Project Work

(For guidelines for Project Work, see Syllabus in the book.)

Acknowledgement

Certificate from Student

Certificate from Teacher

Project 1 : Deficits: A Study in Macroeconomics

Project 2 : Composition of Gross Domestic Product in India

Project 3 : Lending Performance of Commercial Banks in India

Case Study: Punjab National Bank

Acknowledgement

I ____________________________________ of ____________________________________ school do hereby declare that this project is my original work and I extend my appreciation and gratitude to ____________________________________, Economics teacher, for her/his wholehearted support and guidance for the successful completion of this project in time.

I am immensely obliged to my parents for their constant guidance and support since the start of the project, which helped me bring it to its present shape.

Name of the Student : ____________________________________

Name of the School : ____________________________________

CBSE Roll No. : ____________________________________

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I ___________________________ student of Class ___________________ of ____________________ School, _________________ hereby certify that the project was undertaken by me as part of the CBSE curriculum. The data used in the project has been collected by me from the sources mentioned in the bibliography and, therefore, I consider it to be authentic and reliable.

Name of the Student: _________________ _________________

CBSE Roll No.: _________________ (Signature)

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This is to certify that ____ (Name of the Student), studying in ________________________ (Class and Section) in ________________________ (Name of the School) has prepared a project on ________________________ (Topic of the Project) in the subject of Economics during the academic session ________________________.

The project is found worthy of acceptance as a final Project as it is in alignment with the guidelines prescribed by the CBSE.

During the preparation of the project, he/she was found diligent, inquisitive and punctual.

I wish him/her all the best in his/her future endeavours.

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Signature of the Teacher ______________

Name and Designation of the Teacher ______________

Project 1

Deficits: A Study in Macroeconomics

1. INTRODUCTION

The wisdom passed on to us through generations has been that one should live within one's own means. We are equally responsible for the welfare of the future generations. Saving is essential at all levels of income.

What is true of an individual is equally, if not more, true of an economy as a whole. A nation should live within its means. It should not work blindly to expand its boundaries of economic activities.

Almost in every news bulletin we are bombarded with a term called 'deficit'.

A deficit is a situation in which the estimated inflow of income falls short of estimated outflow of income.

2. OBJECTIVE

The objective of this project is to establish if a 'deficit', of any of the various kinds, is harmful for a national economy as for an individual.

3. FORMAT

An individual, in all wisdom, is advised to cut his coat according to the cloth.

But does this constraint apply with equal rigour to the government also? Or can the government cut its cloth according to the size of its coat. Governments can and do practise this with remarkable success. We will begin with an illustration to show how income is generated in an economy and how it works through different sectors and economic units.

All economic activities begin with the organisation of production process.

Four factor inputs, *viz*. (*i*) Land, (*ii*) Labour, (*iii*) Capital, and (*iv*) Enterprise join hands. The suppliers of factor inputs are known as **households**. The organisers of production activity are known as **firms**.

The households supply their factor services to the firms, firms pay them a price for their services.

Payment received from the firms constitutes the income of the households.

Households make use of this income to purchase different goods and services produced by the firms.

Thus, income leads to consumption and consumption in turn induces more production. This process keeps on repeating itself. This is what we call the **circular flow of income** as shown in Fig. 1.

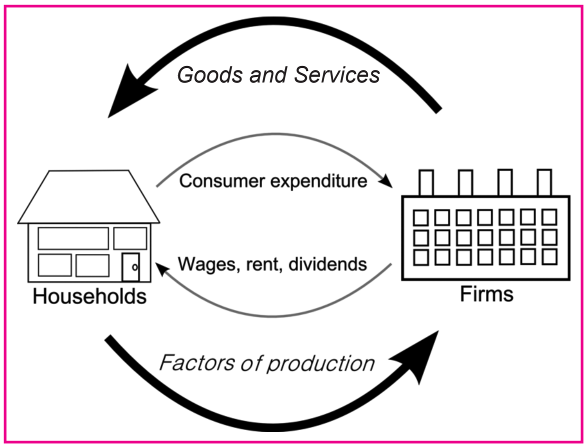


Fig. 1: Circular flow of income model

Circular flow of income is defined as the flow of payments and receipts for goods, services and factor services between different sectors of the economy.

Sectors of an Economy

For a proper and systematic study of the circular flow of income, we can divide an economy into four sectors. These are (*i*) Households, (*ii*) Firms, (*iii*) Government, and (*iv*) Rest of the World.

(*i*) *Households:* Households, as a group, are the owners of factors of production, *i.e.*, (*a*) land, (*b*) labour, (*c*) capital, and (*d*) enterprise. Households supply factor services to the production sectors of the economy and earn income. They make use of this income to meet their consumption requirements in the present and also save some income for use in the future.

(*ii*) *Firms:* Firms constitute the production sector of the economy. They hire the four factor services. With the joint efforts of the factor services, firms produce different types of goods and services. These goods and services meet the needs of both consumers and producers.

(*iii*) *Government:* Economic activities are regulated by the government. It also performs various functions. These may be in the form of social, political and economic activities. These involve expenditure by the government. To meet this expenditure, government collects revenue from varied sources, including taxes, etc. Taxes are paid both by households and firms.

(*iv*) *Rest of the World:* Today, every economy in the world is an open economy, *i.e.*, every economy receives goods, services and capital from other countries. Against these inflows, payments are made to those countries. Likewise, an inflow of receipts takes place against the goods, services and capital sent abroad by one country to another country.

These four sectors are integrated, step by step, into following three models of circular flow of income: (*A*) Two-sector model comprising households and firms, (*B*) Three-sector model comprising households, firms and government, and (*C*) Four-sector model comprising households, firms, government and the rest of the world.

A. Two-Sector Model

We begin with a simple model of an economy where we assume that there are only two sectors which interact and are interdependent.

We will make a further simplifying assumption that the households spend whole of the income earned by them during a period of time on consumption expenditure, *i.e.*, they do not have any saving.

We will subsequently remove this assumption. Thus, analysis of two-sector model is divided into two parts, (*A*1) Two-sector model without saving, and (*A*2) Two-sector model with saving.

A1. Two-Sector Model without Saving

As stated earlier, in a two-sector model we study the behaviour of two sectors of the economy, *viz*. households and firms. We observe their interaction that results in generation of income, production of different goods and services that are finally consumed by the households. We make an assumption that the aggregate consumption expenditure equals the aggregate income received by them, *i.e.*, $C = Y$ where C is Aggregate Consumption Expenditure and Y is Aggregate Income.

