way above the all India figure of 25 percent but also the highest figure among the States, the second rank going to Gujarat where it is only 46 percent (CMIE, 1993). Indeed, the State enjoys near monopoly in the production of crops like rubber, pepper etc. For coconut, Kerala accounts for 44 percent of the production in the country. In the case of cardamom, Kerala's share is about 60 percent of the all India total. As against this, the State contributes only 0.5 percent of the all India production of food grains.

The dominance of high value cash crops in agriculture in the State, contributed relatively higher income (per land) from agriculture (see table 5.12).

**Table 5-12** Per Hectare Income from Agriculture

(in Rs.)

Year	Kerala	All-India	Kerala/all-India
1972-73	1993	1034	192.75
1990-91	11650	6851	170.05
1991-92	17458	8221	212.36
1992-93	17865	9001	198.48
1993-94	19859	10424	190.51
1994-95	23836	13581	175.51
1995-96	27369	12842	213.12
1996-97	31468	14178	221.95

**Source:** CMIE and National Accounts Statistics

The annual average of per hectare income from agriculture is almost double that of the country during the '90s. It may be possible that the option for high value cash crops and plantations has led to cultivators with relatively larger holdings of land becoming fairly rich and other size groups of land holders, with small and large quantities of surplus cash at their disposal as the case be (Kurian C.T, 1994). This in turn may imply investment in the agricultural sector with owned funds and hence lower demand for agricultural credit.

### 5.1.8 TERM-WISE DISTRIBUTION

Credit is availed of to meet the short term as well as long-term financial needs in the farm sector. The significance of each type of credit in the State can be obtained from the information on the period-wise classification of direct SCB loans for agriculture in Kerala and India given in table 5.13.

**Table 5-13** Term- wise Share of SCB Loans : Kerala and India

(per cent)

Year	Long tern		Short term	
	Kerala	India	Kerala	India
1978	34.29	55.43	65.71	44.57
1979	28.49	56.23	71.51	43.77
1980	27.26	56.36	72.74	43.64
1981	28.56	58.91	71.44	41.09
1982	33.81	60.2	66.19	39.8
1984	32.82	61.94	67.18	38.06
1985	34.49	62.64	65.51	37.36
1986	35.46	64.77	64.54	35.23
1987	31.72	64.55	68.28	35.45
1988	33.41	66.21	66.59	33.79
1989	36.62	66.18	63.38	33.82
1990	35.02	66.33	64.98	33.67
1991	37.57	65.82	62.43	34.18
1992	38.34	65.3	61.66	34.7
1993	38.49	64.9	61.51	35.1
1994	38.21	63.61	61.79	36.39
1995	36.85	61.31	63.15	38.69
1996	40.54	59.9	59.46	40.1
1997	34.55	57.02	65.45	42.98

Source: Currency and Finance, RBI, various issues

While short-term loans constitute the larger proportion in Kerala it is the long-term loans that account for the larger share in India. Further, while the relative significance of the long-term credit has improved at all India, the relative significance of it in Kerala has come down over the years.

As with the commercial banking system, short-term loans account for the larger proportion of loans disbursed by the co-operative system in Kerala. The relevant information is provided in table 5.14. Compared to the SCB system, the proportional significance of medium and long-term credit was higher with the co-operatives earlier. In the later years, a reverse situation is found with them.

**Table 5-14** Share of Term wise Agricultural Loans Issued by Primary Agricultural Credit Societies (PACS) and Primary Agricultural Development Banks (PADBS)

(per cent)

Year	Period			Share of PADBs in Long Term
	Short Term	Medium Term	Long Term	
1977-1979	66.98	20.35	12.44	78.39
1980-1983	65.57	18.49	15.72	83.39
1984-1987	72.01	13.97	13.89	81.74
1988-1991	65.93	13.05	20.41	71.24
1992-1995	66.01	14.76	19.03	61.25
1996-1999	68.40	19.29	12.20	67.23
2000-2003	71.30	18.21	10.29	64.98

Source: Same as Table 5.4.

Term loans are issued to finance the credit needs related to minor irrigation, land development, farm mechanization, storage and marketing, etc. The lower share of term loans may imply that credit disbursement for such investment is low in the State, or as already noted, investment is done with alternative sources, including own funds. Yet another reason often cited for the lower proportion of long-term loans is related to the banking practice prevalent in the State. The agriculturists and non-agriculturists take gold loans from banks

and such loans are often classified as crop loans. It is generally held that around 40 percent of short-term crop loans are gold loans (Jeromi 2005).

The relatively lower significance of long-term credit when looked against the cropping pattern in the State is quite baffling. As the investment needs of such crops are longer and the fruition period is larger, their cultivation is expected to be followed by increased demand for long term loans. But the reverse, seems to have taken place and this may prompt one to doubt whether the credit disbursal practices by the banking system in the region are suitable to its cropping pattern.

The fall in SCB agricultural credit in general and term loans in particular during the '90s may signify decline in private investment in the sector, as noted before. The period was noted for decline in public investment in rural infrastructure in the country as a whole and the State was sharing the all-India experience. Consequently the capital expenditure for the agricultural sector has come down (GOK, 2002)<sup>3</sup>. The poor agricultural performance in later years, caused mainly by fall in agricultural prices might have contributed to low investment. Also, the tendency of investing in land largely for its speculative appeal rather than for its productive use may have bearing on it.

## **Section 5.2**

### **Composition of Industrial Sector Credit**

Industrial sector is a portmanteau containing mining, manufacturing, electricity generation, water supply and construction. Of these, the major component is manufacturing and it is generally regarded as the engine of economic growth. SCBs provide credit mainly to meet the working capital<sup>4</sup> needs of the industrial sector.

#### **5.2.1 TREND AND PATTERN**

Information on the relative significance of the sub-sectors in the total SCB industrial credit is given in table 5.15. In both Kerala and India, manufacturing and processing occupy the predominant share throughout the period. The share of it, however, shows a decelerating trend over the years.

**Table 5-15** Distribution of SCB Industrial Credit: Kerala And All India

(per cent)

Period	KERALA				INDIA				Share of Kerala in all India Manufacturing Credit
	Mining and Quarrying	Manufacturing and Processing	Electricity, Gas and Water	Construction	Mining and Quarrying	Manufacturing and Processing	Electricity, Gas and Water	Construction	
1972-2003	0.39	94.42	0.53	3.09	1.96	93.08	1.98	2.23	2.82
1972-1987	0.19	96.47	0.33	2.27	1.73	95.08	1.48	1.56	3.24
1988-2003	0.81	92.41	0.85	4.21	2.22	91.12	2.67	3.19	2.45
1972-1980	0.10	96.91	0.43	1.74	2.08	94.75	1.61	1.39	2.95
1981-1990	0.37	96.00	0.30	3.13	1.42	95.12	1.39	2.01	3.47
1991-2000	0.82	94.28	0.54	3.88	2.11	92.27	2.39	3.02	2.48
1991-2003	1.07	91.55	0.93	4.57	2.40	90.41	3.02	3.34	2.32
1990-1995	0.47	95.84	0.36	3.17	2.02	92.89	1.86	3.09	2.71
1995-2000	1.00	93.22	0.85	4.47	2.04	92.13	2.75	2.91	2.35
2000-2003	2.73	84.65	4.53	7.03	3.29	86.07	5.80	4.04	1.86

Source: BSR, Various Years

Though the share of manufacturing in total industrial credit is more or less the same in the State and the country as a whole, as a proportion to all India manufacturing credit, Kerala's share is much low and has come down over the years.

Though the fall in manufacturing sector credit was followed by improvement in the share of non-manufacturing sector credit, their share, compared to manufacturing, is still rather negligible. Among the non-manufacturing sub-sectors, the larger share is accounted for by loans outstanding to construction. Next to this, the sub sector, electricity, gas and water supply come in the order. In recent years this sector has shown significant improvement in its relative share.

The predominant share that the manufacturing and processing accounts in SCB industrial credit would suggest that it is the behavior of this sub-sector that ultimately determines the lower share of Kerala's SCB industrial credit and to some extent, the lower growth of total SCB credit in general. Information on the growth trends of the sub-sectors in the total SCB industrial credit is given in table 5.16. Considering the period as a whole, credit to mining and quarrying registered the highest growth in credit. The second and third position in the growth rates is occupied respectively by 'electricity, gas and water' and construction. Manufacturing and processing registered the lowest growth rate among the 4 sub sectors. Its growth rate at all India too was the lowest.

**Table 5-16** Growth Rate of SCB Credit to the Sub-sectors of Industry  
(per cent)

YEAR	KERALA				INDIA			
	Mining and Quarrying	Manufacturing and Processing	Electricity Gas and Water	Construction	Mining and Quarrying	Manufacturing and Processing	Electricity, Gas and Water	Construction
1972-2003	27.13	14.01	20.29	19.85	17.43	15.66	20.16	20.96
1972-1987	35.37	18.51	3.27	26.71	9.77	15.38	10.26	19.39
1988-2003	32.34	10.47	33.47	20.38	21.89	14.65	28.43	19.32
1973-1980	20.28	20.82	-39.98	27.2	8.78	15.25	-2.55	20.08
1981-1990	6.52	13.63	44.79	12.3	18.06	16.37	19.41	25.22
1991-2000	28.89	11.33	35.41	19.89	16.39	14.76	26.1	13.22
1991-2003	31.21	9.92	48	22.4	21.63	14.16	30.83	19.13
1990-1995	37.93	10.09	-2.41	13.85	20.04	13.22	17.74	16.3
1995-2000	42.49	11.31	38.21	20.7	22.4	16.22	38.28	13.72
2000-2003	17.01	3.52	58.39	45.68	43.95	8.61	43.91	61.07

Source: BSR, various years.

Comparing the State and India, the growth rate was higher for the latter for both manufacturing and construction. But for the other two, it is Kerala that showed relatively better growth rate.

Looking at the growth trend, period-wise, except electricity, gas and water, all the other three sub sectors show better growth during the '70s. The growth rate of electricity, compared to the '70s, improved much during the '80s. For the other three sectors, however, there took place deceleration in growth rate. The tendency of deceleration continued for manufacturing and processing in the '90s. But for mining and quarrying and construction, the trend growth picked up. In all India, the growth rate of the sub-sectors was relatively lower during the '70s. The growth trends improved during the '80s. Compared to Kerala, the rate was higher in India for manufacturing and construction. During the '90s, the growth rate of the sub sectors except electricity, gas, and water had fallen in India. Though the rate of manufacturing had fallen in all India too, the situation there was much better.

### **5.2.2 INDUSTRIALLY BACKWARD**

How was the growth behaviour of the corresponding sub-sectors of the real economy? Information on the growth trends of each of them is furnished in table 5.17. The

growth rate during the first phase- the period between the early '70s and late '80s was relatively lower for all the sub-sectors except construction. Among the sub-sectors the deceleration during this period was greater in the case of electricity<sup>5</sup>. The phase of low growth for the one and a half decades since the early '70s has been followed by a revival phase for the period since the late '80s in all the sub-sectors. There was relatively higher growth rate of electricity and construction during the period under consideration. They account, to a great extent, the relative improvement in the industrial sector's share in SDP, noted in the last chapter. Compared to all India and the neighbouring States, the growth of manufacturing in the State, however, has been lower (Subrahmanian K K and Aziz, A 2002).

**Table 5-17** Period-Wise Growth Rate of Industrial Sub-sectoral Credit  
(per cent per annum)

Year	Kerala				India			
	Mining and Quarrying	Manufacturing and Processing	Electricity, Gas and Water	Construction	Mining and Quarrying	Manufacturing and Processing	Electricity, Gas and Water	Construction
1972-2003	17.73	13.23	15.07	19.38	16.38	13.98	17.65	15.24
1972-1987	16.12	12.06	5.72	24.88	22.53	13.58	18.56	13.77
1988-2003	17.84	12.14	28.55	17.62	13.19	13.21	16.71	15.39
1973-1980	24.83	11.82	25.68	10.61	18.93	13.91	24.85	12.68
1981-1990	16.28	12.30	6.53	13.42	15.05	14.41	16.68	16.18
1991-2000	14.12	13.97	22.18	19.68	12.41	14.13	20.72	15.98
1991-2003	15.88	10.16	27.35	18.26	13.50	12.17	14.41	15.17
1990-1995	19.73	14.22	13.28	18.14	11.67	14.12	25.59	14.09
1995-2000	14.38	10.30	31.99	18.35	12.96	9.96	17.60	18.35
2000-2003	15.80	-2.92	34.59	17.34	19.72	7.85	-3.90	9.76

Source: GOI, CSO, National Account Statistics and GOK Economic Review, various issues.

Consequent on the relatively lower growth rate of manufacturing over the period as a whole, the contribution of it to the State's SDP is relatively small and has come down over the years (See Table 5.18). Such a trend is found in all-India too, but Kerala's case appears to be more pronounced. Not only the share of manufacturing in total SDP is lower, but is less consistent also. Thus the average share of manufacturing in the SDP which was 13.5 between 1972-1980, increased to 14.05 percent between 1981-1990; but declined again to 12.59 during the '90s.



**Table 5-18** Share of Industrial Sub-sectors: Kerala and India

(per cent)

Year	KERALA				INDIA				Share of Manufacturing in NSDP/NDP		Kerala/India Manufacturing
	Mining and Quarrying	Manufacturing	Construction	Electricity Gas and Water	Mining and Quarrying	Manufacturing	Construction	Electricity Gas and Water	Kerala	India	
1972-2003	0.73	58.60	31.94	4.53	8.00	64.10	4.08	23.16	12.83	14.92	2.73
1972-1987	0.61	65.62	25.05	4.73	7.33	66.66	3.35	21.99	13.60	14.82	2.84
1988-2003	0.89	52.33	40.74	4.33	8.73	61.64	4.96	24.39	12.11	15.01	2.63
1972-1980	0.63	74.27	17.33	7.40	5.55	68.84	3.04	22.33	13.50	14.47	2.93
1981-1990	0.61	56.51	39.80	2.50	10.25	63.74	3.81	22.03	14.05	15.43	2.70
1991-2000	0.88	55.48	39.15	4.04	8.28	62.28	5.41	23.82	12.59	15.19	2.76
1991-2003	0.93	51.14	41.19	5.09	8.52	61.28	5.26	24.68	11.56	14.84	2.63
1990-1995	0.92	58.79	36.33	3.81	8.84	63.07	4.74	23.25	14.39	15.53	2.77
1995-2000	0.83	53.52	41.04	4.20	7.88	62.13	5.90	23.85	11.50	15.14	2.75
2000-2003	1.07	41.75	46.77	9.59	9.22	57.93	5.01	27.78	9.17	13.62	2.40

Source: Same as 5.17

During 2000-2003, the share has again declined to 9.22 percent. The relatively lower growth of manufacturing in the State, as is to be expected, has led to a much lower share of Kerala in total manufacturing value added and it remained on average less than 3 percent of all-India for the whole sub periods considered.

The data from the ASI, pertaining to the organised or registered sector gives more detailed information on industrial development. Using this data, some of the important characteristics of industrial development in the State in relation to all India are estimated (see table 5.19).

**Table 5-19** Share of Kerala in All India Industrial Development (Factory Sector)

(per cent)

Year	No of factories	Fixed capital	Working capital	Physical Working Capital	Invested Capital	Number of Employees	Net Value of output
1973-74 to 1979-80	3.45	3.29	2.66	2.39	2.9	3.87	2.97
1980-81 to 1989-90	3.09	2.45	2.57	2.53	2.48	3.26	2.75
1990-91 to 1999-2000	3.43	1.72	1.91	1.95	1.81	3.5	2.38

Source: Calculated from GOI, Annual Survey of Industries, various issues

As it shows, the State accounts for about 3.5 percentage of the total number of factories registered in India during the '70s. The State's share remains more or less at the same level during the '80s and the '90s. However, in the value of capital and gross value added, the share of Kerala in all-India is very low and they show a declining tendency over the years.

