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Growth and Performance of Regional Rural Banks in India

Economics

KEYWORDS : Mobilization, Deposits, Credit, CD Ratio, Growth Rates

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ABSTRACT

The paper studies on the growth and progress of Regional Rural Banks during 2001 to 2012 in India. As the basic objective of providing credit facilities for crop production and allied purposes to the rural poor who had very limited access to the formal credit system as it existed in early seventies. In response to the financial sector reforms, the Indian banking system has moved away from the conditions and compulsions that were prevailing at the time of advent of the Regional Rural Banks in 1975. In this context, the commercial viability of Regional Rural Banks emerged as the most crucial factor in deciding about their desired role in the emerging economic scenario. The study concludes that the progress of deposit mobilization and credit creation of Regional Rural Banks is significant.

INTRODUCTION

Regional Rural Banks were set up in 1975 with the basic objective of providing credit facilities for crop production and allied purposes to the rural poor who had very limited access to the formal credit system as it existed in early seventies. The Regional Rural Banks were essential, in particular, to undertake the business of providing credit facilities to the poorer sections of rural society, generally referred to as the 'Target Group'. However, in response to the financial sector reforms, the Indian banking system has moved for away from the conditions and compulsions that were prevailing at the time of advent of the Regional Rural Banks in 1975. In this context, the commercial viability of Regional Rural Banks emerged as the most crucial factor in deciding about their desired role in the emerging economic scenario. A committee under the chairmanship A.V. Sardesai (2005) revisited the issue of restructuring to improve the operational viability of Regional Rural Banks:

- Merger between Regional Rural Banks of the same sponsor bank in the same state.
- Merger of Regional Rural Banks sponsored by different banks in the same state.

The committee was the view that 'a change in sponsor banks may, in some cases help in improving the performance of Regional RuralBanks. A change in sponsorship may, improve the competitiveness, work culture, management and efficiency of the concerned Regional Rural Banks'.

Hence the main objective of the present article is toexamine the trend and progress of RegionalRural Banks during 2000 to 20012 in India. Bank branches are necessary for providing banking services to the public. Since Regional Rural Banks establishment, the various branch licensing policies had duly emphasized upon the opening of more and more branches in unbanked and neglected rural areas. During 2001-2002, the Regional Rural Banks were allowed to convert their loss making branches into satellite/ mobile offices provided such conversion would not impair the performance of service area obligations. As against the earlier policy of opening a large number of branches in far-flung rural areas, RRBs have now been permitted to merge/ close down their unviable branches and the branch licensing policy of Regional Rural Banks is almost at par with that of commercial banks.

A. Branch Expansion

The progress of Regional Rural Bank branches is shown in the table-1. The table shows that the bank branches have increased to 16,170 during 2011-12 from 14,468 during 2000-01 i.e. an increase of 1.1 times. The number of districts covered also increased to 620 during 2011-12 from 482 during 2000-01 i.e. an increase of 1.3 times. The Linear and compound growth rates of it account for 0.212 and 0.208 which indicates an insignificant growth of bank branches of Regional Rural Banks in India.

Table -1
BRANCH EXPANSION OF REGIONAL RURAL BANKS IN INDIA

S.N.	Year	No. of RRBs	No. of Branches	No. of Districts Covered
1	2000-01	196	14468	482
2	2001-02	196	14486	511
3	2002-03	196	14462	516
4	2003-04	196	14484	518
5	2004-05	196	14433	523
6	2005-06	133	14372	525
7	2006-07	96	14422	534
8	2007-08	91	14558	594
9	2008-09	86	15010	616
10	2009-10	82	15303	618
11	2010-11	82	15658	620
12	2011-12	82	16170	620

Source: NABARD, www.indiastat.com

B. Deposit Mobilisation

Deposit mobilization is an important banking variable determining the path of growth of the financial institution. It depends upon the savings capacity and habit of the people of the area in which the bank is operating. It also depends upon the potential of the area concerned and the business policy of the RBI. Another factor determining the size of deposits is the rate of interest. If the rate of interest is high, the number of deposit accounts would be more. A higher rate of interest by way of yielding higher earning encourages large volume of deposits. It is through deposit mobilization that banks enlarge their resources. Deposits mobilized by the RRBs play a key role not only as an important source of fund but also as an instrument for promoting savings and banking habits among the rural people.