The different stages in which this circular flow in a two-sector model operates can be briefly illustrated as follows with the help of Fig. 2 given on the right.

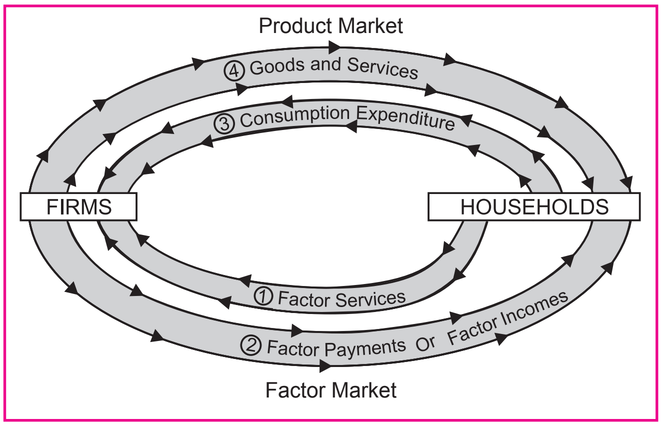


Fig. 2

It would be seen as follows from Fig. 2:

1. Households supply factor services to the firms.
2. Firms make payments to factor services in the form of rent, wages, interest and profits. The expenses incurred by the firms towards payments to factor services constitute income of the other sector. Thus, all factor payments constitute factor receipts or income of the households.
3. Households make use of the income received from firms to purchase different goods and services for their own consumption. Expenditure on consumption goods by households is known as **consumption expenditure**. Thus, consumption expenditure flows from households to firms.

4. In return for this consumption expenditure, households receive different consumer goods and services from the firms. They consume these goods and thus satisfy their wants.

Thus, organisation of production process results in:

(*i*) employment for factor services,

(*ii*) generation of income for factor services,

(*iii*) production of different types of goods and services, and

(*iv*) consumption of different goods and services.

It is a continuous, ongoing, never-ending process. That is why it is called **circular flow of income**.

The circular flow of income involves *two basic principles*:

1. In any exchange process, the seller or producer receives the same amount that the buyer or consumer spends.
2. Goods and services flow in one direction. Money payments to acquire these goods and services flow in the reverse direction, thereby causing a circular flow.

The output or product or *real flow* from the seller to the buyer necessarily creates the income or payment or *money flow* from the buyer to the seller.

With the simplifying assumption that consumption equals income, we can see that aggregate income in the economy equals aggregate expenditure and aggregate output.

'Real Flows' and 'Money Flows'

Real flows (with reference to Fig. 2) consist of flow of factor services (marked 1) from households to firms, and the reverse flow of goods and services from firms to households (marked 4).

Whatever the firms produce is consumed by the households.

Money flows consist of flow of factor payments that households receive from firms in return for the factor services extended to firms (marked 2) and the reverse flow of consumption expenditure from households to firms on the goods and services purchased from the firms (marked 3). Consumption expenditure will equal the sum total of factor payments.

And since all that is produced in the economy is consumed, ***the real flows of production and consumption of firms and households shall equal the money flows of income and expenditure of firms and households***.

A2. Two-Sector Model with Saving

We remove the assumption that $C = Y$ where C is Aggregate Consumption Expenditure and Y is Aggregate Income.

Instead, we move closer to reality of the fact that the households do not spend whole of their income. They save a part of their income which constitutes their saving. Thus, we now observe,

$$Y = C + S$$

Where, Y = Aggregate Income, C = Aggregate Consumption Expenditure, S = Saving.

That part of the income which is not spent by households on consumer goods and services is called *saving*.

Once saving has been introduced in the model, it implies that whole of the income generated in the process of production and earned by the households does not flow back to firms. Households divert their savings to financial institutions like banks, insurance companies, stock exchanges, mutual funds, etc. These financial institutions constitute what is called **capital market**.

The financial institutions, in turn, lend these savings to firms. Firms require money to purchase more of producer goods like machines, equipment, tools, etc. Expenditure on purchase of producer's goods (also known as **capital goods**) is also known as **investment**.

Expenditure by firms on purchase of producer's goods is called **investment expenditure**, or simply **investment**.

Capital market, thus, acts as an intermediary. Through its intermediation, savings flow into investment activity. Investment expenditure in the two-sector economy equals the amount of saving generated in the economy, *i.e.*,

$$I = S$$

Where, I = Investment Expenditure, S = Saving.

The aggregate expenditure (Y) in the economy now consists of consumption expenditure (C) and investment expenditure (I). Thus,

$$Y = C + I$$

These flows can be illustrated with the help of Fig. 3.

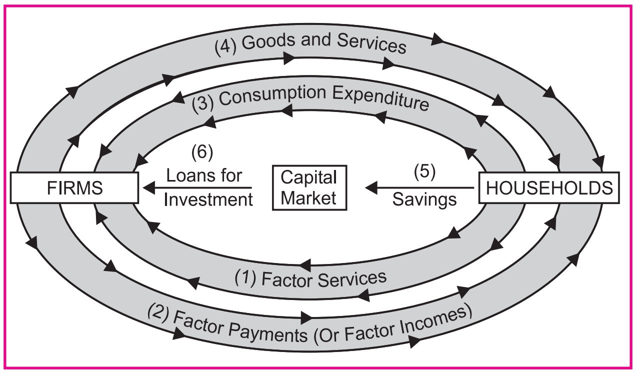


Fig. 3

It would be seen as follows from Fig. 3.

1. A part of the income received by households assumes the form of savings (marked 5).
2. From the capital market, firms get loans to meet their investment expenditure (marked 6).

Investment expenditure helps build up the production capacity of the economy. More the amount of savings generated in the economy, higher shall be the expenditure on such goods as machines, tools, equipment, etc. This will create more employment of factor services that will generate higher levels of income.

'Leakage' and 'Injection'

Leakage (also called **withdrawal**) represents that part of income which is not passed on in the circular flow of income and, therefore, is not available for spending on currently produced goods and services. Leakages have a contractionary effect on national income.

Injection is an exogenous addition to the income of firms or households. That is, it is an addition to the income of domestic households or firms that does not result from the immediate expenditure of the private sector.