While looking at the growth trends and the relative share of the sub sectors of SCB industrial credit against the growth rate and relative share of the corresponding real sectors, the asymmetric relation noted at the aggregate level is found more with respect to the non-manufacturing constituents. It is exemplified by the industrial sub sectoral credit ratio given in table 5.20. The manufacturing sector that constitutes the largest segment in both credit and industrial income is having the highest credit quotient. Comparing Kerala and all India, the ratio is higher for the latter. The value of the quotient, after having improved during the '80s, declined during the '90s. The fall during the first half of the '90s was characterised by the better performance of the manufacturing sector and poor credit growth. In later years, the falling ratio coincided with poor performance of both. The trend of the value of the ratio of the factory sector output to SCB industrial credit too is shown. The ratio takes a lower value, for it includes industrial output of the non-manufacturing sector also.

**Table 5-20** Industrial Credit Quotient: Kerala and All-India  
(per cent)

Year	Kerala				India				Value of FactorySector Output	
	Mining and Quarrying	Manufacturing and Processes	Electricity, Gas and Water	Construction	Mining and Quarrying	Manufacturing and Processes	Electricity, Gas and Water	Construction	Kerala	India
1972-2003	36.14	72.32	8.91	4.39	13.06	69.48	28.04	5.15		19.58
1972-1987	25.33	71.93	7.45	4.47	11.55	61.15	21.38	3.11		19.24
1988-2003	46.94	72.72	10.37	4.32	14.57	77.80	34.70	7.19	20.04	19.90
1972-1980	7.61	58.69	7.78	4.73	15.98	57.19	25.97	2.63		19.51
1981-1990	39.33	88.50	9.54	4.08	6.50	68.51	16.87	4.30	24.80	19.49
1991-2000	44.07	67.84	6.45	3.95	13.40	75.47	23.32	6.45	19.75	18.75
1991-2003	53.43	69.32	9.21	4.40	16.08	78.73	38.07	7.55	19.02	19.69
1990-1995	25.94	73.78	5.16	3.95	12.19	75.17	20.39	6.80	22.99	19.44
1995-2000	52.95	63.32	8.20	3.97	13.29	74.56	24.63	6.10	18.05	18.15
2000-2003	94.16	71.98	17.03	5.55	22.54	90.41	75.59	9.79	16.44	22.55

**Source:** For Banking Data, BSR various Years, For Industrial Output Data, GOI, CSO, National Account Statistics and GOK Economic Review, various issues.

The lower significance of the sub-sectors other than manufacturing in SCB credit, in its turn, can be ascribed to the fact that the loan provided by the commercial banking system to the industrial sector essentially is that of short term nature, meant to meet the working capital needs and that too mainly for manufacturing and processing activities. Further, there are specialized institutions catering to the investment needs in the non-manufacturing industrial sub-sectors like electricity generation and water supply. More of these activities are in the public sector.

### **5.2.3 DOMINANCE OF SSI CREDIT**

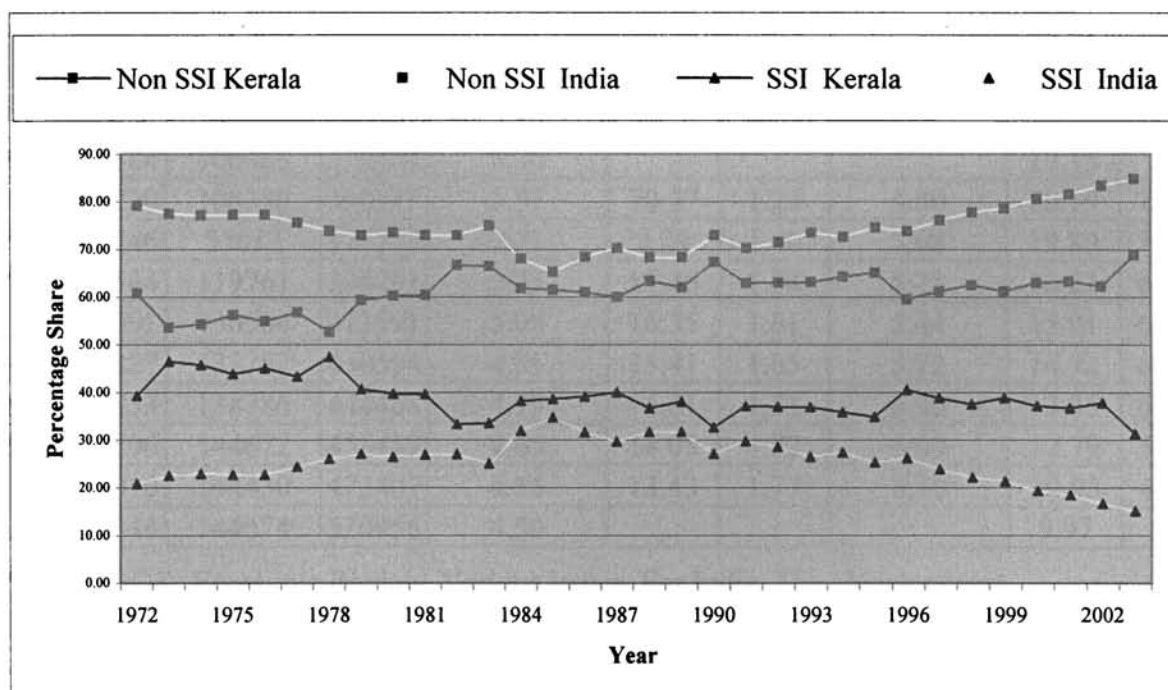
There are different ways of analyzing the structure of the manufacturing sector in an economy. One of the important structural dimensions of the manufacturing sector is the scale of production. The scale structure consists broadly of (1) large and medium scale sector and (2) village and small-scale sector. In table 5.21, the SCB credit to these two broad sub sectors is shown ( see Chart 5.1 also). The large and medium sector improved its share over the years in Kerala and all-India. Compared to all-India, the share of large and medium scale industrial sector in SCB credit to manufacturing in Kerala, however, is much lower- about 15 percentage point less than that of all-India. Further its share in Kerala showed a declining tendency during the '90s, reflecting the decline in its growth rate during the period. Though the medium and large- scale sector improved their share and constitutes the largest segment of the manufacturing credit, the share of SSI credit assumes a considerably higher proportion in the State. The share of SSI credit in the State was almost double that of all-India during the '70s. The margin between the two got dwindled during the '80s, and early '90s. The margin again got widened during the late '90s. This tendency during the '90s is indicative mainly of the lower growth of SSI credit at all-India on the one hand and the much sharper decline of non-SSI manufacturing credit in the State on the other. For, the compound growth rate of SSI credit for the State itself has shown deceleration during the second phase.

**Table 5-21** Significance of SSI and Non-SSI SCB Credit

(per cent)

Year	Share in SCB Manufacturing and Processing				Share of SSIs in Total SCB Credit		Share of Kerala in India	
	Non SSIs		SSIs		Kerala	India	SSI SCB credit	Non SSI SCB credit
	Kerala	India	Kerala	India				
1972-2003	61.23	74.57	38.77	25.43	13.42	11.31	4.41	2.39
1972-1987	59.16	73.58	40.84	26.42	16.55	12.24	5.06	2.67
1988-2003	63.31	75.55	36.69	24.45	10.29	10.39	3.76	2.11
1972-1980	56.53	76.03	43.47	23.97	19.04	11.94	5.37	2.23
1981-1990	63.06	70.26	36.95	29.74	12.81	12.88	4.37	3.13
1991-2000	62.59	74.95	37.41	25.05	10.96	10.78	3.74	2.09
1991-2003	63.09	76.87	36.91	23.13	10.00	9.67	3.78	1.94
1990-1995	64.31	72.57	35.69	27.43	11.57	12.17	3.53	2.41
1995-2000	62.09	76.93	37.91	23.07	10.28	9.66	3.88	1.91
2000-2003	64.31	82.61	35.69	17.39	7.40	6.55	3.93	1.49

Source: BSR, various Years

**Chart 5-1** Trends in the Relative Shares of SSI and Non-SSI SCB Industrial Credit

Thus while Kerala experienced fall of its growth rate from around 15.5 percent during the first phase to 12 percent during the period since the late '80s, the corresponding decline at all-India was much sharper: from around 18.5 percent to 10.5 percent.

#### 5.2.4 DOMINANCE OF SMALL SCALE INDUSTRIES

The relatively higher significance of SCB SSI credit well reflects the scale structure of the State's industrial economy. As it is well established in the literature on Kerala's industrial development, the village and SSI sector occupy a prominent place in its industrial economy, particularly in the number of units registered and employment generated (Subrahmanian K K and Pillai, Mohanan, P, 1985). A rough indication of its significance in the State can be had from table 5.22. Thus, during 2002, Kerala accounts for 13.5 percent of SSI units registered and 6.1 percent of total SSI employment in the country.

**Table 5-22:** SSI Sector—Important Characteristics: Kerala and India

Year	No of Units	Per Unit			Share of Kerala in India			SCB SSI Credit/SSI Output (%)	
		Investment (Rs)	Output (Rs)	Employment (No.)	No of Units (%)	Value of Output (%)	Employment (%)	Kerala	India
1988	47191	137986		5.00					
1989	55427	119000	311000	6.61			26.74		
1991	73522	99671	321731	6.06		1.52	3.55	23.03	9.99
1993	95851	105256	315112	5.93				21.15	
1994	110384	106461	326854	5.70				19.15	
1995	126220	108330	301677	5.57	20.37	1.27	4.80	20.19	7.27
1996	286246	55612	177773	2.71	9.29	1.40	5.08	19.80	7.12
1997	160544	119761	394291	5.23	17.46	1.54	5.25	16.21	6.51
1998	180091	130564	413591	5.05	16.35	1.61	5.44	15.01	6.19
1999	199827	132787	430594	4.91	15.41	1.65	5.72	14.72	6.04
2000	219833	138786	444458	4.79	14.61	1.71	5.90	13.35	6.12
2001	239896	144672	458459	4.65	14.05	1.72	6.00	12.79	5.78
2002	258010	144430	473407	4.55	13.43	1.77	6.10	10.93	4.63
2003	270344	144674	520956	4.50				9.97	

**Source:** GOK, Economic Review, Various issues, For India, The Development Commissioner, Small Scale Industries, SSI in India- An Engine of Growth, 2002.

The number of registered SSI units increased nearly six times between 1988 and 2003 and gave the evidence of a dynamic segment of the State economy. Admittedly, the

proliferation in registration has not been commensurate with growth in investment, output and value-addition; however, the sector is quite significant to be reckoned with (Thampi P M, 1999 Subrahmanian K K, 1999). The value of the ratio of SCB SSI credit to SSI output shows declining tendency over the years. Compared to all India, however, the ratio takes higher value in the State.

The industrial sector is said to be dominated by the unregistered manufacturing sector earlier. Recent data shows change in the composition of the income originating from the State's industrial sector. The registered sector now dominates and its significance in Kerala is progressively increasing (see Table 5. 23).

**Table 5-23** Relative Significance of Registered And Unregistered Manufacturing Sectors : Kerala and India

(per cent)

Category		1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Registered	All-India	63.9	64	65.1	65.8	66.2	66.5
	Kerala	56.6	58.3	58.7	59.1	60.8	62.4
Unregistered	All-India	36.1	36	34.9	34.2	33.8	33.5
	Kerala	43.4	41.7	41.3	40.9	39.2	37.6

Source: GOI, CSO, National Accounts Statistics, various years

Notwithstanding this, the credit intake in the SSI sector is coming down, implying that even in the registered manufacturing sector, the credit absorption is less.

The credit absorption, as discussed earlier, is related to the size of economic operation. In Table 5.24, some relevant information in this regard is given. The average size of industries even in the factory sector is relatively smaller. The per factory investment and value of output in Kerala, compared to all-India, is much lower. The gap between the two has widened over the years.

**Table 5-24** Industrial Characteristics Per Factory: Kerala and All India

Industrial characteristics		YEAR		
		1973-74 to 1979-80	1980-81 to 1989-90	1990-91 to 1999-2000
Fixed capital (Rs. Lakh)	Kerala	19.96	45.01	108.94
	All India	21.37	56.63	216.89
	Kerala / All India(%)	93.40	79.48	50.23
Working capital (Rs. Lakh)	Kerala	6.83	17.59	37.84
	All India	9.10	21.10	67.78
	Kerala / All India(%)	75.05	83.36	55.83
Value of output (Rs. Lakh)	Kerala	35.61	102.04	294.20
	All India	43.05	114.78	424.22
	Kerala / All India(%)	82.72	88.90	69.35
Number of Employees	Kerala	96.39	81.94	72.66
	All India	85.91	77.68	71.17
	Kerala / All India(%)	112.20	105.48	102.09
Invested Capital (Rs. Lakh)	Kerala	30.73	68.16	162.10
	All India	34.30	84.75	306.60
	Kerala / All India(%)	89.59	80.42	52.87

Source: Same as 5.21.

The smaller size of industrial operations, in turn, may have led to smaller size of bank credit. The relevant information is provided in Table 5.25. Except for artisans and village industries, Kerala's position is behind all-India for all the sub-sectors of the industrial sector. The size of manufacturing sector credit has come down very sharply over the years.

**Table 5-25** Per Account Size of Sub-sectors of Industrial Credit  
Kerala and All India

(Amount in Rs)

Year		Mining and Quarrying	Manufacturing	Electricity, Gas and Water	Construction	Artisans and Village Industries	Other SSIs	Total Industrial sector
1980	Kerala	54448	83478	139333	73658	908	40100	83191
	All-India	469137	132004	2282582	141201	1465	42051	135131
	Kerala/ India	11.61	63.24	6.1	52.17	61.98	95.36	61.56
1990	Kerala	171622	73242	1946296	224033	4946	40335	75337
	All-India	989738	116585	3041724	613896	4305	74624	123251
	Kerala/ India	17.34	62.82	63.99	36.49	114.89	54.05	61.12
2000	Kerala	6608134	134864	12812987	559409	15301	103734	148183
	All-India	7339616	368791	31920141	875259	13297	164118	399278
	Kerala/ India	90.03	36.57	40.14	63.91	115.07	63.21	37.11
2003	Kerala	2176876	273264	24243373	598226	47673	156533	325284
	All-India	10628337	677903	56571132	1714489	36884	265054	807306
	Kerala/ India	20.48	40.31	42.85	34.89	129.25	59.06	40.29

Source: BSR Various Years

The size of it is just 40 percent of the corresponding all India average during 2003. Besides, the ownership/ organizational structure of the industrial sector of Kerala shows that investment in the private sector is at a relatively lower level in the State (GOK, 1988).

### **5.2.5 NON-SCB INDUSTRIAL CREDIT: MUCH WORSE**

Scheduled commercial banks, by convention, provide mostly working capital loans to the manufacturing sector. The growth of the factory sector analysed shows a much lower share of Kerala in total working capital at all-India. The per factory working capital investment in Kerala too is found to be low. It goes in close correspondence with the State's share in all-India non-SSI, SCB credit. While it is so with respect to the non-SSI sector, the SSI sector notwithstanding its growth dynamism, was not followed by matching investment in working capital so as to offset the lower credit share of the former. Along with medium and large-scale industries, the SSI sector-though not as severe as the former- too showed



decelerating tendency in credit growth and together they brought down the overall industrial credit in the State.

The relatively lower position of Kerala in SCB manufacturing credit, apart from the much lower investment in manufacturing working capital in the State, can also be seen complementary to the performance of financial institutions that provide funds for fixed capital or for long term investment purposes. The argument can further be established with the data on the trend of outstanding loans, which include loans from all sources and also loans for investment in both working as well as fixed capital for the factory sector given in table 5.26. Kerala's percentage share of all India outstanding loans for the factory sector stood more than 3 percent between the mid-'70s and mid-'80s and had fallen to less than 3 percent during the second half of the '80s. It declined further to less than 2 percent during the '90s. The trend of the relative share of Kerala's total outstanding loans to the factory sector is less than what observed with respect to SCB loans outstanding to manufacturing.

