Priority Sector Lending of Indian Commercial Banks : Some Empirical Results

- *Ram Pratap Sinha*

Since the mid-seventies, the introduction of priority sector lending quota for the commercial banks provided a major instrument for allocation of financial resources to agriculture, small scale enterprises and schemes of self-employment. However, the introduction of banking sector reform posed new challenges before the commercial banks as they had to conform to the new prudential asset classification, income recognition, provisioning and capital adequacy standards and still maintain priority sector lending quota.

The present paper is an attempt to compare select public and private sector commercial banks in respect of priority sector lending for the period 2000-01 to 2004-05. For comparison purposes the following indicators have been used : (i) technical efficiency, (ii) scale efficiency, and (iii) Malmquist Total Factor Productivity Index. The results obtained from the exercise indicate substantial fluctuations in mean efficiency scores for the observed years. In particular, the mean technical efficiency scores have declined during 2004-05. The mean technical efficiency scores of the observed public sector commercial banks is, however, marginally higher than the observed private sector banks. Under constant returns to scale, the overall mean technical efficiency score of the observed private sector banks is about 95 per cent of the observed public sector banks. Under variable returns to scale, the figure is about 98 per cent. The mean scale efficiency of the observed private sector commercial banks is about 97 per cent of the observed public sector commercial banks. Insofar as total factor productivity growth is concerned, the observed private sector commercial banks exhibited marginally higher Malmquist TFP Index than the observed public sector banks. All the observed commercial banks registered positive total factor productivity growth during the period.

Volatility Clustering in Aggregate Stock Market Returns : Evidence from Indian Stock Market

- *Shahid Ahmed*

This study is an attempt to model the volatility of stock returns in Indian market for the period 1997-2006 using GARCH, TARCH and E-GARCH. Results point out that returns exhibit persistence and volatility clustering in both NSE Nifty and BSE Sensex. Asymmetric volatility effect has been observed in both the series using TARCH and E-GARCH model. While forecasting returns it is found that GARCH-M performs better compared to alternative econometric models, namely, RW, OLS, GARCH, GARCH-M, TARCH and E-GARCH models. It is revealed that one-step ahead forecast improves by using GARCH and its variant models, which goes against the concept of random walk hypothesis. Results of this study also indicate that certain anomalies still exist which makes the stock market inefficient. In this context, SEBI is expected to play proactive role in a manner, which makes market capable to value the intrinsic price of assets.

The Credit Channel of Monetary Transmission Mechanism

- *Suvojit L Chakravarty*

This paper looks into the existence of a credit channel of monetary policy for the Indian Economy from 1994 April to 2003 March. For this we use the relative movements in bank loans, commercial paper, new capital issues and euro issues to see the presence of a loan supply channel of monetary policy transmission. Our analysis shows that during this time there was a fall in credit demand due to industrial recession reflected in the lack of growth of non-bank sources of credit. However, we have also found that the other sources of credit form very small percentage of total bank credit during the estimation period thus lowering the importance of this result. Also we tested for causality between non-food credit to industries (NFCI) and index of industrial production (manufacturing) (IIPM) using a VAR framework. We find that there is an unidirectional causality from NFCI to IIPM thus indicating that NFCI does possess a lead indicator characteristic.

Brief Articles, Notes and Comments

Voluntary Retirement Scheme in Kerala Based Private Sector Banks

- *E V K Padmini*

The Indian banking sector experiences a series of challenges mainly due to the implementation and impact of globalization, deregulation and liberalization. To be successful in such a dynamic environment, banks need more hybrid bankers with adequate knowledge in general banking, retail banking, marketing, specialized banking, technology and people skills. For meeting the challenges of competition, 'quality' and 'quickness' are more vital. To equip the banks to undertake this challenge, Narasimham Committee recommended Voluntary Retirement Scheme (VRS). Broadly speaking, VRS aims at reduction of workforce and thereby ensuring a fall in wage bill and at the same time increase in productivity and operational efficiency of the remaining workforce. Later, as per the recommendation of the Human Resource Management Committee, the Government of India permitted Public Sector Banks (PSBs) for the implementation of VRS as per their individual manpower planning. All PSBs except Corporation Bank introduced VRS between 15th November 2000 and 22 March 2001 with a view to right size the workforce, increase operational efficiency and control costs for competitive edge.

Along with the PSBs, private sector banks in the country also applied VRS for their staff with a view to right size the workforce, achieve a balanced age and skill profile, increase their productivity and operational efficiency. An attempt is made in this note to assess the extent and impact of the implementation of VRS in two Kerala based private sector banks, i.e. The Dhanalakshmi Bank Ltd. (DLB) and the South Indian Bank Ltd. (SIB) with their Head Offices at Thrissur.

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