Injections have an expansionary pressure on national income.

For an economy to be in equilibrium, injections should be equal to leakages.

Injections = Leakages

The major sources of leakages and injections in two–sector economy are:

Leakage: Saving (S); *Injection:* Investment (I)

The money flows in through different sectors in the economy. And during the course of interaction between different players, it comes across different deficit situations.

Among these varied situations, we will focus on following three deficits:

1. Output deficit = $S > I$ or $I < S$
2. Fiscal deficit = $G > T$ or $T < G$
3. Current account deficit = $M > X$ or $X < M$

We will examine the significance of each of these situations.

1. **Output Deficit:** Output deficit occurs when actual output (r) falls short of potential output. This is reflected in the situation when $I < S$.

   It is time we explain the actual mechanism of the working of this equilibrium. Why it happens like that?

   To understand the working of this equilibrium mechanism, let us first consider the following question:

We know that for an economy domestic product or income always equals domestic expenditure, *i.e.*, Y = C + S always equals Y = C + I. And, therefore, S should always equal I at all levels of income. But why is it that I = S only at the equilibrium level of income, and not at other levels of income?

To resolve this question, we will have to ponder a little more on the composition of investment in an economy.

Before that, we also need to be clear about the following pairs of terms:

(*i*) *Ex-ante Saving and Ex-post Saving:* Ex-ante saving is what the savers plan (or intend) to save at different levels of income in an economy. It is also known as **intended saving** or **planned saving**.

Ex-post saving refers to actual or realised saving in an economy during a year.

(*ii*) *Ex-ante Investment and Ex-post Investment:* Ex-ante investment is what the investors plan (or intend) to invest at different levels of income in an economy.

Ex-post investment refers to realised or actual investment in an economy during a year.

Composition of Investment

Total investment in an economy may be divided into two parts, *viz.* (*i*) planned investment or intended investment or ex-ante investment, and (*ii*) unplanned investment or unintended investment. Total actual or realised investment (ex-post investment) is the sum of planned or intended and unplanned or unintended investment.

In brief, $Ir = Ip + Iu$

where, Ir is realised or actual investment,

Ip is planned investment, and

Iu is unplanned investment.

It should be clear from this equation that the realised investment (ex-post investment) in the economy is not always equal to the planned investment (ex-ante investment). Realised investment is equal to the planned investment only when the unplanned investment is zero.

Thus, when we say that $Y = C + I$

It should be $Y = C + Ir.$

Therefore, $Y = C + Ir$

and $Y = C + S$ or $C + S = C + Ir$

$\therefore$ $S = Ir$

i.e., savings equal the realised investment always.

It is only at the equilibrium level of income that planned investment (ex-ante investment) equals realised investment (ex-post investment) and savings. Thus, the equilibrium condition should read:

$$S = Ip$$

where, $S = Ip$ can be called the equilibrium condition.

$S = Ir$ can be called a definitional identity.

Table 1 explains that at all levels of national income, the intended investment is not equal to the realised investment and saving. It is only at the equilibrium level of income the intended investment equals the realised investment and saving.

Table 1: Equilibrium of Planned Investment and Planned Saving

(₹ in '000 crore)

Income Investment Change (*Y*) (1)	*Consumption* (*C*) (2)	*Saving Expenditure* (*S*) (3)	*Planned Inventory* (*Ip*) (4)	*Total Investment* (*E*) (5) (2 + 4)	*Unintended Investment* (*Iu*) (6) (1 – 5)	*Realised Investment* (*Ir*) (7) (4 + 6)
0	20	–20	20	40	–40	–20
10	25	–15	20	45	–35	–15
20	30	–10	20	50	–30	–10
30	35	–5	20	55	–25	–5
40	40	0	20	60	–20	0
50	45	5	20	65	–15	5
60	50	10	20	70	–10	10
70	55	15	20	75	–5	15
80	60	20	20	80	0	20
90	65	25	20	85	5	25
100	70	30	20	90	10	30

What happens when saving and investment are not equal?

Let us take two other situations. First situation is the one when planned investment exceeds saving, *i.e.*, $Ip > S$. The second situation is the one when planned investment falls short of saving, *i.e.*, $Ip < S$.

(*i*) *When Planned Investment is more than Saving* ($Ip > S$)*:* Let us assume that firms plan to invest ₹ 20,000 crore, *i.e.*, planned investment is ₹ 20,000 crore. At the income level of ₹ 40,000 crore, the households just do not save anything. They consume whole of their income. The firms will raise their level of production, give more employment to factor services, and generate more income. At higher levels of income, saving will be generated in the economy, so that, gradually, the savings become equal to planned investment.

(*ii*) *When Planned Investment is less than Saving* ($Ip < S$)*:* We can also assume a situation when firms plan to invest ₹ 20,000 crore, but households plan to save ₹ 25,000 crore, *i.e.*, $Ip < S$.

In this situation, firms will find that they have too few customers and that their stocks are building up against their wishes. They will cut back on production, reduce employment, and thus, less income will be generated in the economy. Savings fall and become equal to investment. The economy will move back to the equilibrium situation. In this way, forces will always be at work to bring the economy in the equilibrium situation, which can be defined as one, where, $Ip = S$.

2. Fiscal Deficit

Fiscal deficit is calculated as follows:

Financial Statement	(₹ *in crore*)
A. **Revenue expenditure**	6,58,119
B. **Capital expenditure**	92,765
C. **Revenue receipts**	6,02,935
D. **Recoveries of loans by the government**	4,497
E. **Non-debt creating capital receipts**	10,165
Fiscal deficit = (*A* + *B*) – (*C* + *D* + *E*)	1,33,287

In other words,

The fiscal deficit equals the sum total of the revenue expenditure and the capital expenditure minus the sum total of the revenue receipts, the recoveries of loans by the government and the non-debt creating capital receipts.

Significance of Fiscal Deficit

Fiscal deficit is the barometer of the financial health of the government.

A small amount of fiscal deficit is considered good for economic growth, especially if it is financed by printing of new currency.

Fiscal deficit implies that the injections by the government are more than the leakages from the circular flows of income. If an economy is in a position to absorb additional money, it would stimulate aggregate demand. As a result, level of employment and income will increase.