**Table 5-26** Relative Significance of Outstanding Loans in the Factory Sector: Kerala and India

(per cent)

Year	Outstanding Loans /Value of Production		Outstanding Loans /Invested Capital		Share of Kerala to all India	
	Kerala	India	Kerala	India	Outstanding Loans	SCB manufacturing
1980	47.5	48.3	64.9	60.6	3.1	3.55
1981	47.4	47.3	72.7	61.7	3.4	4.12
1982	48.4	45.5	79.1	62.1	3.5	3.45
1983	48.9	44.7	71.9	61.2	3.2	3.26
1984	63.6	51.4	82.4	66.4	3.1	3.68
1985	62.8	49.7	83.4	65.2	3.1	3.81
1986	56.7	51.7	78.2	70.5	2.8	3.77
1987	54.1	52.7	78.5	71.8	2.7	3.47
1988	49.2	51.6	77.5	69.7	2.6	3.26
1989	41.9	35.5	68.7	49.2	3.1	3.09
1990	33.9	36.6	58.6	53	2.4	2.96
1991	38.5	38.7	61.5	53.7	2.2	2.84
1992	36.1	36.8	62.9	49.8	2.7	2.74
1993	33.3	43.8	60.5	58.1	1.9	2.50
1994	25.5	38.2	40.3	50.8	1.4	2.66
1995	34.4	39.8	50.8	53.3	1.6	2.58
1996	40.6	36.8	68.8	50.4	2.6	2.52
1997	30.1	38.2	61.3	49.8	1.9	2.41
1998	36.6	38.7	63.8	54.5	2.3	2.33
1999	17.8	29.1	38.9	42.5	1.6	2.25
2000	19.2	28.3	48.1	44.8	1.9	2.05
2001	18.7	27.8	48.2	45.1	1.9	1.97
2002	22.2	28	48.7	44.4	2	1.83
2003	17.5	23.3	44.5	41.3	1.8	1.79
<b>Average</b>						
1981-1990	50.7	46.7	75.1	63.1	3	3.47
1991-2000	31.2	36.8	55.7	50.8	2	2.48
2001-2003	19.5	26.4	47.1	43.6	1.9	1.86

Source: Calculated from ASI, BSR various years

### 5.2.6 TRADITIONAL MANUFACTURING INDUSTRY GROUPS MORE

From the discussion on industrial credit done so far, it is seen that the relatively lower investment in industrial capital as well as the smaller size of industrial investment

explains the relatively lower share of industrial credit in Kerala. Though it can broadly be said so, can we give any specific reason for the decelerating tendency in SCB and other forms of industrial credit coinciding with relatively better performance of the manufacturing sector during the period since the late '80s? A better understanding of this issue is possible by looking at the product-wise growth trends of the manufacturing sector and information on that is provided in table 5.27. As it shows, the better performing industries are the traditional industry groups like food products, paper and paper products, etc. The better performance of the manufacturing sector as a whole, as a matter of fact, is the net outcome of the growth trends of these two groups. During the '90s these industries show growth rates higher than the '80s and also higher than that of the all India average.

**Table 5-27** Annual Growth Rates of Net Value Added in 2- Digit Industry Groups of Factory Manufacturing: Kerala and India (per cent per annum)

Industries	1980-81 to 1989-90		1990-91 to 1999-2000	
	Kerala	All India	Kerala	All India
Food products (20-21)	5.75	12.86	6.20	9.40
Beverages, tobacco etc. (22)	13.46	-2.05	7.02	6.71
Cotton textiles (23)	6.86	3.27	2.41	1.06
Wool, silk, fibre (24)			9.09	7.70
Jute and other vegetable Fibre (25)			-0.41	4.90
Textile products (26)	-15.14	-12.76	18.93	8.73
Wood and wood products (27)	-13.86	-10.89	2.7	-2.83
Paper and paper products (28)	6.76	15.49	5.45	7.74
Leather and leather products (29)			10.97	10.67
Basic chemicals (30)	11.6	4.92	22.57	13.7
Rubber, plastic, petroleum (31)	5.41	0.1	0.684	8.12
Non-metallic minerals (32)	5.91	2.84	8.27	5.19
Metal and alloys (33)	6.68	9.66	3.53	15.8
Metal products and parts (34)	-4.03	6.28	3.58	10.17
Machinery and equipment (35-36)	7.41	2.86	5.54	7.91
Transport equipment (37)	-3.09	9.31	4.51	15.00
Other manufacturing (38)	17.83	-1.17	12.5	16.53
Manufacturing	5.77	5.39	6.51	9.06

Source: Subrahmanian K K, Aziz ,2002

The growth of capital goods and modern manufacturing industries, on the other hand, compared to all India, is relatively low both in the '80s and '90s. The high growth

industrial groups of Kerala are less capital intensive. This leads to a symmetry, by and large, between the growth performance of physical capital and value addition. This, in turn, meant relatively lower growth of credit intake for industrial investment and working capital.

Looking differently, the addition to capital has taken place mainly in the traditional industries where the capital investments are relatively low. Being “asset light,” the higher growth in such industries is followed by lower credit use. At all India, on the other hand, there has been good performance record of a wider set of industries including capital and modern manufacturers and hence relatively higher demand for industrial loans. The relative share of sub-sectors in total manufacturing credit shows that in Kerala, the larger share of SCB manufacturing credit is accounted for by industrial groups like food products. Industries like basic metals, metal products, vehicles, and transport equipment, etc have only less significance. The situation, evidently, is quite different at the country level. (Narayana D, 2003).

To sum up, the incongruous growth behavior between SCB industrial credit and output found at the aggregate level was shown at a higher degree by the non-manufacturing sub sectors of the industrial sector. The behaviour of manufacturing credit too, however, shows incongruous relation over the years. The higher significance of SSI sector, lop-sided industrial structure etc. can be taken as reasons for this. The analysis done here, noticeably, seem to support one of the prevalent explanations of the industrial backwardness in Kerala essentially as structural.

## **Section 3**

### **Unpacking the Service Sector Credit**

#### ***5.3.1 RELATIVE SIGNIFICANCE OF THE SUB- SECTORS***

We have recorded the relative share of the sub-sectors in total SCB tertiary credit in table 5.28. Historically credit to trade enjoyed the dominant place in total tertiary sector credit. While it continued to occupy its pre-eminent position throughout the period in India, the place went to personal loans in Kerala since the mid-‘90s. The share of personal loans, which include loans for purchase of consumer durables, housing and other personal loans, has increased nearly two and a half times over the period under consideration (See Chart 5.2 also). Now it accounts for more than two-fifth of the total tertiary sector credit in Kerala and more than one fourth in all-India. Regarding trade, though the share of it has declined over the years, it is still higher in the State.

**Table 5-28** Economic Activity –wise Distribution of SCB Service Sector

Credit : Kerala and India

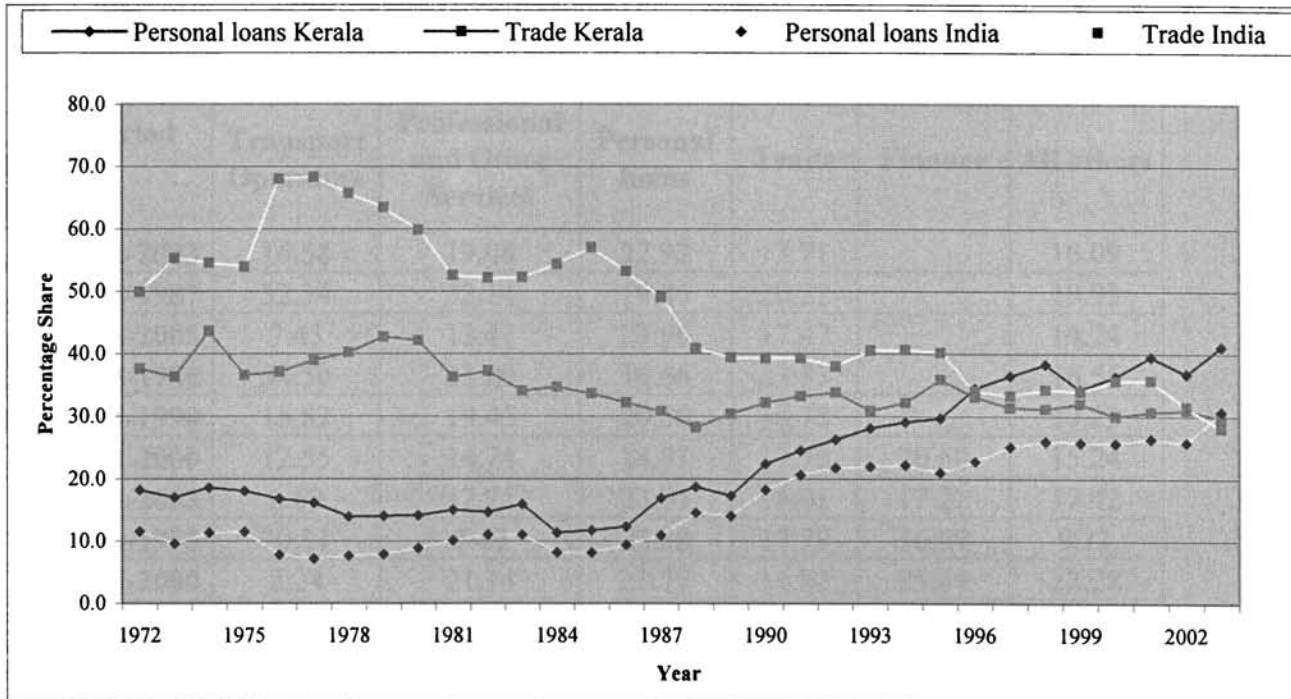
(per cent)

Year	Kerala						India					
	Transport Operators	Professional and Other Services	Personal loans	Trade	*Finance	All others	Trans. Operators	Professional and Other Services	Personal loans	Trade	Finance	All others
1972	4.78	5.29	18.19	37.56		34.18	5.31	5.11	11.53	49.81		
1973	4.95	5.63	17	36.3		36.1	5.33	4.93	9.6	55.3	7.12	17.7
1974	5.08	5.37	18.6	43.6		27.3	5.8	5.37	11.3	54.5	6.75	16.3
1975	6.88	5.74	18	36.6		32.9	7.44	5.94	11.5	53.9	5.17	16
1976	7.9	6.22	16.8	37.1		32	6.49	4.3	7.76	68	3.05	10.4
1977	7.38	6.2	16.1	38.9		31.4	6.48	4.58	7.16	68.3	2.87	10.6
1978	8.68	8.41	13.9	40.2		28.8	9	4.97	7.6	65.7	2.59	10.2
1979	9.94	8.89	14	42.7		24.4	10.7	5.09	7.87	63.4	2.47	10.5
1980	9.31	9.87	14.1	42.1		24.7	11.5	5.95	8.83	59.8	2.18	11.7
1981	10.2	10.45	15	36.3		28.1	14.3	6.73	10.1	52.5	2.94	13.3
1982	10.4	9.38	14.6	37.2		28.4	14.5	6.38	11	52.1	2.64	13.3
1983	13.5	10.45	15.9	34.1		26.2	15.2	6.7	11	52.2	2.81	12.2
1984	13.3	12.54	11.3	34.7		28.2	13	7.18	8.19	54.3	2.64	14.7
1985	14.4	13.57	11.7	33.6		26.8	11.7	7.49	8.15	57	2.88	12.8
1986	14.8	13.67	12.3	32.2		27	11.6	8.37	9.37	53.2	3.23	14.2
1987	15	12.55	16.9	30.8		24.7	10.5	9.34	10.9	49	3.63	16.6
1988	12.8	12.52	18.7	28.2		27.7	10.8	10.41	14.5	40.9	3.77	19.6
1989	8.95	14.57	17.3	30.4		28.8	9.61	10.51	14	39.4	4.74	21.7
1990	8.09	10.41	22.4	32.2	1.67	25.2	8.92	8.4	18.2	39.3	6.06	19.1
1991	7.69	9.8	24.5	33.2	1.45	23.4	7.82	7.88	20.6	39.3	6.03	18.3
1992	7.59	9.55	26.3	33.8	1.19	21.6	6.99	7.58	21.8	38	7.81	17.8
1993	8.3	8.45	28.1	30.9	2.29	22	6.09	7.01	22	40.5	6.44	18
1994	9.23	7.98	29.1	32.2	1.88	19.6	5.5	6.86	22.2	40.6	6.67	18.1
1995	8.77	6.83	29.7	35.9	1.29	17.6	4.41	5.49	21	40.2	8.86	20
1996	8.55	7.11	34.5	33.1	1.34	15.5	4.42	8.73	22.8	34.1	8.7	21.3
1997	8.16	6.22	36.5	31.4	1.73	16.1	4.63	7.95	25.1	33.3	10.05	19
1998	7.03	6.81	38.3	31.2	1.8	14.9	4.84	8.57	26	34.3	9.16	17.1
1999	5.28	7.37	34.3	32	1.79	19.4	4.61	8.17	25.8	34	10.3	17.1
2000	4.38	7.8	36.4	30	1.65	19.8	4.02	7.3	25.7	35.7	10.9	16.4
2001	2.92	7.66	39.5	30.7	1.95	17.2	3.48	7.68	26.4	35.8	10.57	16.2
2002	2.57	7.43	36.8	31	1.06	21.1	2.91	8.65	25.8	31.5	11.74	19.5
2003	2.36	8.02	41.11	29.72	1.01	17.79	2.54	9.16	30.78	28.11	13.68	15.73
	<b>Average</b>											
1972-1980	7.21	6.85	16.30	39.45		30.20	7.56	5.14	9.24	59.86	4.03	12.93
1981-1990	12.14	12.01	15.61	32.97		27.11	12.01	8.15	11.54	48.99	3.53	15.75
1991-2000	7.50	7.79	31.77	32.37	1.64	18.99	5.33	7.55	23.30	37.00	8.49	18.31
2001-2003	2.62	7.70	39.14	30.47	1.34	18.70	2.98	8.50	27.66	31.80	12.00	17.14

\*The relevant data for the period 1972 to 1980 is not available at the State level

Source: BSR Various Years

**Chart5-2** Significance of SCB Credit for  
Trade and Personal loans



The share of SCB loans outstanding to the transport operators, after showing an increasing trend till the late '80s has come down heavily in Kerala as well as in India during the '90s. A similar pattern could be observed in the case of professional and other services. The relative share of this sub-sector, however, is fairly big and is higher than that of the transport operators. While the share of credit to finance has made significant increase at all India, the share of the same in Kerala is rather insignificant.

The underlying growth trends in the sub-sectors of the tertiary sector SCB credit are presented in table 5.29. As is to be expected, personal loans have recorded the highest growth rate in both Kerala and India over the period as a whole. It is followed by professional and other services in Kerala but by finance in India.

**Table 5-29:** Growth Rate of Sub Sectoral Service Sector Credit :  
Kerala and All-India

(per cent per annum)

Period	Kerala					
	Transport Operators	Professional and Other Services	Personal loans	Trade	Finance	All others
1972-2003	16.58	19.08	22.92	17.71		16.09
1972-1987	32.34	32.14	19.86	20.22		19.93
1988-2003	7.43	13.47	23.96	17.47		14.24
1973-1980	34.50	33.20	16.66	23.53		16.55
1981-1990	15.82	19.45	20.30	16.75		17.23
1991-2000	12.55	14.74	24.51	17.70	20.60	15.24
1991-2003	6.60	17.25	23.91	18.01	17.22	17.42
1990-1995	20.11	7.47	23.38	17.79	16.99	9.11
1995-2000	2.24	21.14	21.77	14.82	25.64	22.28
2000-2003	-0.19	22.32	25.36	21.53	-1.21	20.24
	India					
1972-2003	14.45	20.00	23.30	15.09		19.03
1972-1987	27.64	24.41	19.16	18.83		17.63
1988-2003	9.17	18.28	23.87	16.70	27.52	17.55
1973-1980	36.97	23.85	17.69	25.82	2.35	13.92
1981-1990	10.15	22.91	23.49	12.40	26.36	23.59
1991-2000	10.05	18.57	20.52	15.04	24.83	16.38
1991-2003	10.19	20.99	22.35	16.38	26.33	17.96
1990-1995	3.10	9.47	21.26	18.92	24.94	18.65
1995-2000	15.65	21.02	21.40	14.69	21.54	10.90
2000-2003	5.42	33.40	29.67	13.20	33.25	24.06

Source: Same as table 5.28

Sub-period growth trends show higher rates for almost all the sub-sectors except personal loans during the years prior to late '80s in Kerala. Between the sectors, loans for transport operators and for professional and other services have registered higher growth rate during the first phase. Both these sub sectors have experienced sharp deceleration in credit growth during the period since the late '80s. Regarding the other sub-sectors, while trade shows more or less the same growth rate during both the periods, the sub-sector 'all others' shows much deceleration during the second phase. A more or less similar pattern of subsectoral growth trend had taken place at all-India too. But compared to Kerala, the trends

were less fluctuating in the country. Also, along with personal loans, finance showed significant improvement during the second phase in all India.