The progress of deposit mobilization of Regional Rural Banks in India during 2000-12 is shown in table-2. The table shows that the bank deposits have increased to Rs.1, 83,009 crore during 2011-12 from Rs.40, 721croreduring 2000-01 i.e. an increase of 4.5 times. The Linear and compound growth rates of it account for 3.311 and 4.125 which indicate a significant growth of bank deposits of RRBs in India.

Table-2
Deposit Mobilization of Regional Rural Banks in India
(Rs. in crore)

S.N.	Year	Deposits
1	2000-01	40721
2	2001-02	44328
3	2002-03	49779
4	2003-04	55824
5	2004-05	61425
6	2005-06	70625
7	2006-07	82058

8	2007-08	97343
9	2008-09	118694
10	2009-10	142422
11	2010-11	163928
12	2011-12	183009

Source:www.indiastat.com

C. Credit Deployment

Credit deployment is another essential component of growth of any banking institution. This is more important in those banking institutions which have been established to meet the credit requirements of untapped sector in the country. It is, therefore, necessary to study the growth pattern of credit deployment by Regional Rural Banks. Regional Rural Banks grant direct advances in the form of crop loans, agricultural loans, loans for allied activities, loans for rural artisans, village and cottage industries, self-employed persons and consumption loans. Regional Rural Banks also make indirect advances which are routed through agencies such as Farmers' Service Societies, Farmers' Clubs, Primary Agricultural Societies, and Self-Help Groupsetc.

The progress of credit deployment of RRBs in India during 2000-12 is shown in table-3. The table shows that the bank credit has also increased to Rs.1, 16, 567crore during 2011-12 from Rs.15, 816croreduring 2000-01 i.e. an increase of 7.4 times. The Linear and compound growth rates of it account for 4.011 and 4.452 which indicate a significant and greater growth of bank credit then the deposits and branch expansion of Regional Rural Banks in India.

Table-3
Credit Deployment of Regional Rural Banks in India
(Rs. in crore)

S.N.	Year	Credits
1	2000-01	15816
2	2001-02	18587
3	2002-03	22086
4	2003-04	26116
5	2004-05	32559
6	2005-06	39447
7	2006-07	48168
8	2007-08	58579
9	2008-09	67116
10	2009-10	83503
11	2010-11	98244
12	2011-12	116567

Source:www.indiastat.com

D. Credit-Deposit Ratio

To analyse the performance of Regional Rural Banks in India, the Credit-Deposit Ratio is shown in the table-4.The table shows that the Credit-Deposit ratio of Regional Rural Banks has increased tremendously to 63.7 during 2011-12 from 38.8 during 2000-01 in India i.e. an increase of 1.6 times.

Table-4
Credit-Deposit Ratio of Regional Rural Banks in India

S.N.	Year	CD Ratio
1	2000-01	38.84
2	2001-02	41.93
3	2002-03	44.37
4	2003-04	46.78
5	2004-05	53.01
6	2005-06	55.85
7	2006-07	58.70
8	2007-08	60.18
9	2008-09	56.55
10	2009-10	58.63
11	2010-11	59.93
12	2011-12	63.69

Source: www.indiastat.com

E. Conclusion

During the study period the growth of bank branches is negligible as the linear and compound growth rates are very low whereas the resource mobilization (Deposits) and credit deployment is significant as linear and compound growth rates are high. The correlation co-efficient between branches anddeposits, deposits and credit and branches and credit account for 0.9 and is significant as calculated 't' value accounts for 6.4636 which is higher than the tabular 't' value both at 0.05 percent (1.796) and 0.01 percent (2.718) levels. Hence the resource mobilization especially in rural areas and credit allocation of RegionalRural Banks during 2000-01 to 2011-12 periods is significant.

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