But a large amount of fiscal deficit proves counter-productive and acts as a check on growth. A large part of it is to be financed by borrowings. Some of the adverse effects may be briefly stated as follows:

(*i*) *Rise in Rate of Interest and Adverse Effects on Private Investment:* When government borrows large amounts of money from the market, rates of interest go up. In consequence, private investment suffers.

(*ii*) *Increase in Public Debt with Increase in Borrowings:* The burden of public debt keeps on increasing. Interest payments keep increasing at compound rates. As a result, government's ability to undertake development activities seriously suffers.

(*iii*) *Inflationary Pressures:* High fiscal deficits cause inflationary pressures. Once inflation sets in, non-developmental expenditure of the government begins to grow fast.

In view of these considerations, it is important to keep fiscal deficit under check.

3. Current Account Deficit (CAD)

Current Account Deficit (CAD) in balance of payments occurs when:

The sum of receipts of foreign exchange on account of trade in visibles and invisibles	<	**The sum of payments in foreign exchange on account of trade in visibles and invisibles**

i.e., *BoT* + *BoI* yield a negative balance.

CAD implies that a country has contracted to spend more foreign exchange than it has been able to earn during the year.

A *CAD* can be financed by different sources:

(*i*) A country may use a part of its gold stocks and make payments to foreigners by means of gold.

(*ii*) A country may draw upon its reserves of foreign currencies and foreign securities.

(*iii*) A country may borrow foreign exchange from different officials and private sources.

(*iv*) It may mobilise foreign exchange by attracting deposits by foreigners and investment of capital by foreigners.

Generally, no country likes to draw upon its gold and foreign exchange stocks. It mobilises foreign exchange by way of loans, deposits and investments.

4. CONCLUSIONS AND OBSERVATIONS

It would be seen that any of the macroeconomic deficits have effective implications for an economy—both positive and negative. On the positive side, these deficits can be used to generate financial resources to meet the growth needs of the economy.

On the negative side, these deficits need to be used judiciously. Any neglect on this account may cause violent fluctuations and instability among macroeconomic variables.

It would be observed from the above discussion that an economy is simply like a human body. Any prick or pain in any part is felt on the whole body. Likewise, a sweet hug from a person you like enthralls your whole body. Inflationary tendencies not only affect the purchasing power of the household but also most of the macroeconomic variables like C, I, S, X, M, T, G. Fine-tuning of any one of these parameters will fail to restore the machine to order, unless suitable adjustments are made in others also. A good physician, before prescribing any medicine to cure a given ailment, has to be equally careful about the side-effects of the medicine. Just as there are specialist-consultant for different ailments, economic policy is also handled by different persons who knows the dynamics of that particular area. Output deficit ($I < S$) is better handled by monetary policy, which falls in the domain of the central bank of the country. Fiscal deficit ($T < G$) diagnosis comes under those who formulate the country's budget. Similarly, current account deficit ($X<M$) is better handled by those who know the dynamics of the flow of the goods, services and capital across nations. External sector policies take care of this.

A surgery is performed on the economic body in a well-coordinated manner by studying in-depth the dynamics of all injections (I, G and X). Failure to understand their interrelations and interactions do not give the desired result. These failures can be attributed to the practitioners of science rather than to available scientific knowledge. The increasing use of computers and digitisation is helping to cover this gap. Computer's ability to handle reams of data efficiently will result in a better data analysis and more successful outcomes.

Suggested Questions/Answers for Viva Voce

Q.1. Define the following:

(*i*) Equilibrium.

(*ii*) Macroeconomic Aggregates.

Ans. (*i*) Equilibrium in an economy is achieved when Aggregate Demand (AD) is equal to the Aggregate Supply (AS).

$$AD = AS$$

(*ii*) Macroeconomic Aggregates:

Y = income or output of the economy
C = consumption expenditure
I = investment expenditure
G = government final consumption expenditure
T = taxes in the economy
S = aggregate saving
X = exports
M = imports

Q.2. Explain the following deficits:

(*i*) Output Deficit.

(*ii*) Fiscal Deficit.

(*iii*) Current Account Deficit (CAD).

Ans. (*i*) Output deficit occurs when actual output falls short of potential output. This is reflected in the situation when $I < S$.

(*ii*) Fiscal deficit = Revenue expenditure + Capital expenditure – (Revenue receipts + Recoveries of loan by Government + Non-debt capital receipts) (*iii*) CAD implies that a country has contracted to spend more foreign exchange than it has been able to earn during the year.

Q.3. If in an economy I falls during a year and G also falls, what shall be the effect on the economy?

Ans. In an economy if I and G both fall, then the Aggregate Demand (AD) or output (Y) will also fall.

Q.4. How is the increasing expenditure in an economy funded?

Ans. Increasing expenditure in an economy is funded through deficit financing.

Q.5. How is 'fiscal budget' different from 'budgetary deficit'?

Ans. Budgetary deficit is the difference between total receipts and total expenditure. If borrowings and other liabilities are added to the budget deficit, we get fiscal deficit.

Q.6. How is 'BoP' different from 'BoT'?

Ans. BoP is a statement that keeps a record of all the economic transactions done by the country with the rest of the world. BoT is a financial statement that records country's exports and imports with the rest of the world.

Q.7. Could you have used the concept of 'rate of exchange' in your project? How?

Ans. Yes, the concept of 'rate of exchange' could have been used. The rate of exchange can be used as one of the methods to correct deficits in balance of payments.

Q.8. Why do economic policies fail to deliver the desired results? Is something wrong with economics?

Ans. The economic policies fail to deliver the desired results due to the following reasons:

(*i*) Clashes among the political parties, and

(*ii*) The citizens might not welcome new changes in the economy.

No, there is nothing wrong with economics.

Project 2

Composition of Gross Domestic Product in India

I. Overall Format

Composition of gross national product in an economy throws light on the character and state of development of an economy. It is a macro part of study. The relevant data relating to the share of the three sectors, *viz.* (*i*) Primary sector, (*ii*) Secondary sector, and (*iii*) Tertiary (service) sector has been collected and analysed.

II. Contents

1. Introduction
2. Changes in the Composition of GDP
3. Causes of Rapid Increase in Tertiary Sector
4. Prospects and Opportunities


Crops


Gears


Metro


Tractor


Cranes


Restaurant

1. INTRODUCTION

Goods and services are produced in different sectors of a country. The relative significance of the producing sectors differs from country to country and also according to different economic situations.