### 5.3.2 SMALLER SIZE

As done before, we shall examine the size of credit of the various sub-sectors in the tertiary sector (see table 5.30). Compared to all –India, the size of credit is lower in Kerala for all the sub-sectors except personal loans, the sub sector noted for the smallest size in both. Compared to 1980, the relative size of credit significantly improved during 1990 for transport and trade; but for the other subsectors remained more or less at the previous level. During 2000, personal loans, professional services and all others show improvement in their size, while other sub sectors showed decline in relative size. In 2003, personal loans improved its relative size further, while all other important sub sectors experienced decline. Between Kerala and India, the gap in the average size is found to be much higher in finance and all others.

**Table 5-30** Per Account Size of the Sub-sectors of Tertiary Sector :  
Kerala and India

(Amount in Rs)

Year	Kerala/ India	Transport Operators	Professional and other Services	Personal loans	Trade	Finance	All others
1980	Kerala	22109	3593.8	1890.9	9002.6		1597
	All-India	25960	5256.2	3248	28762		3755.8
	Kerala/all-India	85.17	68.37	58.22	31.3		42.52
1990	Kerala	38720	6107	7921.3	13248	686441	4603.5
	All-India	26493	9499.7	13756	16392	1582092	10079
	Kerala/all-India	146.15	64.29	57.58	80.82	43.39	45.67
2000	Kerala	72921	53314	36619	65050	314881	48005
	All-India	82874	80020	35810	101262	3103178	79729
	Kerala/all-India	87.99	66.63	102.26	64.24	10.15	60.21
2003	Kerala	101980	101429	66908	137149	482125	41693
	All-India	164319	220647	56132	175881	4379057	91401
	Kerala/all-India	62.06	45.97	119.20	77.98	11.01	45.62

Source: Same as Table 5.28



Having documented the trend and the broad composition of service sector credit, now let us turn to the corresponding subsectoral growth pattern in the service sector of the economy.

### ***5.3.3 SOURCES OF SERVICE SECTOR GROWTH***

The service sector covers a broad spectrum of activities. The period-wise growth rate of the sub-sectors of the service sector given in table 5.31 shows better performance by all the sub-sectors except banking and insurance during the years since the late '80s. The subsector 'real estate, ownership of buildings, etc' shows extreme values in its growth trends. Looking at the other subsectors, 'trade, hotels and restaurants' experienced higher growth and it was followed by transport and communication.

**Table 5-31: Growth Trends of Tertiary Sector Sub-sectors**

(per cent per annum)

Year	Kerala						
	Transport, storage and communication	Communication	Trade, hotels and restaurants	Banking and Insurance	Real Estate, ownership of dwellings and business services	Public administration	Other services
1972-2003	15.66 (14.10)	17.78	16.94 (37.47)	18.83 (9.52)	17.71 (3.93)	16.30 (10.05)	13.41 (21.47)
1972-1987	11.36 (14.14)	11.86	13.42 (36.01)	20.82 (7.96)	14.02 (4.67)	15.37 (9.76)	9.94 (25.98)
1988-2003	17.84 (14.06)	20.59	22.41 (38.99)	17.64 (11.39)	50.45 (3.31)	15.98 (10.36)	17.39 (17.75)
1973-1980	17.63 (16.24)	15.40	8.67 (34.49)	19.19 (6.25)	4.82 (3.96)	11.96 ( 8.98)	11.68 (29.70)
1981-1990	22.20 (13.17)	19.88	11.00 (37.00)	18.48 (11.45)	-12.12 (3.73)	17.05 (11.42)	13.26 (21.65)
1991-2000	19.60 (13.46)	19.03	28.19 (39.85)	19.06 (11.35)	93.73 (3.10)	16.87 (10.24)	18.71 (17.21)
1991-2003	18.63 (13.47)	19.95	22.47 (40.06)	17.24 (11.06)	62.94 (4.09)	15.67 (9.85)	17.71 (17.04)
1990-1995	18.26 (15.01)	22.04	33.59 (36.02)	16.76 (12.57)	123.27 (1.01)	17.23 (12.14)	20.59 (19.45)
1995-2000	17.29 (12.41)	16.02	18.11 (43.19)	16.18 (10.45)	13.55 (9.50)	19.57 (8.77)	16.28 (15.60)
2000-2003	16.28 (13.51)	30.64	7.22 (40.79)	13.55 (10.15)	18.34 (10.30)	4.91 (8.67)	12.80 (16.49)
	India						
1972-2003	16.87 (11.05)	18.51	15.69 (32.07)	18.49 (10.32)	12.92 (14.58)	14.85 (13.78)	14.99 (17.30)
1972-1987	14.46 (9.89)	13.81	15.69 (31.86)	17.36 (8.36)	9.53 (17.13)	13.60 (14.28)	13.36 (17.94)
1988-2003	17.62 (12.34)	19.32	15.93 (32.29)	18.95 (12.73)	14.37 (12.41)	15.01 (13.30)	16.43 (16.68)
1973-1980	15.43 (9.87)	16.41	14.67 (29.98)	18.11 (7.56)	7.74 (19.68)	12.30 (14.39)	12.91 (18.20)
1981-1990	18.46 (10.34)	20.29	14.73 (33.93)	16.96 (9.70)	14.81 (14.23)	16.45 (14.36)	14.37 (17.37)
1991-2000	18.56 (12.39)	21.25	17.27 (32.55)	19.63 (13.34)	13.13 (12.05)	16.37 (13.03)	17.12 (16.46)
1991-2003	17.19 (12.57)	18.45	15.45 (32.18)	17.33 (13.41)	14.17 (12.07)	15.27 (12.96)	16.35 (16.65)
1990-1995	20.04 (11.91)	24.97	16.73 (32.33)	22.32 (12.21)	14.87 (13.43)	13.03 (13.52)	15.35 (16.49)
1995-2000	16.89 (12.77)	16.28	15.70 (32.87)	16.44 (14.13)	14.07 (11.13)	20.32 (12.66)	18.99 (16.36)
2000-2003	13.51 (13.21)	13.46	10.51 (30.96)	12.01 (13.66)	14.69 (12.15)	6.40 (12.72)	11.08 (17.28)

**Note:** Figures in brackets indicate sub sectoral shares of the service sector in percentage

**Source:** GOI, CSO, National Account Statistics and GOK Economic Review, various issues.

The relative share of the sub-sectors given in the same table shows that two groups-trade, hotels and restaurants, community and personal services -have the dominant share throughout the period. Their relative significance in the tertiary sector, however, has come down over the years.

The decline in their share is followed by significant increase in the share of two other sub groups - transport and communication, banking and finance - implying a relatively higher rate of growth of them. Though this was the tendency throughout the period, such a change in composition was more during the '80s and '90s implying their much higher growth rate during the period. The growth behaviour of these buoyant subgroups, however, differs between the sub periods. While banking and insurance have experienced higher growth during the years prior to the late '80s, it is during the latter phase that transport and communication showed greater dynamism. Real estate and ownership of dwellings had recorded a phenomenal growth rate during the '80s and crashed during the years between the late '80s and mid-'90s<sup>6</sup>. This sub-sector, significantly, witnessed very pronounced growth trends during the years following the mid '90s.

#### **5.3.4 TRADE: CHANGING SCENARIO**

Admittedly, the process of commercialisation had given rise to a large trading sphere in the region even before independence. The advent of independence, however, initiated some significant changes in it. Firstly, the exit of Europeans from the trading sector lured regional capital to fill the vacuum and consequently there emerged a large number of big businessmen in the region. (Thomas Issac and Tharakan 1986). Secondly, the pattern of external trade of the region has been shifted from the dominance of international trade to inter state trade (Issac, 1994). There has also been a phenomenal increase in imports of food items, manufactured final consumption goods, cement, steel, petroleum, etc from the rest of India.

Available indicators suggest that Kerala has emerged as a high consumption economy over the years, particularly since 1975. Till the early 1970s, consumption level in Kerala remained lower than the all India average. Since then, it has steadily improved and by 1983-'84, exceeded national average. (Issac 1992). The rank order of Kerala among the major States in India in terms of per capita expenditure improved from 10 in 1970-'71 to 4 in 1980-81. Given the poor domestic economic growth of the State during the period,

evidently, the remittance income accounts for this growth in consumer expenditure. During the '90s when the State economy showed buoyancy and the remittance income as a proportion of State domestic income, compared to the '80s, more than doubled, the rank order has further improved to 2 (Kannan and Hari, 2002; Pushpangathan, 2003, Zacharia K.C and Irudaya Rajan S, 2004). At present, the State enjoys the first position among the major states in per capita consumption.

The composition of consumption shows that the share of non-food items in consumption expenditure has increased from 26 percent to 38 percent in rural areas and from 29 percent to 41 percent in urban areas of Kerala between 1967 and 1983 (Sunny K.P). The tendency continued steadily and by 1999-2000, as could be seen from table 5.32, nearly 50 percent of the consumer expenditure is on non-food items.

**Table 5-32** Food and Non-Food Expenditure as Percentage to Total Expenditure

(per cent)

NSS Rounds	Food		Non-food		Total expenditure	
	Kerala	All-India	Kerala	All-India	Kerala	All-India
<b>Rural</b>						
22	74.13 (20.46)	77.34 (25.88)	25.87 (8.08)	22.66 (7.52)	100 (28.54)	100 (33.40)
27	70.50 (29.71)	72.92 (32.16)	29.50 (12.48)	27.08 (12.01)	100 (42.19)	100 (44.17)
32	61.20 (45.42)	64.34 (44.33)	39.04 (28.98)	35.66 (24.56)	100 (74.22)	100 (68.89)
38	61.67 (89.54)	65.58 (73.73)	38.33 (55.66)	34.42 (38.77)	100 (145.2)	100 (112.5)
50	60.45 (236)	63.18 (177.8)	39.55 (154.4)	36.82 (103.6)	100 (390.4)	100 (281.4)
55	53.7 (411.19)	59.40 (288.8)	46.3 (354.51)	40.60 (197.36)	100 (765.71)	100 (486.16)
<b>Urban</b>						
22	70.98 (23.75)	66.55 (29.82)	29.02 (11.06)	33.45 (15.00)	100 (34.81)	100 (44.82)
27	66.28 (37.79)	64.49 (40.84)	33.72 (20.48)	35.51 (22.49)	100 (58.27)	100 (63.33)
32	61.61 (50.97)	59.99 (57.97)	38.39 (31.76)	40.01 (38.18)	100 (82.73)	100 (96.15)
38	59.38 (104.73)	59.12 (96.97)	40.62 (71.63)	40.88 (67.03)	100 (176.4)	100 (164.0)
50	53.93 (266.3)	54.65 (250.3)	46.07 (227.5)	45.35 (207.7)	100 (493.8)	100 (458.8)
55	49.04 (457.35)	50.96 (410.84)	48.06 (475.26)	51.94 (444.08)	100 (932.62)	100 (854.92)

**Note:** Absolute values are given in brackets.

**Source:** For the first three rounds Sunny K.P (1998); For the later 2 rounds, computed from relevant NSS rounds

While the total expenditure for food has increased by 56 percent in the '90s, the expenditure for consumer durables has more than doubled i.e., by 118.4 percent. The increased expenditure for food and non –food items, given the stagnant growth of the

productive sectors of the economy between the mid '70s and '80s could only be met through trade. Even though there was growth in production during the '90s, it was not at all adequate and broad based and hence import of a large array of consumer items had to be resorted to.

The period since the mid-'70s also witnessed qualitative improvement in food consumption which in turn increased Kerala's dependency on imported items such as vegetables, meat, milk, egg and processed food along with traditional grain imports (Duvvury 1990, Issac and Reddy, 1992). Further, due to the housing boom, as indicated by the spurt in the construction sector during the period, the import of construction materials has phenomenally expanded. Evidently, the escalation of these imports necessitated the expansion of business services and thereby facilitated the emergence of a large number of businessmen. The relatively slower growth in agriculture and manufacturing, needless to say, was naturally followed by lower employment generation by these sectors. Those who became unemployed and those who newly joined in the labour force resorted to the trading and related activities as an alternative activity. Consequently a large number of trading enterprises in the form of own account enterprises as well as establishments emerged (Ram Mohan K T and Ravi Raman, 1990, Mathew P.M, 1999).

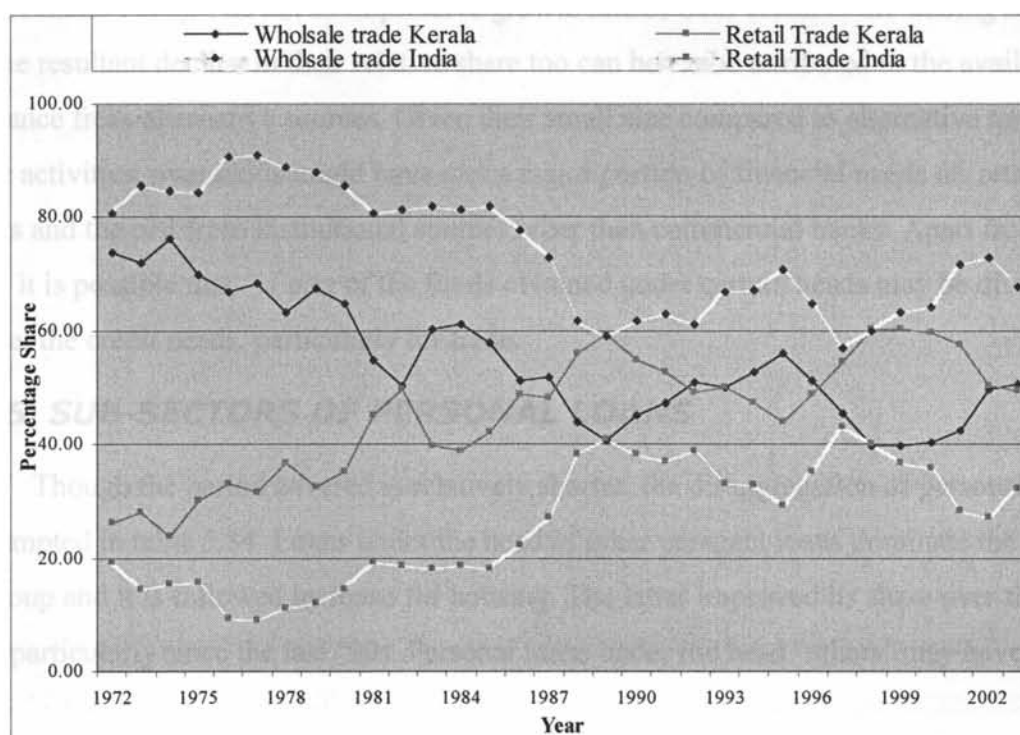
The retail trading enterprises account for disproportionately higher share in trading activity. Naturally, it is followed by larger credit use by this sub-sector. The relevant data is shown in table 5.33 and Chart 5.3. The share of retail trade in credit of SCBs almost doubled over the years and now it accounts for nearly 55 percent of total SCB credit to trade.

**Table 5-33** Distribution of SCB Credit to Trade

(per cent)

Period	Kerala		India	
	Wholesale trade	Retail Trade	Wholesale Trade	Retail Trade
	4-Year Average			
1972-1975	72.91	26.95	83.78	16.10
1976-1979	66.47	33.44	89.65	10.27
1980-1983	57.19	42.19	82.29	17.57
1984-1987	55.31	44.35	78.34	21.29
1988-1991	44.22	55.66	61.28	38.68
1992-1995	52.36	47.52	66.37	33.36
1996-1999	43.86	55.68	61.11	38.71
2000-2003	45.55	54.05	69.02	30.71
Decade-wise Average				
1972-1980	69.06	30.56	86.55	13.02
1981-1990	51.25	47.88	73.38	24.62
1991-2000	47.04	52.34	63.64	36.05

Source: Same as 5.28

**Chart 5-3** Trends in the Significance of SCB Credit to Retail and Wholesale Trade

Though the share of it increased at all-India level too, the relative significance of it is still only a little above one third of total credit to trade in India. The lower size of credit to trade in the State, noted earlier, evidently, is linked to the bigger significance of retail trade.

