

**PERFORMANCE EVALUATION OF COMMERCIAL BANKS IN
KERALA USING CREDIT-DEPOSIT RATIO: A STUDY OF
MALAPPURAM DISTRICT**

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by

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SUMMARY OF FINDINGS SUGGESTIONS AND CONCLUSIONS

A well developed banking system is a necessary pre-condition for economic development in a modern economy. Besides providing financial resources for the growth of industrialization, banks can also influence the direction in which these resources are to be utilized. In developing countries not only the banking facilities are limited to a few developed urban areas, but also the banking activities are limited mostly to trade and commerce, paying little attention to industry and agriculture. Structural as well as functional reforms in the banking system are needed to enable the banks to perform developmental roles in developing countries.

In a modern economy banks are to be considered not merely as dealers in money but also as the leaders in development. They are not only the store houses of the country's wealth but also are the reservoirs of resources necessary for economic development. It is the growth of commercial banking the 18th and 19th centuries that facilitated the occurrence of industrial revolution in Europe. Similarly, the economic development in the present day developing economies largely depends upon the growth of sound banking systems in these countries.

Kerala state has been blessed with the presence of large number of commercial banks side by side with co-operative banks performing more or less the very same functions. Commercial banks are under the control of the banking regulation act and the guidance of Reserve Bank of India.

The objectives of the present study were accomplished in different stages. First of all the performance of commercial banks in India at pre and post reform period were analyzed. It was followed by a study on the performance of commercial banks in Kerala at pre and post-reform period. In the third stage, a comparative analysis on the performance of commercial banks in and Kerala and Malappuram district especially after reform period is done. Results of the analysis were presented and discussed in the earlier chapters. The findings based on this study are summarized in this chapter to draw specific inferences and their policy implications.

The study has been conducted with the major objectives, which are reiterated below.

1. To evaluate the performance efficiency of commercial banks in attracting deposits and lending credit in Kerala
2. To study the impact of reforms on the financial performance of banks.
3. To evaluate the Credit- Deposit ratio in order to ascertain the deposit lending pattern in the state and district
4. To assess the role played by commercial bank in the development of the state and district.
5. To examine the role of commercial banks in channelizing funds to priority sectors

Both primary and secondary data used to examine the performance of commercial banks in the study area. The following aspects of banking sector are studied in detail.

- a.** Deposit mobilization activities of commercial banks
- b.** Various lending activities of commercial banks
- c.** Credit – Deposit ratio of commercial banks in Kerala and Malappuram District
- d.** Performance of commercial banks in Priority sector lending

e. Sector wise analysis of performance of commercial banks in the state and district.

The concepts and the methodology were formulated according to the set objectives of the study with the help of a comprehensive review of previous studies. For the secondary data, the major source of information were obtained from State Level Banking Committee, Trivandrum, District Level Review Committee, Malappuram, Kerala State Planning Board, Department of Statistics and Planning, Government of Kerala, different Lead Bank offices. Besides these sources, data also extracted from various publications like Economic Survey, Economic Review, Reserve Bank of India Bulletins, Yojana etc. For the purpose of analysis the scheduled commercial banks is classified into public sector banks, private sector banks, regional rural banks and co-operative banks.

The major findings of the study on the basis of analysis of data can be summarized as follows.

- The number of bank branches in Kerala is significantly increased in post reform period since its compound and annual growth rate are higher than pre-reform period
- The amount of deposit increased more rapidly in the post reform period. There existed significant difference in the growth of deposits in pre and post reform periods.

This shows that the reforms improved the deposit mobilization activities commercial banks in the state.
- The deposit per branch and credit per branch increased after reforms. Both increased many fold in the post reform years.
- The Credit Deposit ratio shown a declining trend immediately after the reforms and it slowly picked up after reforms

- The main reasons for rapid growth in deposits are rapid branch expansion, increase in the amount of cash with banking system, the ratio of cash reserves to deposits, favorable business conditions in the country and high interest rate.
- The main reason for increased advances by commercial banks is rise in lendable funds commercial banks due to reduction in reserve requirements like CRR and SLR after the economic reforms.
- Regarding number of branches the annual growth public sector banks shown a declining trend in the post reform period and private sector banks shows an improvement.
- In deposit mobilization public sector and private sector banks shown an improvement during post reform period. Public sector banks shown a better performance in this regard comparing to private sector banks.
- An NRI deposit comprises an important component of total deposits. It increased at higher rate during the analysis period both in public and private sector banks.

- Regarding the lending activities, both public sector and private sector banks improved after the implementation of reforms. Advances to different sectors shown an increasing trend.
- The main reason for a declining Credit-Deposit ratio in Kerala is the increased NRI deposits in Scheduled Banks in Kerala. The remittance from gulf countries comprises the major portion of NRI deposits.
- The dominant players in the banking sector of the study area are public sector banks and co-operative banks. They together constitute 65 per cent of total banking institutions in the district.
- NRI deposits comprise a major component of total deposits in the district. Major share of NRI deposits attracted by public sector banks. State Bank of India attracted highest per cent of NRI deposits in the district. Among private sector banks Federal bank ranks first in mobilizing deposits.
- Regarding lending activities in the district, State Bank of India ranks first in total amount of advances. But in average lending by branches, Canara banks tops in the public sector banks. Private sector banks in the district also play an important role in lending credit to the customers.

- The Credit Deposit Ratio of public sector and private sector banks is less than national and state average which shows that banks are reluctant to advance and keeping idle fund with them.
- The low CD ratio is attributed mainly due to increased NRI deposits in the district. Malappuram district ranks first in the NRI population.
- The CD ratio after deducting NRI deposit is higher in the district. It is closer to hundred.
- Institution wise analysis of C-D ratio shows that Regional Rural Banks tops in the list with a C-D ratio of 105.
- Regarding priority sector lending the annual and compound growth rates are much better in public sector banks.
- Under priority sector lending in the district, primary sector got about half of the total priority sector lending. The share of primary sector is increasing for the last few years.
- Regional Rural Banks ranks first in the performance ranking of commercial banks in primary sector lending in the district. In secondary sector lending

Canara bank ranks first and in tertiary sector lending State Bank of India ranks first.

Suggestions

The different committees appointed by Central and State governments recommended various measures to improve the performance of banking sector in Kerala. But the banking sector in general accepted only a few of them. The improvements is limited in the areas like directed investments, reduction in different reserve ratios like CRR and SLR, deregulation of interest rates, promoting competition by allowing freedom of entry to private and international players, providing freedom in operations etc. So the present study recommends the complete implementation of recommendations made by different committees. It also suggests that strict norms for capital adequacy based on the earning capacity of banks must be implemented.

The present study found that the commercial banks in Kerala focused on the activities to mobilize saving by attracting deposits. The low Credit Deposit ratio indicates the lesser effort in expanding credit. So this study suggests that more effort is to be taken to improve the lending activities and there by facilitate the maximum

utilization of resources which are dumped in various Commercial banks of the state and in the study area.

Conclusion

The present study reaches in the conclusion that the performance of Commercial banks in Kerala improved after the implementation of economic reforms. The improvement can be observed in the fields of number of bank branches, amount deposits and amount of advances by commercial banks, priority sector lending activities and Credit Deposit ratio. The major drawback is identified as the declining trend of CD ratio and the lower share of priority sector lending. A comparative study of commercial banks in Malappuram district with that of Kerala State, the banks in the district performing well in most of the performance efficiency indicators. Still, there is a greater scope for improvement in various services of banking sector. If the banks concentrate on these aspects, surely, they can provide the services to customers at international standard.