***For example*, in an underdeveloped country a large proportion of the national income is obtained from agriculture and allied sectors. On the other hand, the developed economies get a major proportion of their national income from industrial and service sectors.**

2. CHANGES IN THE COMPOSITION OF GDP

How much an individual producing sector will contribute to the national income depends upon the structure of an economy and the state of its economic development.

The composition of gross domestic product of an economy explains the relative significance of the different producing sectors.

When a country is in the state of underdevelopment, the primary sector (agriculture and allied occupations) provides

With economic growth, the proportionate share of the primary sector in national product falls. The proportionate shares of the secondary and the tertiary sectors generally rise. This is how an economy transforms from being an agrarian economy to an industrial-commercial economy.

the largest proportion to the national income. As the country grows and gets developed, the contribution of the industrial and service sectors gradually increases.

Therefore, on the basis of the composition of net domestic product, one can easily pronounce whether a country is developed or underdeveloped.

III. Findings

Let us examine what has happened in India.

Over the last six decades the primary sector's share has fallen by about 50 per cent, while those of the secondary and tertiary sectors have increased.

Other important observations are as follows:

(*i*) The rate of growth of the secondary and tertiary sectors has been more than double than that of the primary sector, with the secondary sector having an edge over the tertiary sector during the first two decades.

In the subsequent decade, the tertiary sector grew faster than either of the other two sectors. During the 1980s, when all the three sectors were growing at a faster rate, the secondary sector was the fastest. The secondary sector maintained its lead during the 1990s, and subsequent decade and a half also.

(*ii*) The fall in the growth rate of the primary sector is also worth noting, showing that the Green Revolution has not been able to offset the comparative non-increase in the area under cultivation.

(*iii*) The rate of growth of the tertiary sector shows a steady increase over the earlier period, giving a rate of growth for the whole period, which is slightly higher than the rate of growth in the secondary sector and more than double of that in the primary sector.

This pattern of structural change in the Indian economy has deviated from the development pattern of Western economies. These economies experienced a direct shift from primary to secondary sector and only in their advanced stage did they experience a significant shift in favour of tertiary sector. The pattern of development enabled them to transfer growing labour force from primary to secondary sector. In India, this has not been possible because secondary sector has not expanded fast enough to absorb the growing labour force.

3. CAUSES OF RAPID INCREASE IN TERTIARY SECTOR

This trend can be attributed to a number of factors, among which the more important factors are as follows:

(*i*) A very important factor has been the advent of Information Technology (IT) and the knowledge economy. This has enhanced the growth of the high productivity segment of the services sector as well as a variety of service activities involving low productivity activities catering to a large mass of people.

(*ii*) A large part of the service sector consists of infrastructure such as banking, insurance, finance, transport and communication, and social community services such as educational and medical facilities. With growth, infrastructure sector spreads the fastest.

(*iii*) In keeping with the requirements of the growing economy, there has been a fast expansion in public services.

(*iv*) Increasing urbanisation may be regarded as another cause of expansion of the service sector in the economy. A substantial change in the private consumption pattern of the economy is observed with increasing urbanisation. Many new goods and services enter into the consumption basket.

(*v*) Tourism is becoming more and more international. Tourism, in turn, has promoted all types of services.

(*vi*) With increasing complexities of modern industrial organisation, manufacturing industries have become service-oriented. This has been reflected in the increasing functions of accounting, finance, legal services, advertisement, marketing, public relations, etc.

Table 1: Gross Domestic Product at Factor Cost by Industry of Origin

At Current Prices (₹ in Crore)

Year	*Agriculture, forestry and fishing, mining and quarrying*	*Manufacturing, construction, electricity, gas and water supply*	*Trade, hotels, transport and communication*	*Financing, insurance, real estate and business services*	*Community, social and personal services*	*Gross domestic product at factor cost (2 to 6)*
1	2	3	4	5	6	7
1954–55	4993	1640	1151	1647	1283	10689
1955–56	4847	1760	1192	1768	1361	10861
1956–57	6152	2071	1378	1917	1430	12965
1957–58	6045	2148	1525	2054	1503	13255
1958–59	7002	2334	1667	2203	1597	14827
1959–60	7043	2616	1801	2364	1760	15574
1960–61	7434	3113	1985	2547	1989	17049
1961–62	7704	3398	2145	2602	2154	17992
1962–63	7899	3740	2348	2987	2343	19238
1963–64	9274	4274	2628	3231	2599	21986
1964–65	11291	4788	3084	3512	2945	25686
1965–66	11301	5199	3345	3796	3276	26895
1966–67	13123	5819	3890	4063	3665	30613
1967–68	16393	6380	4445	4458	4105	35976
1968–69	16912	6940	4732	4772	4422	37938
1969–70	18505	7944	5107	5120	4822	41722
1970–71	19086	8622	5627	5579	5315	44382
1971–72	19510	9538	6102	6117	5901	47221
1972–73	21448	10534	6730	6694	6456	51943
1973–74	28171	12230	8057	7465	7261	63658
1974–75	31062	15232	10642	8390	9142	74930
1975–76	31028	16571	12067	9511	10290	79582
1976–77	31833	18811	13066	10579	11311	85545
1977–78	37592	21270	14702	11540	12296	97633
1978–79	38717	23951	16119	12448	13529	104930
1979–80	40373	26774	18604	13576	15149	114500
1980–81	50760	30900	21968	15120	17537	136838
1981–82	58745	36090	26946	17835	19927	160214
1982–83	63985	39953	30749	20453	23134	178985
1983–84	75982	47053	35716	23388	26345	209356
1984–85	82204	53656	41125	26907	30311	235113
1985–86	88083	60593	48022	30819	34284	262717
1986–87	95182	67754	54272	35337	39428	292924
1987–88	105358	77630	61963	40387	45700	332068
1988–89	130731	91163	73159	46926	52994	396295
1989–90	144461	108908	85630	55297	60741	456540
1990–91	168166	127079	100318	64598	70019	531814
1991–92	195454	140700	115570	78904	81366	613528
1992–93	219680	163887	136250	87495	94507	703723
1993–94	254876	188251	160990	105686	106090	817961
1994–95	293013	229365	192142	119442	118663	955386
1995–96	319243	280971	231175	143791	140190	1118586
1996–97	381142	318260	273135	158637	166469	1301788
1997–98	408521	348543	313093	180642	193188	1447613
1998–99	466446	393491	358538	210593	236123	1668739
1999–00	497027	426993	399094	251145	273013	1847273
2000–01	506476	474323	441785	274940	294459	1991982
2001–02	546674	497578	490290	315689	317513	2167745
2002–03	548062	550421	542132	356089	341496	2338200
2003–04	608788	618840	623246	400056	371288	2622216
2004–05	650454	744755	727720	437174	411361	2971464
2005–06	732234	859410	846606	493102	459151	3390503
2006–07	829771	1033410	998379	586595	505121	3953276
2007–08	961330	1205458	1150044	691464	573790	4582086
2008–09	1083032	1360426	1310845	845369	703895	5303567
2009–10	1242818	1536492	1481623	964937	883033	6108903
2010–11(3R)	1524552	1763584	1779630	1165243	1015850	7248860
2011–12(2R)	1721814	2061650	2072272	1381524	1154431	8391691
2012–13(1R)	1867342	2238029	2324695	1617076	1341734	9388876
2013–14(PE)	2129000	2371520	2509907	1939482	1522898	10472807