Like trade, the subsector transport too shows dissociation between SCB credit growth and the corresponding performance of the economic subsector. Despite the buoyancy of the sector during the '80s and '90s, there is relatively lower significance of SCB credit outstanding to the transport operators. The situation in India too was not different. One probable reason is definitional, for SCB credit to the transport operators takes into account only credit extended to those with more than four vehicles. The indicator of the dynamism of the sector, however, is the one based on broad definition, irrespective of the number and type of vehicles. Yet another reason may be the availability of finance from alternative sources, including own funds. During the '90s for instance, there emerged a large number of hire purchase companies providing vehicle loans. The non-banking financing companies that emerged during the '90s with all India network also might have catered to their credit needs. Besides, institutions operating in the unorganised segment of the region's financial market like chitties, private financing firms have their clientele among the transport operators in a big way.

The latter category of institutions is patronized by, to a great extent, by the traders also (Prakash 1984). The not so impressive growth rate of SCB credit to the trading sector and the resultant decline in their relative share too can hence be attributed to the availability of finance from alternative sources. Given their small size compared to alternative tertiary sector activities, own funds might have met a major portion of financial needs of retail traders and the rest from institutional sources other than commercial banks. Apart from these, it is possible that part of the funds obtained under certain heads may be diverted to meet the credit needs, particularly for trade.

### **5.3.5 SUB-SECTORS OF PERSONAL LOANS**

Though the period covered is relatively shorter, the disaggregation of personal loans is attempted in table 5.34. Loans under the head of other personal loans dominate the subgroup and it is followed by loans for housing. The latter improved its share over the years particularly since the late '90s. Personal loans under the head 'others' may have



bearing with expenses related to marriage, repayment of debt, purchase of second hand vehicles, education, etc.

**Table 5-34** Distribution of SCB Personal Loans

(per cent)

Year	Kerala			India		
	Loans for purchase of consumer durables	Loans for housing	Rest of personal Loans	Loans for purchase of consumer durables	Loans for housing	Rest of personal Loans
1991	3.4	32.16	64.44			
1992	2.91	32.93	64.15			
1993	2.79	30.87	66.34	5.9	37.3	56.8
1994	3.04	27.49	69.46	4.24	35.51	60.25
1995	5.47	27.68	66.84	3.76	31.15	65.09
1996	6.16	26.93	66.91	3.73	30.11	66.16
1997	6.09	27.98	65.92	3.45	28.18	68.37
1998	5.88	29.48	64.64	3.81	27.71	68.48
1999	5.63	37.2	57.17	4.82	31.26	63.92
2000	5.21	41.94	52.85	5.39	35.87	58.74
2001	4.95	42.86	52.2	5.25	38.54	56.21
2002	2.95	45.19	51.85	3.89	39.78	56.33
2003	2.11	48.23	49.66	2.83	43.06	54.11

Source: Same as Table 5.28

Within the broad service sector group, noticeably, the component 'other services' showed growth momentum during the latter part of the period under consideration. The growth of other services, significantly, is linked with the services for the repair and maintenance of consumer durables including motor vehicles (Pushpangathan, 2003). Another component in the growth of 'other services' is the better quality services provided by the private sector in health and educational field catering to the higher income groups (Jeromie 2005). The latter, in its turn, have contributed to transportation, particularly buses in the private sector. The rapidly growing tourism sector in the State and also the inefficiency in the public transport system too contributed to this. Another private service activity that came up as a result of the poor or deteriorating state of the public service is the private courier services. Tourism has given stimulus to the growth of hotel and restaurants

also. All these factors together with the large NRI presence abroad worked together to give the necessary impetus to telecommunication, the most buoyant sub sector.

A disaggregate analysis of the tertiary sector, thus shows the emergence of the non-tradable sectors in the regional economy during the '80s and '90s. Within this group, sub-sectors like professional and personal services, other services, transport, finance, tourism etc. assumed more significance. Being the more dynamic sub-sectors in the tertiary sector, they account largely for the growth momentum in the over all economy during the period. The first two among these, generally speaking, are characterised by low wage, low-productivity services and hence relatively lower surplus generation follows them (C.P Chandrasekhar 2002). The surplus, if any, that may arise in the other sub-sectors has a tendency to flow into financial intermediaries other than banks.

Looking differently, the emerging sectors like the trading sector are characterised largely by asset light nature and hence it is possible to be followed by less credit use/absorption. Like the tradeable counterparts, alternative sources of finance might have been resorted to by those, who have credit potential. However, compared to Kerala, the non-tradeable sector, 'finance', occupies a significant place in all India. The higher degree of operations of stockbrokers, leasing companies, etc may be cited as reasons for the difference.

## Summary

The over all credit structure of the scheduled commercial banks – analyzed so far, thus shows a relatively higher significance of credit to agriculture, SSI, personal loans and trade in Kerala as against manufacturing, trade, personal loans and finance firms in all India. The sectors in which Kerala has relatively higher significance are noted for extremely low amounts of credit per account as against the corresponding all India accounts. Not only the size of credit of the sub-sectors of Kerala, compared to all India average size of credit of manufacturing and finance, are low, but more significantly, the size of credit of each sub-sector except personal loans of Kerala is low compared to the corresponding size of credit of all India.

The sectors in which Kerala's share is better are noted for their asset light nature of investment. Consequently, the off take of credit in these sectors cannot go to unlimited

level. The sector in which such possibility is more is that of manufacturing, particularly large and medium scale industries. The significance of it in the State, however, is very low; hence the credit off take in the State is much lower.

Though not as pronounced as the period since the late '80s, large and medium scale industrial credit in the State as a proportion to total credit was considerably lower to the corresponding all India share prior to then. Also relatively higher share of SCB credit was noted for trade, small-scale industries and agriculture. The credit absorption in Kerala, however, was better than all India standards prior to then. During the '90s, while the trend of large and medium scale credit intake got worsened, the other sectors had not absorbed credit so as to make any dent on the overall credit intake in the State. Instead the credit growth experienced by the past better credit absorbing sectors was poor. Lack of diversification in agriculture, SSIs and the growing significance of non-tradeable servitization largely account for this.

## End Notes

1. *Due to the crisis in the agricultural sector, the loss during 1999-2000, is estimated to be of the order of Rs 4000 crore which works out to an average of Rs.7400 per farm family (GOK, 2001)*
2. *Available information on the purpose-wise classification of indirect credit system shows that the share of fertilizer and other agricultural input credit within the total indirect credit itself is very low. Thus the average share of indirect loans given to fertilizers and agricultural inputs during 1998 to 2002 was very low at 11.5 percent. The share of loans given to the Kerala State Electricity Board (KSEB) was 28.4 percent. The rest 60 percent was accounted for by other activities (Jeromie, 2005).*
3. *Capital expenditure per hectare of net sown area in Kerala, at 1980-81 prices, declined from Rs.362 during the Fifth Plan period to Rs. 229 during the Seventh Plan. Though it improved to Rs.282 during the Eighth Plan period, it was lower than capital expenditure during the Fifth Plan (GOK, 2002).*
4. *Working Capital is the sum total of the physical working capital and the cash deposits in hand and at bank and the net balance of amounts receivable over amounts payable at the end of the accounting year. Physical Working Capital includes mainly all physical inventories owned, held or controlled by the factory as on the closing day of the accounting year such as the materials, fuels and lubricants, stores, etc (ASI, 2000).*
5. *This was the sub-sector, which showed much buoyancy during the '60s and early '70s.*
6. *The impact of reforms in the financial sector initiated in 1991 on the speculative activities and the stagnation in the primary sector might have contributed to the poor performance of the sector during the '90s. (Pushpangathan 2003)*

## CHAPTER 6

### SCB CREDIT: SPATIAL STRUCTURE

In this chapter, we examine the district-wise performance of the SCBs. A description of the district-wise profile of the C-D ratio of the SCB system is followed by an analysis of the broad features of the spatial structure of its deposits and credit.

#### **6.1 C-D ratio: District-wise Picture**

Though there has been district-wise variations, the C-D ratio of all the 14 districts has fallen during the last one and a half decade. This is in conformity with the overall trend in the State. The relevant data is given in table 6.1 ( see also appendix 6 A-1). Among the districts, the fall is found to be much sharper in the case of Quilon. Districts like Wayanad, Kasargode and Malappuram also witnessed relatively steep fall. The decline in the ratio was the lowest in Pathanamthitta.

The number of districts with greater or lesser average values of C-D ratio than that of the State as a whole is evenly distributed during the 5-year period prior to 1988 and that during the later years. In the making up of the group, however, slight variation could be seen between the two periods. During the earlier years, the group with better C-D ratio was made up of Ernakulam, Idukki, Kasargode, Quilon, Kottayam, Kozhikode, Malappuram and Wayanad. During the later years, Palakkad substituted Malappuram. Next to Wayanad, Idukki stands second in the rank of the districts in C-D ratio; Ernakulam and Kasargode follow them in the order.

Looking at the order of the districts with regard to the values of the C-D ratio, Quilon stands top with the highest value during the early years. Since the formation of Wynad, the first position was occupied by it throughout. Quilon, on the other hand, had come down and reached the 5<sup>th</sup> place.

**Table 6-1** Five- Year Average Values of District-Wise C-D Ratio  
(per cent)

Name of the District	1978-1982	1983-1987	1988-1992	1993-1997	1998-2003	Difference Between 1983-87 and 1998-03*
Alleppey	40.46	51.7	48.43	38.95	33.25	-18.44
Kannur	61.85	53.92	54.43	36.77	36.95	-16.97
Ernakulam	96.71	93.97	89.03	72.65	65.03	-28.94
Idukki	84.61	104.53	98.64	91.12	87.6	-16.93
Kasaragod		82.06	83.64	48.26	49.52	-32.54
Quilon	112.05	124.72	103.62	67.11	50	-74.71
Kottayam	49.05	60.81	55.88	42.91	39.67	-21.15
Kozhikode	87.17	77.06	83.77	58.16	58.72	-18.34
Malappuram	65.93	69.57	60.12	43.04	36.87	-32.7
Palakkad	46.3	57.27	54.21	42.69	47.32	-9.96
Pathanamthitta		15.84	15.13	13.27	14.01	-1.83
Trivandrum	53.54	67.12	51.92	33.99	40.83	-26.29
Trichur	38.87	42.44	39.58	30.46	30.03	-12.41
Wayanad	166.59	182.28	212.14	126.13	145.59	-36.69
Kerala	68.94	68.83	61.37	45.37	42.95	-25.88

\* Figures are difference of average CD Ratio in 1998-03 over 1983-87.

**Source:** Calculated from BSR Various Years

At the other end of the order, the lowest value is found with Pathanamthitta. The C-D ratio of the district is a little above 13 percent during the '90s. The gap between the C-D ratio of the State as a whole and the district during the '90s is about 30 percent. The average ratio in Pathanamthitta is less than one third of the State average. Next to Pathanamthitta, Trichur stands second in the order. In its case, the gap with the State average is around 10 percent.

## 6.2 District-wise Deposits and Credit: Growth Trends

Information on the growth trends of deposits and credit in each district is provided in table 6.2. Considering the period since 1988 as a whole, the highest growth in deposits was found in Malappuram. With regard to credit, noticeably, Pathanamthitta showed the highest growth rate. The lowest C-D ratio in the district, despite this, evidently is a reflection of the much lower incremental credit, compared to incremental deposits. Besides, the better growth witnessed in credit was with a much lower base.

**Table 6-2** Growth Rate of District-wise Deposits and Credit

(per cent per annum)

Year	Deposits			Credit			Difference Between Deposits and Credit*		
	1988-2003	1991-2000	1991-2003	1988-2003	1991-2000	1991-2003	1988-2003	1991-2000	1991-2003
Alleppey	18.48	19.55	18.11	14.38	15.94	14.96	4.10	3.61	3.14
Kannur	18.76	19.35	18.37	14.70	17.10	16.84	4.05	2.25	1.53
Ernakulam	18.45	19.36	18.01	15.30	15.43	14.84	3.15	3.93	3.17
Idukki	16.66	17.03	16.49	15.77	16.06	15.92	0.89	0.97	0.56
Kasargode	19.74	19.93	19.21	14.24	16.32	16.78	5.51	3.61	2.43
Quilon	18.11	17.71	16.76	10.33	10.87	10.48	7.78	6.84	6.29
Kottayam	18.54	19.13	18.09	14.87	16.70	16.30	3.67	2.43	1.79
Kozhikode	17.84	17.61	17.29	13.43	14.86	15.35	4.42	2.76	1.95
Malappuram	20.10	19.17	19.36	14.64	16.40	15.91	5.46	2.76	3.45
Palakkad	17.04	17.42	17.19	15.68	18.38	17.58	1.35	-0.96	-0.39
Pathanamthitta	19.42	20.43	19.25	18.86	20.99	20.23	0.55	-0.57	-0.99
Trivandrum	18.75	19.44	18.70	16.77	16.22	19.72	1.98	3.22	-1.02
Trichur	18.51	18.72	18.18	15.67	16.20	16.82	2.84	2.52	1.36
Wayanad	17.32	20.12	16.68	13.87	13.40	15.87	3.46	6.72	0.81

\* Figures are difference in average growth rate of deposits over credit.

Source: Same as Table 6.1

Regarding the difference in the growth rate between deposits and credit, the margin is found to be the highest in Quilon, the district noted for the faster deceleration in C-D ratio. It is followed by Kasargode and Malappuram respectively. The difference between the

two is the lowest in Pathanamthitta. Except Malappuram, Kozhikode and Quilon, all other districts assume a higher value for deposits growth during the '90s.

The districts vary considerably with respect to their relative significance in total State deposits as well as credit (see table 6.3). Ernakulam stands first with the highest share in both deposits (more than one sixth) and credit (more than one fourth). Next to Ernakulam, Trivandrum stands second with an average share of 15 percent of deposits and more than 10 percent of credit. The other two districts which are having relatively better share in deposits are Pathanamthitta and Trichur. These four districts together account for more than 50 percent of the total deposits in the State. With respect to credit, however, the share of the latter two districts, particularly that of Pathanamthitta, is much lower.

**Table 6-3** District-wise Share of Deposits and Credit

(per cent)

District	1975-1983		1984-1993		1994-2003		Difference in share Between 1994-2003 and 1984-1993	
	Deposits	Credit	Deposits	Credit	Deposits	Credit	Deposits	Credit
Alleppey	11.12	6.73	7.20	5.88	7.37	6.03	0.17	0.15
Kannur	7.20	6.71	5.83	4.88	5.53	4.66	-0.30	-0.22
Ernakulam	21.35	30.24	17.29	24.89	17.47	27.16	0.18	2.26
Idukki	1.15	1.26	1.15	1.83	1.04	2.13	-0.11	0.31
Kasargode			1.65	2.14	1.74	1.95	0.10	-0.19
Quilon	8.63	14.99	6.54	11.78	6.51	8.31	-0.04	-3.46
Kottayam	7.97	5.92	7.55	6.92	7.67	7.25	0.12	0.33
Kozhikode	6.15	7.94	5.56	6.98	5.13	6.89	-0.43	-0.09
Malappuram	2.70	2.67	4.14	4.13	4.43	4.00	0.29	-0.14
Palakkad	6.32	4.27	5.38	4.73	4.55	4.76	-0.83	0.03
Pathanamthitta			10.22	2.50	11.11	3.53	0.89	1.04
Trivandrum	14.60	11.12	14.54	13.16	14.52	12.61	-0.02	-0.55
Trichur	12.30	7.25	12.44	8.01	12.32	8.52	-0.12	0.50
Wayanad			0.60	1.89	0.56	1.70	-0.04	-0.19

Source: Same as Table 6.1

The share of districts like Wayanad and Idukki, noted for better C-D ratio, is rather negligible in deposits. The share of credit, though it is relatively higher in relation to deposits, too is not so significant. Comparing the two periods, improvement in the relative



share of deposits, is found in the case of 6 districts more. Among those districts, the highest increase in the share took place in Pathanamthitta, followed by Malappuram. With regard to credit, improvement in the relative share was noted for seven districts. In this case, Ernakulam shows the highest improvement, followed by Pathanamthitta.