Source: Central Statistics Office.

1R: First Revised Estimates 2R: Second Revised Estimates 3R: Third Revised Estimates PE: Provisional Estimates

Table 2: Annual Growth Rate of Real Gross Domestic Product at Factor Cost by Industry of Origin

At 2004–05 Prices (Per cent)

Year	Agriculture, forestry and fishing, mining and quarrying	Manufacturing, construction, electricity, gas and water supply	Trade, hotels, transport and communication	Financing, insurance, real estate and business services	Community, social and personal services	Gross domestic product at factor cost (2 to 6)
1	2	3	4	5	6	7
1954–55	3.0	8.8	6.5	3.7	3.6	4.2
1955–56	–0.8	11.7	7.3	4.0	3.1	2.6
1956–57	5.4	9.0	7.3	1.6	3.8	5.7
1957–58	–4.1	–1.8	3.1	3.8	4.5	–1.2
1958–59	9.8	7.4	5.0	2.8	4.1	7.6
1959–60	–0.8	7.0	6.3	3.8	4.3	2.2
1960–61	7.1	10.8	8.6	2.1	4.9	7.1
1961–62	0.3	6.9	6.5	4.3	4.7	3.1
1962–63	–1.4	6.2	5.9	3.4	7.1	2.1
1963–64	2.4	10.7	7.1	3.1	6.6	5.1
1964–65	8.8	7.4	6.8	2.7	6.6	7.6
1965–66	–9.9	3.2	1.8	3.0	4.0	–3.7
1966–67	–1.2	3.7	2.6	1.8	4.6	1.0
1967–68	14.1	3.3	4.3	2.7	3.9	8.1
1968–69	0.0	5.1	4.5	4.9	4.5	2.6
1969–70	6.3	7.8	5.4	4.2	5.5	6.5
1970–71	6.3	1.6	4.9	4.2	5.5	5.0
1971–72	–1.7	2.5	2.3	5.2	4.5	1.0
1972–73	–4.4	3.4	2.2	3.9	3.3	–0.3
1973–74	6.9	0.5	4.2	2.4	2.6	4.6
1974–75	–1.2	1.0	6.0	–0.3	4.7	1.2
1975–76	12.8	6.5	9.1	6.9	3.5	9.0
1976–77	–5.2	9.3	4.5	7.9	2.8	1.2
1977–78	9.6	7.4	6.7	4.9	2.7	7.5
1978–79	2.3	7.3	8.2	7.1	4.3	5.5
1979–80	–11.9	–3.6	–0.8	1.0	7.3	–5.2
1980–81	12.8	4.5	5.6	1.9	5.0	7.2
1981–82	5.2	7.4	6.1	8.1	2.1	5.6
1982–83	0.6	0.2	5.5	9.5	7.7	2.9
1983–84	9.5	8.5	5.1	9.8	3.7	7.9
1984–85	1.6	4.4	4.8	7.5	6.9	4.0
1985–86	0.7	4.3	8.0	9.8	5.7	4.2
1986–87	0.6	4.9	6.0	10.5	7.5	4.3
1987–88	–1.1	5.8	5.1	7.3	7.2	3.5
1988–89	15.7	8.2	6.0	9.8	6.0	10.2
1989–90	1.8	8.4	7.4	12.4	7.9	6.1
1990–91	4.7	6.9	5.2	6.2	4.4	5.3
1991–92	–1.4	–0.1	2.3	10.8	2.6	1.4
1992–93	6.0	3.6	5.6	5.4	6.0	5.4
1993–94	3.1	6.1	6.9	11.2	4.5	5.7
1994–95	5.2	9.1	9.9	3.9	2.3	6.4
1995–96	0.0	12.0	13.4	8.1	7.3	7.3
1996–97	8.9	7.2	8.1	6.2	8.1	8.0
1997–98	–1.3	3.3	7.5	11.7	8.3	4.3
1998–99	5.9	4.3	7.7	7.8	9.7	6.7
1999–00	2.8	6.2	11.1	8.8	13.7	7.6
2000–01	0.3	6.5	6.4	4.5	4.6	4.3
2001–02	5.5	2.7	8.6	7.1	4.1	5.5
2002–03	–4.9	7.1	8.5	7.7	3.9	4.0
2003–04	8.2	7.9	11.1	5.8	5.4	8.1
2004–05	1.1	10.0	9.7	8.7	4.9	7.0
2005–06	4.6	10.7	12.0	12.6	7.1	9.5
2006–07	4.6	12.7	11.6	14.0	2.8	9.6
2007–08	5.5	10.3	10.9	12.0	6.9	9.3
2008–09	0.4	4.7	7.5	12.0	12.5	6.7
2009–10	1.5	9.5	10.4	9.7	11.7	8.6
2010–11(3R)	8.3	7.6	12.2	10.0	4.2	8.9
2011–12(2R)	4.4	8.5	4.3	11.3	4.9	6.7
2012–13(1R)	1.0	1.2	5.1	10.9	5.3	4.5
2013–14(PE)	4.0	0.5	3.0	12.9	5.6	4.7

Source: Central Statistics Office.

1R: First Revised Estimates 2R: Second Revised Estimates 3R: Third Revised Estimates PE: Provisional Estimates

4. PROSPECTS AND OPPORTUNITIES

Both domestic and international factors augur well for the growth of service sector in India.

A. Domestic Factors: Some of the important factors can be briefly stated as follows:

(*i*) As real per capita GDP grows, demand for services increases more than proportionately and this, in turn, reinforces GDP growth itself.

(*ii*) Within the service sector, demand for producer and government services, which constitute mainly intermediate consumption, has strong multipliers impacting real GDP.

(*iii*) The growth of such dynamic service activities which are intensive users of communication and information technology, will generate employment opportunities on a rising scale.

(*iv*) The process of economic growth has itself led to the emergence and expansion of new services such as advertising, publicity, marketing, etc.

B. International Factors: Some of the recent global developments which provide opportunities for substantial growth are as follows:

(*i*) The fastest growing segment of services is the rapid expansion of knowledge-based services. India has a tremendous advantage in the supply of such services.

(*ii*) Progress in IT is making it increasingly possible to unbundle the production and consumption of information-intensive service activities.

(*iii*) World prices of transport and communication services have fallen dramatically. The cost of communication is becoming independent of distance.

(*iv*) The aging of population in the developed world implies that demand for services will continue to grow.

The expansion in the service sector has wider implications for population, employment, and trade prospects of the economy.

IV. Suggested Questions/Answers for Viva Voce

Q.1. Define GDP.

Ans. GDP (Gross Domestic Product) is the sum total of money value of all final goods and services produced in an economy during an accounting year.

Q.2. How do you classify GDP by industry of origin?

Ans. For this purpose all the producing sectors are classified into three: (*i*) primary, (*ii*) secondary, and (*iii*) tertiary.

Q.3. What is primary sector?

Ans. Primary sector constitutes those activities which make use of natural resources to generate income, like agriculture, forestry, etc.

Q.4. What is secondary sector?

Ans. Secondary sector constitutes activities like manufacturing which generate value by adding utility to a given product.

Q.5. What is tertiary sector?

Ans. Services of different types constitute the tertiary sector.

Q.6. (*i*) What is the predominant feature of the composition of GDP in the economy?

Ans. The tertiary sector predominates the composition of GDP in the economy.

(*ii*) Is it good or bad?

Ans. As long as it contributes to rapid growth of the economy, it is good.

(*iii*) What is bad about it?

Ans. Income generated in the service sector, normally does not trickle down to the poorer sections of the society. Hence, income inequalities widen.

Project 3

Lending Performance of Commercial Banks in India
Case Study: Punjab National Bank

I. Overall Format

The global financial crisis, which left the banking sector of the most developed and even developing countries weakened, had relatively limited impact on the Indian banking sector. We make out a study of developments in the Indian banking sector in detail during 2009 – 10 in a comparative perspective with the earlier years to bring out trends in balance sheets, financial performance and profitability.

II. Contents

1. Introduction
2. Balance Sheet Operations of Scheduled Commercial Banks
3. Major Assets of Scheduled Commercial Banks
4. Investments
5. Soundness Indicators
6. Non-Performing Assets (NPAs)
7. Fair Lending Practices Code (FLPC)
8. Case Study: Punjab National Bank.
9. Profile of PNB

1. INTRODUCTION

Commercial banks form the most important part of the Indian financial landscape in terms of their role in channelling credit to the commercial sector and facilitating the process of financial inclusion. With the onset of economic reforms, the commercial banking sector, which has retained its predominantly public character, has undergone a number of changes in terms of size, efficiency of operation and financial soundness. As per the analysis by the World Bank prior to the outbreak of the global financial crisis, the operational efficiency and financial soundness of the Indian banking sector compared favourably with its Asian peer group countries as well as developed OECD countries.[1] The global financial crisis, which left the banking sector of most developed and even developing countries weakened, had relatively limited impact on the Indian banking sector. The Report on Trend and Progress of Banking in India (RTP)–2013–14 had concluded that while the Indian banking system largely withstood the pressures of the crisis, it was not expected to remain insulated from the slowdown of the Indian economy, which followed the crisis. The analysis of the banking sector is thus crucial in understanding the nature and extent of medium-to-long-term impact of the crisis on the Indian banking system.

We make out a study of developments in the Indian banking sector in detail during 2013–14 in a comparative perspective with the earlier year(s) to bring out trends in balance sheets, financial performance and profitability, and financial soundness of the sector based on data of 81 Scheduled Commercial Banks (SCBs). We also spell out key issues related to lending operations of the Indian banking sector.

[1] The key indicators of operational efficiency used in the World Bank study were Return on Assets and Return on Equity, while the financial soundness parameters included capital adequacy and gross NPA ratio. Globally, India compared favourably with respect of each of these indicators with other Asian and OECD countries except gross NPA ratio. The gross NPA ratio for India was comparable with the Asian countries but was fairly higher than the OECD countries.

III. Findings

2. BALANCE SHEET OPERATIONS OF SCHEDULED COMMERCIAL BANKS

In continuation of the trend observed during 2012–13, the growth in consolidated balance sheet of SCBs decelerated in 2013–14 (Table 1). Foreign banks, in particular, witnessed a contraction in their asset size to the tune of 2.7 per cent in 2013–14. This contraction in the assets of foreign banks was a break in the trend observed in the recent past, when assets of foreign banks had posted an annual growth consistently exceeding 20 per cent. There was a slowdown in the growth of balance sheets of public sector banks (comprising nationalised banks and State Bank of India (SBI) group) as well as old private sector banks in 2013–14. The only exception was new private sector banks, which had underperformed their old counterparts in 2012–13, recorded accelerated growth in 2013–14.