### **6.3 Deposits and Credit in Relation to Net District Domestic Product (NDDP)**

Data on district wise deposit and credit quotients is provided in table 6.4. Though there are year-to-year fluctuations, the ratio of deposits to domestic product shows increasing tendency as against the declining trend of the credit quotient. With regard to the value of the quotient, however there is wide variation among the districts. Pathanamthitta shows amazingly higher values for the deposit quotient. In districts like Ernakulam, Trivandrum, Trichur, etc. too, relatively higher values could be seen. However, in Idukki and Wayanad, the districts noted for higher C-D ratio, the quotient shows very low values.

Regarding credit to NDDP ratio, Ernakulam stands at the top. Relatively lower values of the credit quotient are shown by Idukki, K asargod and Malappuram. The better deposits as well as credit quotients in Ernakulam, noticeably, are with a relatively much higher share of State domestic product . But in Wayanad, Idukki, etc. the share of the same is rather insignificant

**Table 6-4** Ratio of Deposits as well as Credit to Net District Domestic Product

(per cent)

Year	Deposits/NDDP													
	ALP	CNN	EKM	IDK	KZG	KLM	KTM	KKD	MPM	PGT	PTA	TVM	TCR	WYD
1986	59.6	45.8	69.6	12.8	26.9	42.3	65.4	36.7	38.0	46.3	131.8	82.2	76.4	15.2
1987	61.5	46.4	75.9	14.3	27.9	44.4	67.2	38.5	37.3	46.3	135.1	85.9	80.6	15.1
1988	66.3	45.8	74.5	14.4	28.3	44.8	69.4	36.9	36.9	50.7	147.2	87.0	80.0	14.9
1989	66.6	44.9	74.7	15.7	29.4	47.0	70.4	37.4	39.5	51.4	153.4	90.4	82.6	14.4
1990	70.0	44.4	77.1	12.9	27.8	49.8	76.4	37.4	36.5	45.8	155.4	86.0	80.9	17.4
1991	67.3	49.0	74.1	18.0	33.0	50.1	74.3	41.3	42.1	45.8	153.4	91.2	79.8	16.4
1992	71.7	43.2	71.5	17.0	32.2	57.2	80.1	41.8	43.0	40.2	162.1	93.4	82.5	16.4
1993	82.7	51.4	81.5	18.4	33.6	60.7	88.6	42.6	47.1	44.6	185.1	100.0	90.6	16.1
1994	89.7	53.3	86.9	17.9	36.4	64.7	97.1	46.7	48.7	50.2	198.4	103.5	100.1	13.2
1995	87.7	53.7	85.2	17.5	34.4	63.2	94.2	42.8	47.2	46.4	185.5	98.8	96.4	12.9
1996	93.9	56.3	96.4	17.6	41.3	63.9	98.9	46.2	50.5	48.1	214.9	112.0	100.4	14.1
1997	100.1	60.2	96.7	17.1	43.6	66.5	100.1	48.3	52.9	50.9	211.9	119.0	106.1	15.2
1998	95.7	48.3	92.4	15.6	36.2	47.4	69.0	33.9	33.8	39.6	173.4	84.7	97.1	16.3
1999	84.3	49.4	94.8	16.9	31.5	49.7	72.0	35.7	37.5	43.4	185.5	89.7	89.2	17.5
2000	76.3	52.4	96.0	16.3	32.4	53.3	77.0	39.3	42.2	43.7	199.6	95.9	85.6	14.3
2001	76.1	55.7	96.8	14.5	34.4	53.3	77.2	39.4	43.5	43.5	228.8	98.3	86.3	13.7
2002	87.3	63.4	111.0	18.3	42.1	61.6	87.8	45.5	53.5	53.4	216.8	111.5	102.9	18.2
2003	89.1	64.5	114.6	20.2	44.2	64.4	94.2	46.8	55.2	54.5	229.9	112.0	105.3	19.0
	Credit/NDDP													
1986	30.9	22.2	67.8	11.6	21.7	55.1	33.7	26.5	26.2	22.9	20.5	44.2	31.6	23.4
1987	40.7	23.4	59.6	14.6	26.9	65.9	50.8	29.5	24.3	36.2	21.8	68.8	32.8	26.6
1988	39.9	28.1	60.6	14.9	28.2	54.8	50.0	31.4	28.4	29.8	24.2	57.4	33.2	28.9
1989	32.3	29.0	69.2	12.8	28.5	57.9	41.7	34.6	27.5	29.2	24.6	46.1	38.1	41.1
1990	34.2	26.2	72.1	15.1	25.5	54.6	43.2	32.6	22.4	26.4	24.2	44.2	32.2	37.3
1991	31.4	24.9	68.7	19.7	25.2	46.5	38.3	34.0	6.3	24.1	22.0	45.3	30.2	32.6
1992	28.7	17.3	61.2	14.8	19.4	44.6	35.1	30.6	18.2	18.5	21.8	41.1	27.8	29.8
1993	30.6	20.0	62.2	15.5	17.4	45.8	36.5	24.9	19.9	18.5	22.5	35.3	28.7	28.0
1994	36.7	18.0	62.8	13.5	16.9	44.7	40.7	24.9	19.5	18.9	24.1	36.0	28.1	19.0
1995	34.3	19.0	61.9	21.8	14.9	40.6	41.2	23.4	18.5	19.6	25.8	33.6	29.0	14.9
1996	36.1	21.1	66.8	14.6	20.0	42.4	43.1	27.3	21.9	21.9	31.0	36.5	30.7	14.5
1997	37.3	23.3	72.1	16.4	21.0	40.8	44.2	30.4	24.5	24.0	29.5	39.3	34.1	16.2
1998	26.3	16.5	62.0	12.9	13.6	26.5	30.2	21.0	14.8	20.0	24.9	29.3	24.5	19.8
1999	24.3	17.2	61.1	13.0	14.1	26.0	27.0	21.2	14.5	20.4	25.6	31.9	22.9	20.6
2000	24.5	18.9	64.0	16.4	16.2	27.4	29.2	22.6	15.4	20.9	26.6	35.2	23.4	19.0
2001	24.1	20.3	65.9	12.1	17.3	26.7	29.9	23.4	15.2	19.5	25.7	41.8	30.0	22.0
2002	28.3	23.6	70.1	17.4	20.8	28.4	35.7	26.8	18.3	24.1	33.7	53.7	30.3	33.3
2003	29.8	23.2	70.0	18.2	20.4	28.9	37.5	26.1	18.8	25.4	37.9	56.2	30.0	32.3

**Source:** For Banking variables, BSR various years; For Net District Domestic Product (NDDP), Economic Review, various years.

The value and movements of district wise deposits and credit quotients evidently indicate the incongruous behaviour between banking and economic variables, identified in the previous chapters.

## **6.4 District-wise Profile of Migration**

The inconsistency between district-wise deposits and income in many of the districts found above may possibly be an aftermath of migration and the resultant remittance to the districts. A rough understanding of it can be had from the information on the estimates of the same furnished in Table 6.5. Among the districts, Malappuram accounts for the largest share of Non-Resident Keralites (NRK) in 2004. Kozhikode, Trivandrum and Trichur follow them in the order of importance. Together, these 4 districts account for about 45 percent of NRK during the year. The share of Idukki and Wayanad in the total stock of migrants in the State is rather negligible; both together account only less than 1 percent. With regard to the incidence of migration in the form of the number of NRK per 100 households, however, Pathanamthitta stands at the top with 72 percent. It is followed by Malappuram with more or less the same ratio ie, 70 percent. Higher incidence of migration, compared to the State average, could be seen in 5 more districts (Kasargode, Kozhikode, Kannur, Palakkad and Trichur).

**Table 6-5** District-wise Distribution of the Stock of Non-Resident Keralites (NRK) and Remittances as ratio to NDDP

Districts	Stock of Non-Resident Keralites (NRK)			Remittances as Ratio to NDDP
	Number	Percentage to State Total	NRK per 100 Households	
Alleppey	118145	4.3	24	23.8
Kannur	247808	9.1	52.9	16.3
Ernakulam	195672	7.2	27.4	14.5
Idukki	11646	0.4	4.3	1.1
Kasargode	118917	4.4	50.9	21.5
Quilon	217771	8	35.8	26.9
Kottayam	134937	4.9	30.4	10.2
Kozhikode	276537	10.1	47.3	17.8
Malappuram	413324	15.1	68.5	45.8
Palakkad	232884	8.5	42.6	19.4
Pathanamthitta	217222	7.9	72	28.6
Trivandrum	271105	9.9	34.6	21.1
Trichur	264896	9.7	40.3	38.2
Wayanad	11556	0.4	6.6	3.4
<b>Kerala</b>	<b>2732420</b>	<b>100</b>	<b>39.7</b>	<b>22</b>

Source: K C Zachariah and S Irudaya Rajan (2004); pp. 66 and 69

The higher rate of migration in these districts would naturally be followed by more remittance to the district and hence the better deposits mobilisation by SCBs. Among the districts, Pathanamthitta and Trichur are identified to be the traditionally important districts of migration (Zachariah K.C., Mathew E.T., Irudayaarajan S., 1999). This may be one of the reasons for their relatively better status in deposits mobilisation from a relatively earlier period.

## 6.5 Co- Operative Deposits: District-wise Pattern

It is argued that the inconsistent growth behaviour between SCB deposits and economic growth may be due to the presence of alternative channels of savings. In table 6.6, information on the district-wise share of co-operative bank deposits (Primary Agricultural Credit Societies, PACs and District Co-operative Banks, DCBs.) is provided. The co-operatives, mobilised relatively more from districts like Kottayam and Kannur. Their performance in Ernakulam and Trivandrum, though fairly good, is relatively lower than that

of their share in SCB deposits. Significantly, Pathanamthitta- one of the districts that is noted for higher degree of migration has only relatively lower share in co-operative deposits; just equivalent to its share in SDP and much below than that of its share in SCB deposits . But the share of the other two districts, noted for higher degree of migration ie; Malappuram and Trichur, is fairly good; quite equivalent to their share in SCB deposits .

**Table 6-6** District-Wise Share of Co-Operative Deposits

(per cent)

District	1984-1989		1990-1995		2002-2003	
	PACS	DCBS	PACS	DCBS	PACS	DCBS
Alleppey	3.93	9.37	3.47	7.15	3.39	0
Ernakulam	10.15	11.48	11.02	13.82	13.3	16.77
Idukki	3.21	3.84	2.64	3.94	2.78	4.28
Kannur	14.35	8.36	12.91	7.23	12.03	7.38
Kasargode	4.15	2.99	4.23	2.64	3.88	2.52
Quilon	5.39	7.09	6.44	7.25	7.25	7.38
Kottayam	15.31	12.63	14.89	11.42	11.65	10.28
Kozhikode	5.48	5.52	5.15	4.93	6.34	4.94
Malappuram	6.51	6.02	5.78	6.11	8.3	7.96
Palakkad	9.05	7.4	8.41	6.15	7.68	5.99
Pathanamthitta	4.15	7.01	4.15	6.26	3.95	3.84
Trivandrum	4.74	9.01	7.82	10.58	5.67	15.01
Trichur	11.33	11.53	11.34	10.86	12.82	13.65
Wayanad	2.25	1.59	1.76	1.65	0.95	0
Kerala	100	100	100	100	100	100

Source: GOK, Registrar of co-operatives.

Northern districts seem to have relatively higher share in co-operative deposits compared to their share in commercial bank deposits.

## 6.6 District-wise cum Sector-wise SCB Credit

Data on the broad sector wise share of SCB credit in each district is given in table 6.7 The share of tertiary sector credit, as a proportion to total SCB credit, has improved in all the districts. Comparing the three sectors, its share is relatively higher in almost all the districts except Quilon and Wayanad. While industry accounts for the largest share in Quilon, it is agriculture that accounts for the largest share in Wayanad.

**Table 6-7** District -wise Share of Broad Economic Sectors in SCB Credit

(per cent)

Name of district	1977-78 to 1989-90			1990-91 to 2002-2003			Difference Between the Two Periods*		
	Agriculture	Industry	Tertiary	Agriculture	Industry	Tertiary	Agriculture	Industry	Tertiary
Alleppey	17.07	36.83	46.1	11.94	36.17	51.88	-5.13	-0.66	5.78
Kannur	21.16	24.55	54.3	20.87	20.42	58.72	-0.29	-4.13	4.42
Ernakulam	6.56	50.89	42.56	6.42	43.09	50.49	-0.14	-7.8	7.93
Idukki	44.95	10.11	44.94	30.73	10.05	59.22	-14.22	-0.06	14.28
Kasargode	40.93	8.39	50.68	36.48	9.81	53.71	-4.45	1.42	3.03
Quilon	9.59	64.07	26.34	11.08	50.39	38.53	1.49	-13.68	12.19
Kottayam	24.65	25.03	50.31	14.01	23.88	62.12	-10.64	-1.15	11.81
Kozhikode	22.78	24.42	52.79	18.72	22.91	58.37	-4.06	-1.51	5.58
Malappuram	29.83	11.66	58.51	28.76	11.4	59.85	-1.07	-0.26	1.34
Palakkad	29.96	25.91	44.14	22.64	26.3	51.06	-7.32	0.39	6.92
Pathanamthitta	18.48	11.33	70.2	13.95	10.48	75.58	-4.53	-0.85	5.38
Trivandrum	18.17	18.92	62.91	12.31	20.61	67.08	-5.86	1.69	4.17
Trichur	17.9	28.19	53.91	13.73	25.14	61.14	-4.17	-3.05	7.23
Wayanad	65.65	7.19	27.16	58.75	8.57	32.69	-6.9	1.38	5.53
Kerala	17.39	38.9	43.72	14.88	30.5	54.63	-2.51	-8.4	10.91

\* Difference of the average values of the broad sub-sectoral shares for the period 1991-2003 over 1978-90.

Source: Same as Table 6.1.

In both the districts, the relative significance of the two subsectors, however, has come down and the share of tertiary sector credit improved over the years. The highest improvement in the share of tertiary sector credit, among the districts, could be seen in Idukki. It is followed by Quilon and Kottayam. Pathanamthitta, the district with the lowest C-D ratio, is credited with the highest significance of tertiary sector credit in the State. Trichur, yet another district noted for very low C-D ratio, enjoys the second position in the relative significance of tertiary sector credit, and is followed by Trivandrum. Next to tertiary sector, industrial sector credit accounts for the second place in Trichur; but the share of it is rather insignificant in Pathanamthitta. In the total industrial credit in the State the share of the district is just 1.3 percent as against 7 percent in Trichur (see table 6. 8). Ernakulam stands far ahead of other districts in the share of industrial credit. It accounts for more than one third (36 percent) of the total industrial credit in the state.

**Table 6-8** Relative Significance of Districts in the State Total of  
SCB Sub Sectoral Credit: 2002

(per cent)

District	Agriculture	Industry	Tertiary	Non-SSI	SSI	Transport operators	Professional and Other Services	Personal loans	Trade	Finance	All others
Alleppey	4.04	7.26	5.42	6.38	9.49	7.09	3.34	5.99	5.17	5.58	5.21
Cannur	7.94	3.74	4.68	3.36	4.67	6.4	4.71	5.26	4.67	3.31	3.38
Ernakulam	12.56	35.76	24.27	40.61	23.63	18.4	31.76	21.48	20.66	38.77	32.2
Idukki	4.43	0.88	2.07	0.72	1.27	2.01	1.2	2.22	1.99	1.12	2.32
Kasargode	6.01	0.87	1.9	0.72	1.25	3.28	1.57	1.99	2.14	0.48	1.4
Quilon	4.81	12.1	5.61	9.7	18.1	7.99	3.83	6.24	4.72	2.98	6.33
Kottayam	7.4	5.54	7.17	5.08	6.7	7.5	4.85	7.79	7.36	3.02	6.86
Kozhikode	9.44	6.13	7.43	5.82	6.88	9.14	9.73	7.01	7.85	8.69	6.3
Malappuram	8.43	1.72	3.87	1.34	2.68	5.21	4.4	3.64	4.12	5.42	3.38
Palakkad	7.41	5.82	4.39	5.84	5.78	5.48	3.65	5.56	3.4	0.7	4.09
Pathanamthitta	2.86	1.33	4.59	1.09	1.93	5.89	4.11	5.51	4.3	1.39	3.51
TVPM	9.41	11.16	18.15	12.98	6.6	10.54	17.57	15.09	24.28	23.78	15.42
Trichur	6.76	7.01	9.17	5.57	10.62	9.56	8.28	11.01	7.88	4.63	8.3
Wayanad	8.49	0.69	1.28	0.81	0.4	1.51	1.01	1.21	1.47	0.13	1.3
Kerala	100	100	100	100	100	100	100	100	100	100	100

**Source:** Same as Table 6.1

Besides Ernakulam, two more districts—Quilon and Alleppey—are noted for better share of industrial credit in total SCB credit. While the share of industrial credit in these three districts are more than the State average, the share of the same in the other eleven districts are less than that of it. As could be seen from table 6.8, these three districts together account for more than 55 percent of total SCB industrial credit in the State. Considering Ernakulam alone, the share is more than 35 percent. The better credit absorbing sectors like finance and transport too have more significance in these districts. With regard to credit to trade the highest share is recorded by Trivandrum. In the case of personal loans too, its proportion in the district is higher. In its case, Trichur also has higher significance.

In Idukki and Wayanad too, the share of industrial credit is much low. The relative significance of these districts in the total State deposits and credit is rather insignificant. Given this, the higher C-D ratio in these districts despite the relative insignificance of industrial credit in them should be viewed against such a low base of deposits. In the case

of Pathanamthitta and Trichur, however, the NRI deposits has brought its deposits share high, but it is not offset by corresponding growth in credit from the different sectors, particularly the higher credit absorbing industrial sector.

Ernakulam and Quilon, are noted not only for the higher significance of the better credit absorbing sectors, but also for the larger size of credit in each sub-sector in the districts. The relevant information is provided in table 6.9.

**Table 6-9** District –wise cum Occupation-Wise Size of Credit.

(Rs'000)

Districts	Agriculture	Industry	Manufacturing and Processing	Transport operators	Professional and other services	Personal loans	Trade	Finance	All others	Services	Total Bank Credit	Artisans and village industries	SSIs
Alleppey	28.2	221.2	213.3	71.9	70.3	53.7	121.2	118.3	22.4	47.8	54.1	36.2	167.5
Cannur	17.9	223.8	206.5	66.8	63.9	70.5	52.0	294.2	34.9	56.3	43.6	58.6	197.2
Ernakulam	42.5	873.3	836.2	263.0	238.7	79.7	389.1	615.0	89.6	120.5	152.7	146.1	269.3
Idukki	36.0	222.0	191.2	75.5	78.1	57.4	117.6	2986.6	26.7	52.8	48.6	78.2	214.3
Kasargode	16.5	121.6	78.5	51.6	36.1	58.5	30.4	94.9	30.1	39.9	27.9	28.6	170.8
Quilon	31.9	318.5	308.8	91.8	82.0	61.5	137.9	354.0	36.0	61.0	72.0	39.6	323.7
Kottayam	30.6	220.3	185.7	81.9	97.7	76.1	152.5	237.3	48.8	77.2	70.9	52.6	131.2
Kozhikode	13.9	168.3	129.0	99.0	77.7	59.4	66.8	254.9	28.5	58.5	42.9	23.8	97.4
Malappuram	14.5	72.3	57.5	77.9	25.7	58.2	39.2	638.3	26.0	43.7	29.3	23.2	56.1
Palakkad	18.6	258.1	254.7	76.9	37.8	55.3	59.4	91.1	31.7	47.9	44.3	52.2	111.2
Pathanamthitta	27.0	115.8	79.9	84.0	126.6	72.6	253.8	282.3	39.8	80.5	69.1	62.8	64.1
Trivandrum	34.2	615.3	315.9	80.0	268.9	65.3	414.2	1918.0	35.1	94.8	99.1	50.0	90.3
Trichur	23.4	153.5	137.4	109.2	80.0	74.5	172.8	301.9	54.3	84.3	71.8	88.0	115.9
Wayanad	23.1	242.6	231.8	30.2	39.1	53.1	38.5	295.1	26.1	39.3	31.3	24.7	52.5

Source: Same as Table 6.1

The sector-wise share of credit in the districts broadly conforms to the district-wise sectoral distribution of NSDP given in table 6.10. Like sector-wise credit, the share of tertiary sector in domestic product in the districts of Ernakulam, Alleppey, Trichur and Quilon is more than the State average.



**Table 6-10** District-wise Sectoral Distribution of Net Domestic Product at Factor Cost (at Current Prices)

(per cent)

Name of districts	Triennium Ending								
	1980			1990			2002		
	Primary	Secondary	Tertiary	Primary	Secondary	Tertiary	Primary	Secondary	Tertiary
Trivandrum	31.79	25.46	42.75	25.1	25.5	49.39	18.08	20.58	61.34
Quilon	45.57	23.28	31.15	37.84	24.74	37.42	28.32	22.93	48.74
Pathanamthitta	36.72	23.56	39.72	39.31	18.16	42.53	33.63	14.3	52.07
Allapuzha	32.94	24.91	42.15	35.2	24.06	40.74	16.89	28.1	55.01
Kottayam	43.75	14.68	41.57	39.66	11.01	49.33	24.92	17.24	57.83
Idukki	54.52	28.38	17.1	54.99	21.6	23.41	56.97	10.42	32.61
Ernakulam	25.16	36.05	38.79	22.25	43	34.76	18.94	27.04	54.03
Trichur	34.5	25.55	39.95	27.31	30.1	42.58	18.48	25.17	56.35
Palackad	40.47	23.25	36.28	33.41	26.97	39.62	26.14	19.07	54.79
Malappuram	48.18	13.27	38.55	42.15	14.55	43.29	27.46	16.7	55.84
Kozhikode	38.66	26.3	35.04	26.58	29.18	44.24	24.05	20.71	55.24
Wayanad				61.03	14.51	24.46	52.5	6.65	40.85
Kannur	48.94	18.75	32.31	27.47	25.08	47.25	25.16	22.69	52.16
Kasargodee				44.92	21.8	33.28	31.41	24.21	44.37
State	39.23	24.37	36.4	32.91	26.35	40.74	25.45	21.15	53.4

Source: Economic Review, Various Years.

## 6.7 District wise significance of Co-Operative credit

While examining the cooperative credit system, it has been found that they perform in a complementary manner to SCB credit. Table 6.11 provides information on district-wise share of co-operative bank credit. As in the case of deposits, Kottayam accounts for the highest share of credit from District Co-operative Banks (DCBS) and Primary Agricultural Credit Societies (PACS).

**Table 6-11** District-Wise Distribution of Credit: PACS and DCBS

(per cent)

Districts	1984-89		1990-95		2002-2003	
	PACS	DCBS	PACS	DCBS	PACS	DCBS
<b>Trivandrum</b>	6.55	11.83	7.55	12.37	7.04	15.35
<b>Quilon</b>	7.03	6.54	7.18	5.66	8.32	8.39
<b>Pathanamthitta</b>	4.21	4.19	3.82	5.02	3.02	3.71
<b>Alleppey</b>	7.07	6.9	4.56	5.53	4.37	5.50
<b>Kottayam</b>	12.59	10.81	12.26	8.97	8.55	7.12
<b>Idukki</b>	4.79	7.49	3.95	6.61	3.28	5.88
<b>Ernakulam</b>	8.52	7.26	9.37	10.76	11.32	11.21
<b>Trichur</b>	8.38	8.28	8.87	8.35	9.46	7.68
<b>Palakkad</b>	7.36	8.21	7	6.52	8.71	6.33
<b>Malappuram</b>	7.07	8.87	6.25	6.73	7.69	6.49
<b>Kozhikode</b>	6.25	8.48	5.31	6.15	6.38	6.32
<b>Wayanad</b>	3.87	2.5	2.93	2.32	1.66	2.82
<b>Kannur</b>	12.49	7.86	15.67	9.99	15.72	11.52
<b>Kasargode</b>	4.57	4.36	5.28	5.01	4.48	1.67
<b>State total</b>	100	100	100	100	100	100

Source: GOK, Registrar of Co-operatives

The share of Ernakulam and Pathanamthitta in co-operative credit is low. From the district-wise performance of the primary co-operatives, it could also be seen that compared to SCB there is more evenness in their performance.

In table 6.12, district-wise as well as purpose wise distribution of cooperative credit is given. Non-agricultural sector assumes higher proportion in all the districts. The highest share of the same is found in Kozhikode. Compared to other districts, the share of agriculture is better in Alleppey, Kottayam, Idukki and Trivandrum.

**Table 6-12** District –wise cum Purpose-wise Distribution of Co-operative Credit

( per cent)

Name of the District	PACS		PACDS		Total	
	Total Amt (Rs. 000)	Share of Agriculture	Total Amt (Rs. 000)	Share of Agriculture	Total Amt (Rs. 000)	Share of Agriculture
Alappuza	2486846	51.10	179859	21.09	2666705	49.08
Ernakulam	7375527	25.85	192787	17.46	7568314	25.64
Idukki	2062538	39.95	229574	67.20	2292112	42.68
Kannur	11674274	24.19	538503	46.38	12212777	25.17
Kasargodee	3601267	19.01	145066	70.70	3746333	21.01
Quilon	4529590	41.21	220404	41.66	4749994	41.23
Kottayam	6102575	48.13	200811	18.68	6303386	47.19
Kozhikode	5439600	6.33	377592	47.94	5817192	9.03
Malappuram	7607168	14.83	367851	17.39	7975019	14.95
Palakkad	6920420	21.78	240639	33.19	7161059	22.16
Pathanamthitta	1868564	20.97	83217	49.14	1951781	22.17
Trivandrum	4471466	46.88	538260	58.69	5009726	48.15
Trichur	6554642	24.50	101131	32.37	6655773	24.62
Wayanad	1133004	24.84	61703	62.00	1194707	26.76
State	71827481	27.38	3477397	41.99	75304878	28.06

Source: Same as Table 6.7

The share of agricultural loans in Pathanamthitta, Malappuram and Trichur are much low. Its share in predominantly agrarian districts like Wayanad also is quite low.

## 6.8 Inter District Disparity in Banking Growth

The unevenness in the growth of banking infrastructure and the resultant banking service between Travancore, Cochin and Malabar has been identified as one of the historical features of the State's financial sector development. Analysis of the district-wise performance of the important credit institutions existing in the organised segment of the financial sector, done above, shows that the problem still persists. We have attempted to estimate the degree of unevenness at a preliminary level and the results are provided in table 6.13. It is done by estimating the degree of skewness of the relative share of districts in the financial services, particularly banking as well as real sectors between the two time periods ie; 1990 and 2002 and the results are provided in table 6.18. As it shows, while the regional

disparity has come down with respect to SCB deposits, the same in the case of credit has increased over the years. Among the sub-sectors of SCB credit, the degree of disparity is found to be more in the case of industrial credit. In the case of tertiary sector credit also it is quite significant.

**Table 6-13** Degree of Unevenness\* in the Relative Share of Districts in Financial Services and Real Sector Performance.

Sl No.	Category	Triennium Ending	
		1990	2002
1	SCB Deposit	0.66	0.62
2	SCB Credit	1.91	2.25
3	SCB Agricultural Credit	0.25	0.24
4	SCB Industrial Credit	2.21	2.74
5	SCB Tertiary Sector Credit	1.74	1.93
6	SCB SSI Credit	1.38	1.47
7	SCB NON- SSI Credit	2.45	2.99
8	PACS-Deposits	0.9	0.58
9	PACS-Credit	0.98	1.23
10	DCBS-Deposits	-0.13	0.35
11	DCBS-Credit	-0.27	0.38
12	Kerala Financial Corporation	0.99	1.78
13	State Domestic Product	0.69	0.06
14	AGR Output	-0.44	-0.53
15	Industrial Output	2.09	0.2
16	Service Sector Output	-0.05	-0.03

**Note:** PACS-Primary Agricultural Credit Societies, DCBs-District Co-operative Banks, KFC-Kerala State Financial Corporation.

\*Unevenness is calculated using Karl Pearson's Coefficient of skewness.

**Source:** For Financial variables: for SCB BSR various issues, for co-operatives same as table 5.11; For KFC and Net District Domestic Output Data, GOK, Economic Review, Various issues.

Compared to the early '90s, the degree of unevenness in both of them increased during the late '90s and the present decade. Within industrial sector, the degree of disparity

is more in the case of non-SSI credit. Though not as pronounced as it, the degree of unevenness with regard to the SSI segment also is quite substantial. Like the SCB industrial credit, the financial intermediary ie; Kerala State Financial Corporation which provides long term credit too has experienced sharp increase in the degree of unevenness. While SCB agricultural credit witnessed marginal decline in the degree of unevenness, the credit disbursal by the other institutions, ie. Primary Agricultural Credit Societies experienced increase in its degree. As in the case of SCB deposits, the degree of asymmetry in the case of co-operative deposits , however, has come down.

The higher degree of unevenness, according to apriori understanding is a reflection of the inter-district disparity in development in the State. Paradoxically, compared to the '90s, the degree of asymmetry in the case of the real sector variables has come down. The better spread of real sector growth over the time, however, coincided with an increase in the degree of unevenness in banking indicators, particularly magnitudes of credit.

## **6.9 Summing up**

To sum up the discussion so far, the proposition that the relatively lower credit intake, a reflection mainly of the State's lower pace of economic activity in general and its industrial backwardness in particular, in unison with the deposit accretion—a phenomenon largely linked to the growth of inward remittances from Gulf had led to the falling/low C-D ratio in the State is corroborated by the spatial dimension of banking growth. The analysis also points at the existence of inter district disparity in the growth and performance of banking, a legacy of the past. The degree of unevenness, particularly in credit use, has increased over the years.

## Appendix

**Table 6 A-1** Trend of C-D Ratio: District-wise.

(per cent)

Year	ALP	KNR	EKM	IDK	KZG	KLM	KTM	KKD	MPM	PGT	PTA	TVM	TCR	WYD	KERALA
1975	44.3	66.9	94.1	42.8		137.3	49.0	90.8	72.4	39.3		45.9	42.6		72.2
1975	44.3	66.9	94.1	42.8		137.3	49.0	90.8	72.4	39.3		45.9	42.6		72.2
1976	46.9	73.1	95.9	58.3		130.0	55.6	100.7	71.1	42.8		48.6	42.4		73.2
1977	40.8	55.2	85.6	50.6		138.9	46.3	74.9	58.7	43.5		41.8	36.1		65.6
1978	38.6	54.0	82.1	57.6		112.0	43.1	81.5	56.3	43.6		59.3	33.4		60.7
1979	42.7	61.5	89.3	77.8		114.4	45.7	91.2	66.0	44.2		52.9	38.4		67.8
1980	41.4	63.0	101.3	87.5		114.1	51.1	85.4	77.2	44.0		50.4	38.7		69
1981	41.7	65.8	115.5	106.6		131.7	54.8	90.0	72.8	48.8		52.3	42.5	163.4	76
1982	38.1	65.8	98.6	103.7		91.7	51.6	88.2	59.7	51.3		53.2	42.1	169.9	72.2
1983	34.6	62.4	101.4	114.8		95.0	56.0	83.3	67.6	54.0		61.0	42.8	194.7	67
1984	58.0	59.5	96.9	104.4		142.8	61.7	77.8	76.3	54.5	15.7	74.0	44.0	195.4	74
1985	53.5	50.2	97.5	111.8	71.1	114.9	61.7	75.5	70.3	54.2	16.0	70.0	43.4	194.5	68.4
1986	51.9	48.5	97.4	90.9	80.7	130.5	51.6	72.3	69.0	49.5	15.6	53.9	41.3	154.2	64.3
1987	66.2	50.5	78.5	102.4	96.3	148.3	75.6	76.8	65.2	78.1	16.1	80.1	40.7	176.3	70.9
1988	60.2	61.3	81.3	103.2	100.0	122.4	72.0	85.0	77.1	58.7	16.4	65.9	41.5	193.8	67.3
1989	48.5	64.6	92.7	81.2	96.9	123.3	59.2	92.5	69.7	56.7	16.1	51.0	46.1	284.7	65.9
1990	48.9	58.9	93.5	117.1	91.7	109.6	56.6	87.0	61.5	57.8	15.6	51.4	39.8	214.6	63.1
1991	46.6	50.9	92.8	109.1	76.5	92.7	51.5	82.4	56.2	52.7	14.4	49.6	37.9	199.3	59.6
1992	40.0	40.1	85.5	87.2	60.3	78.0	43.9	73.2	42.3	46.1	13.4	44.0	33.6	182.0	52.2
1993	37.0	38.9	76.3	84.0	51.9	75.4	41.2	58.4	42.1	41.4	12.1	35.3	31.6	174.1	47.1
1994	40.8	33.8	72.3	75.1	46.5	69.0	41.9	53.3	40.0	37.7	12.1	34.8	28.0	143.8	44.2
1995	41.4	35.4	70.9	124.7	46.6	64.2	43.7	57.6	43.6	42.3	13.9	34.2	30.1	115.4	45.2
1996	38.4	37.4	69.3	83.3	48.4	66.4	43.6	59.1	43.4	45.5	14.4	32.6	30.5	103.4	44.7
1997	37.2	38.6	74.6	95.9	48.1	61.4	44.2	62.8	46.3	47.2	13.9	33.0	32.2	106.9	45.7
1998	37.7	38.2	67.1	82.5	52.0	56.0	43.7	61.8	43.8	50.4	14.4	34.6	31.8	121.1	44.7
1999	32.7	37.8	64.5	76.9	49.4	52.4	37.5	59.4	38.6	49.3	13.8	35.5	28.9	118.2	41.8
2000	32.1	36.1	66.7	100.5	50.1	51.5	37.9	57.4	36.6	47.9	13.3	36.7	27.4	132.8	41.7
2001	31.7	36.4	68.1	83.1	50.3	50.0	38.7	59.3	35.0	44.8	11.2	42.5	34.8	160.3	42.3
2002	32.4	37.3	63.1	94.9	49.4	46.2	40.7	59.0	34.2	45.1	15.5	48.1	29.5	183.2	43.7
2003	33.4	35.9	61.1	89.9	46.1	44.8	39.8	55.7	34.0	46.7	16.5	50.2	28.5	170.7	43.6

Source: BSR, Various Years

## CHAPTER 7

### CONCLUSION

The study documents the long-term trends in financial intermediation by the principal player in Kerala's credit system i.e., banking. The process of financial intermediation by the banking system, involving mobilisation of deposits from savers and disbursement of credit to investors, is considered to be crucial in the process of economic development. Among the indicators of the two way banking intermediation in a region or country, the 'credit-deposits ratio' is taken to be a readily available one.

Review of the historical growth of the State's banking sector has brought out the existence of a relatively better banking infrastructure in Kerala particularly in the erst- while Travancore and Cochin States. The credit-deposits ratio of the commercial banking system during the period was quite high, implying better disbursement of credit or use of it within the region. The relatively better position of the region in banking infrastructure and the accompanied financial intermediation process is attributed mainly to the commercialisation of agriculture and other sectors that the region experienced during the period. The years noted for greater dynamism in the commercialisation process during the pre-independence period coincided with the spurt in the growth of commercial banks, indigenous institutional forms like chitties/kuries, etc. These institutional forms of finance developed largely in those areas where the commercialisation process was buoyant.

Developments in the land tenure system in the region also contributed to this. Consequent to the progressive land reform measures, there took place relatively better distribution of land in the Travancore and Cochin regions during the pre-independence period. It was also accompanied by an active land market. Land, being the primary form of asset, the relatively better diffusion of it in the region helped the emergence of credit market. This, together with the generation of surplus from commercial agriculture and trade helped the processes of financial intermediation.

Malabar, unlike Travancore and Cochin, was characterised by greater concentration of land and poor development of the land market. Both, in turn, prevented the emergence of a credit market there, to the same extent. The commercialisation in Travancore and Cochin during the period was also accompanied by relatively better physical infrastructure, development of transport in particular, and social services and they too, in turn further facilitated the emergence of financial superstructure in the region. With regard to this too, the position of Malabar was much behind.

Though the demand for both credit and instruments of saving followed these diverse processes in Travancore and Cochin, of the two, the more important one was that of credit. Thus chitties/kuries and commercial banks emerged primarily to meet the credit gap that the commercialisation process brought with it. Being so, the C-D ratio, remained quite high. Not only the financial intermediation by the banking system was quite symmetric, but more importantly, the banking growth seems to have a symbiotic relation with the productive sectors of the economy.

The historically better C-D ratio of Kerala's banking system could be seen during the more than one and a half decades since the early '70's also. The value of the C-D ratio remained fairly high for the period as a whole. It was ahead of all India average for majority of the years. However, there took place a significant break in the trend of the financial intermediation by the SCB system during the year 1987-88. The State, witnessed a persistent and sharp fall in the C-D ratio of its SCB system since then and the ratio reached a very low level over the one and a half decades. Compared to all India, the value of the ratio in the State has turned out to be much lower. Given the significance of the C-D ratio as a measure indicating the banking system's role in an economy, the falling C-D ratio of the SCB system has attracted much public attention. Regarding the causes and consequences of the phenomenon, a good number of perceptions are being popularly held or hypotheses are being suggested. Kerala's banking system, being embedded with the national banking framework, the falling tendency of the C-D ratio is taken to be indicative of outflows of financial savings to outside the State through the banking channels. Their operations in the State are blamed for helping to funnel resources to other regions/States and the latter is taken to be contributing to the falling tendency of the phenomena.

The study provides evidence to the fact that the decline in the C-D ratio of the SCB system that the State witnessed over the years is nothing unique; rather, it is an all-India



phenomenon. Being so, the popular perception that the falling C-D ratio in Kerala would imply drain of financial resources to other regions is not borne out from our study. As the C-D ratio of other States too was low, these States had no need to extract funds from Kerala.

The experience of the State in the falling tendency of the C-D ratio, however, stands out because the phenomenon of declining C-D ratio has started in the State relatively earlier and has been much sharper. The steadier and the much steeper fall in the ratio in Kerala, as compared to all India situation, signifies the State-specific factors, apart from the national economic policies in the making up of the receding C-D ratio in the State.

During the period noted for higher C-D ratio ie; prior to the late '80s, the trend growth of deposits as well as credit was quite impressive and was relatively higher than the corresponding all-India trend. The declining phase of C-D ratio, compared to the earlier phase, was characterised by marginal improvement in the deposits growth and significant fall in credit growth. Being so, the fall in C-D ratio during the '90s, was more an aftermath to the lower credit growth.

The falling C-D ratio, looking differently, may imply asymmetric/ lop-sided financial intermediation by the banking system, where the credit disbursal function of the banking system fails to catch up with its deposits mobilization function. Apart from credit disbursal, the commercial banking system injects funds in the State through its investment in State government securities and associated bodies. Adding these investments with the credit disbursal by the SCB system does not make much difference to the total disbursal of funds in Kerala by the Commercial banks. Movement of credit plus investment deposit ratio too has shown a declining trend over the years, implying increasing asymmetric intermediation by the SCB system over the period as a whole.

The marked deceleration in credit growth during the '90s was also being experienced by co-operative banking system. As there was relatively higher growth in co-operative bank's deposits, the C-D ratio of the co-operative system too had fallen during the '90s. The falling tendency of the ratio in the co-operative system also negates the contention that the commercial banking system operating in the State funnel resources from State and thereby contribute to lower credit use in the State.

The deceleration in credit growth that the banking system experienced could also be found with the credit disbursement activities of the All-India Development Financial Institutions. Given the backwardness of the capital market in the State, the fall in the credit growth of the above three financial intermediaries implies poor credit disbursement by the organised financial system as a whole in Kerala. Looking differently, it implies the emergence of lop-sided financial intermediation in the State.

The trend growth of the State economy during the '90s was much better than that of the earlier period. The growth in the State during the period was better than the corresponding all India growth too. Higher C-D ratio coinciding with slackness in economic performance during the '70s and '80s and vice versa during the '90s may signify lack of association between banking and economic variables in Kerala. Between credit and deposits, the degree of dissociation seems to be more with regard to credit. In India also, the unmatching growth behaviour of the two kinds of the variables was visible, but compared to the State, it was at a lesser degree. Better economic growth coinciding with deceleration in credit disbursement by the banking system in particular and the organised bank credit system in general would imply disintermediation by the banking system or growth of financial intermediaries other than banking intermediaries.

Apart from International trade, the region witnessed yet another mode of outward orientation - marked increase in migration over the years. Progressive increase in migration, particularly to Gulf since the mid '70s, was followed by substantial inflow of remittances to the State. Remittances from Gulf may partly explain the better deposits mobilisation by the SCB system from the mid '70s. The NRI deposits have shown much increase in Kerala over the years and now it accounts for about half of the total SCB deposits in the State. The share of it in total SCB deposits in India, compared to Kerala, is much lower. Also, its share in the State is showing a declining trend in recent years.

While the deposits linked to the external sector have shown much improvement over the years, the domestic deposits, notwithstanding the better performance of the economy during the '90s, have grown at a less impressive manner. The unmatching growth trends between the two may tend one to doubt about the degree and nature of association between the economy's performance and domestic deposits in recent years. Alternative asset forms including co-operative bank deposits, life insurance policies, post office saving deposits, chitties, etc. seem to have bearing on this. Institutions offering these assets have shown

dynamism during the '90s. Within SCB deposits, there took place significant shift in the term-wise composition of deposits. Term deposits have assumed much higher proportion in total deposits.

The fall in overall credit growth was felt in all the three broad sectors of the economy. Comparing the three sectors, the tertiary sector experienced better credit growth. Hence while the other two sectors show considerable decline in their share in credit, the share of service sector in credit improved. In India also, such a shift in the share of credit could be seen. The position of the State, however, was way ahead in the share of service sector credit and way behind in industrial credit. When the growth trends of credit to the key sectors are put against the backdrop of the growth trends in the corresponding economic sectors, lack of correspondence is found for all the three sectors. Among the sectors, however, the degree of inconsistency differs. It was more in industry than in the other two sectors, viz. service sector and agriculture.

In terms of the most commonly used indices i.e.; SCB agricultural credit per head and, per gross cropped area and also SCB agricultural credit as a ratio to agricultural income, the position of the State, compared to all India, is found to be better. Compared to the '80s, these indices declined during the '90s and hence the margin between the two got thin. The higher credit needs of perennial crops with long gestation period may be one of the reasons for the State's better position in agricultural credit. Structure of agricultural credit by the SCB system shows increasing significance of indirect credit. Term wise structure of the same indicates the growing importance of short-term credit. Such a tendency of higher significance of short-term agricultural credit could also be seen with the co-operative credit system. The lower proportion of medium and long-term agricultural credit in Kerala while looking against the increased importance of commercial crop cultivation in the region is rather puzzling. This may be attributed to the lack of mechanization, lower provision of minor irrigation facilities to agriculture, etc.

Within the total SCB industrial credit, manufacturing accounts for the predominant share in both Kerala and India. Though the non-manufacturing industrial sector has made progress in their relative share over the years, their significance is still negligible. Considering the industrial sector as a whole, the unmatching growth behaviour between

banking and the corresponding economic subsectoral variables was more pronounced in the case of subsectors like construction, electricity, water, etc.

Within manufacturing credit, SSI sector assumes relatively higher proportion in Kerala. Though Kerala's share in total industrial credit in the country is rather poor, the share of the State in all-India SSI credit is fairly good. Given the relatively much higher significance that the SSI sector enjoys in manufacturing credit in Kerala, the large and medium scale industries emerge as one of the crucial factors explaining lower absorption of credit in the industrial sector. The trend of credit growth in this sector shows slight improvement during the '80s, but it was followed by decelerating tendencies since the late '80s. Not only the relative share of the large and medium manufacturing sector is very low, but also the size of credit to the sector is much below the all-India standards. The trend of SCB credit to medium and large-scale industries seems to be following the performance trend of institutions providing long term loans to set up new projects and to modernize existing ones. In fact, the credit disbursal activities of AIFIs is worse than that of commercial banks. This may be one of the factors responsible for the fall in SCB manufacturing credit in the State. The lower credit absorption by the industrial sector shall be attributed to the smaller size of industry in general. The explanation also lies with the lop-sided industrial structure in the State. The State's industrial sector is characterised by the predominance of food and agro-based industries noted for their asset light nature and hence relatively lower demand for credit for working as well as fixed capital.

Though the SSI sector accounts for a larger share in Kerala, its relative significance too is coming down over the years. SSI credit is now showing a pattern similar to that of large and medium scale industries. Hence the overall credit to manufacturing sector has come down. The falling tendency of manufacturing credit, particularly to small-scale units, coincides with the buoyancy of the sector during the period. However, the SSI sector in the State is found to be subject to high degree of sickness.

Disaggregate analysis of SCB credit to tertiary sector shows the growing significance of personal loans. In the share of total tertiary sector credit, it is followed by trade, the miscellaneous category 'others', loans for professional services and transport in their order of importance. The subsectoral growth trend of tertiary sector activities, in its turn, shows increasing significance of non-tradeable service sectors. While loans to transport operators, professional services and a significant portion of personal loans meet

the credit needs of the emerging non-tradeable sub-sectors, the overall SCB credit growth in the non-tradeable sub-sectors has been less than what could be expected from their buoyancy and their relative significance in the economy. Partially it can be attributed to the significance of community development and public administration in the income originating from tertiary sector. A more plausible reason may be found in the increasing dominance of skill intensive rather than capital intensive service sector. Yet another reason can be found with the relatively higher significance of nonbanking financial intermediaries including chitties in the State. Notwithstanding the relatively much higher interest that they charge for their loans, these intermediaries are resorted to considerably by traders, and transport operators- two potential credit users in the service sector. The credit disbursal practices of the NBFIs, especially their flexibility is quite befitting the requirements of these two sub sectors. It is the inadequacy of bank credit disbursed to these activities and their lack of flexibility that gives the non-banking financial intermediaries the elbowroom to operate. The prevalence of these institutions to a significant extent in the State would point at the credit potential existing in the State and the same in turn would undermine the defense by the banking system that the credit absorption capacity of the State is lower and they fully meet the credit requirements in the State.

Spatial structure of SCB development shows the difference in socio-economic conditions among sub- regions/ districts. These differences are reflected in their C-D ratios. Historically, Kerala witnessed unevenness in banking growth among the regions, particularly between Travancore- Cochin and Malabar. The unequal growth among the regions in banking infrastructure growth and financial intermediation still persists. Between deposits and credit, greater degree of skewness among the districts was found with the latter and within that, with respect to the distribution of SCB industrial credit. It goes in conformity with the inter district variation in industrial growth in the State. Districts, which are noted for relatively higher industrial development, maintain better C-D ratio. Agricultural districts also have better C-D ratio. But these districts have lower share in deposits and credit of Kerala. While it is so with them, Pathanamthitta and Trichur, two districts noted for higher incidence of migration experienced very low C-D ratio and it gives evidence to the belief that migration and the resultant remittances play a crucial role in bringing down the C-D ratio

Summing up, our analysis of the trend of financial intermediation by the banking system emerging in Kerala has established its asymmetric nature, characterized by higher deposit mobilization in relation to credit disbursal. The asymmetric growth behaviour is found not only between banking variables alone, but more significantly between banking and economic variables too. Diagnosis of the ingredients of growth of deposits and credit indicates that while the former was mainly consequential to outward orientation in the form of migration, the lower growth of credit was the net outcome of lower credit disbursal or credit use in almost all the sub sectors of the economy. While doing the analysis, our focus was to spell out how the nature of emerging financial intermediation in Kerala is and where the incongruous growth behaviour between banking and economic variables has taken place. Indeed, an exercise of this may partially throw light on the question of why the nature of financial intermediation has got asymmetric. The latter question of why the process of financial intermediation has turned out to be lopsided is still remains to be focused and addressed in detail. It requires further research taking into account not only economic, but historical and political factors, which have bearing on the nature of financial intermediation.

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