Table 1: Consolidated Balance Sheet of Scheduled Commercial Banks (Excluding Regional Rural Banks)

(₹ in Billion)

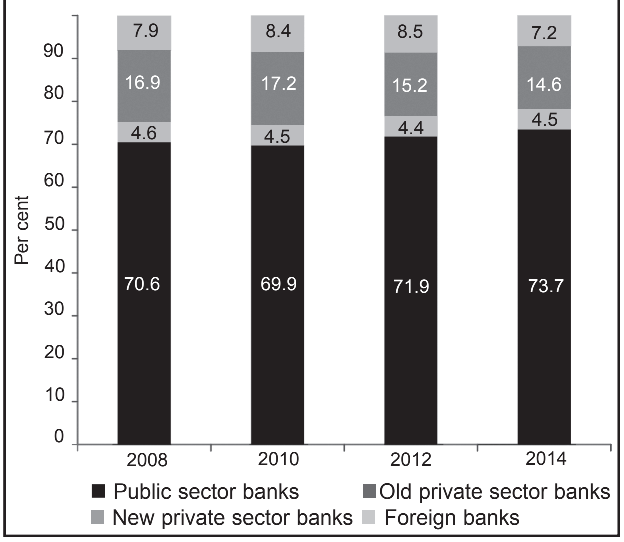
Year (end-March)	*Liabilities*				
	Capital	*Reserves and Surplus*	*Deposits*	*Borrowings*	*Other Liabilities and Provisions*
1	2	3	4	5	6
1994-95	161.80	156.73	4061.19	254.52	515.65
1995-96	163.47	205.21	4576.45	422.95	623.59
1996-97	165.78	271.87	5377.64	234.44	677.64
1997-98	195.39	340.04	6441.17	258.59	719.87
1998-99	182.02	367.92	7708.20	402.48	844.86
1999-00	186.11	438.34	9003.07	453.60	1022.57
2000-01	190.95	486.47	10552.33	554.21	1165.78
2001-02	214.73	638.19	12026.99	1073.80	1414.79
2002-03	215.35	757.95	13556.23	865.35	1572.57
2003-04	223.22	942.45	15755.30	964.90	1868.17
2004-05	259.05	1237.05	18375.59	1683.52	1999.89
2005-06	252.07	1579.72	21646.79	2031.45	2348.48
2006-07	295.59	1896.16	26969.34	2430.08	3008.34
2007-08	399.63	2755.24	33200.61	3026.29	3879.87
2008-09	432.89	3246.58	40632.01	4735.97	3338.97
2009-10	486.48	3814.76	47524.56	5247.64	3177.98
2010-11	589.75	4509.44	56158.74	6755.27	3820.77
2011-12	636.64	5448.98	64535.49	8437.74	4150.55
2012-13	703.10	6386.20	74295.32	10105.32	4243.39

Year (end-March)	*Assets*						
	Cash and Balances with RBI	*Balances with Banks and Money at Call and Short Notice*	*Investments*	*Loans and Advances*	*Fixed Assets*	*Other Assets*	*Total Liabilities Assets*
1	2	3	4	5	6	7	8
1994-95	630,50	174,42	1728.49	2088.19	70.62	457.68	5149.90
1995-96	701.94	303.61	1856.12	2524.38	95.37	510.25	5991.68
1996-97	609.30	470.05	2238.80	2756.35	108.55	544.32	6727.36
1997-98	715.90	601.95	2720.74	3245.86	126.08	544.53	7955.06
1998-99	813.42	888.58	3394.96	3695.70	145.00	567.81	9505.48
1999-00	853.71	810.20	4138.71	4434.69	154.80	711.58	11103.68
2000-01	845.04	1059.00	4919.08	5256.83	162.09	707.71	12949.74
2001-02	867.60	1175.18	5880.58	6457.43	200.83	773.50	15355.13
2002-03	860.64	745.31	6930.85	7392.33	201.98	836.35	16967.46
2003-04	1132.46	819.62	8027.55	8636.32	214.03	920.23	19750.19
2004-05	1180.75	953.57	8697.37	11508.36	230.51	984.53	23555.09
2005-06	1444.74	1164.40	8665.05	15168.10	250.80	1165.40	27858.51
2006-07	1952.64	1582.98	9509.77	19812.35	313.63	1428.09	34599.46
2007-08	3229.71	1091.09	11773.29	24769.36	423.94	1974.25	43261.66
2008-09	2972.67	1965.16	14495.51	29999.24	483.61	2470.23	52386.42
2009-10	3658.12	1834.55	17191.85	34970.54	495.64	2100.70	60251.41
2010-11	4587.83	1840.82	19236.33	42974.88	540.92	2653.20	71833.98
2011-12	3737.46	2436.76	22339.03	50735.59	566.90	3393.16	83208.90
2012-13	3751.74	3350.87	26132.75	58797.03	631.18	3069.77	95733.34

Consequent to the contraction in the balance sheet of the group of foreign banks, the share of foreign banks in total assets of the banking sector witnessed a decline in 2013–14 (See Chart 1).

There was also a decline in the share of new private sector banks in total assets of the banking sector. Despite the decelerated growth of assets of public sector banks, their relative share in the total assets of the banking sector posted an increase in 2013–14, while the share of old private sector banks stood almost unchanged at the last year's level.

Chart 1: Percentage Share of Bank Groups in Total Assets of Banking Sector



3. MAJOR ASSETS OF SCHEDULED COMMERCIAL BANKS

Bank Credit

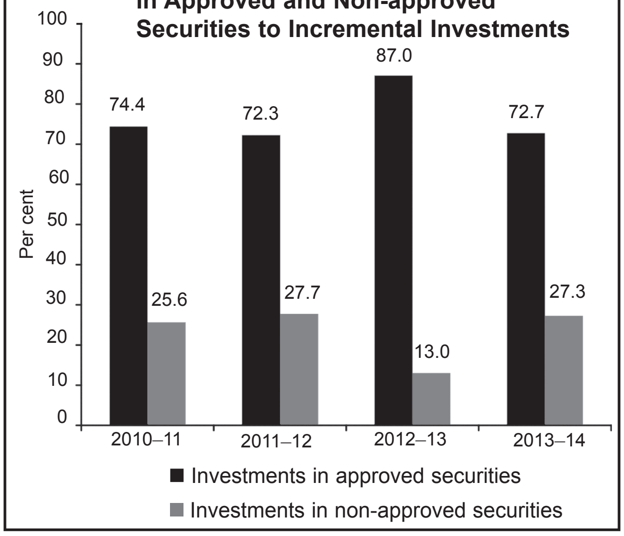
In 2013–14, there was a decline in the growth in bank credit like in the previous year. Bank credit, which had reached a high of over 30 per cent in 2008–09, exhibited a continued decline in the subsequent years, reaching a low of 16.6 per cent in 2013–14. As deposits are the most important source of funds for banks, a slowdown in the growth of deposits was expected to translate itself into a slowdown in bank credit growth. Thus, notwithstanding the signs of recovery of the Indian economy and a low interest rate regime, on a year-on-year basis, bank credit growth registered a slowdown in 2013–14. However, on an intra-year basis, there were signs of a pick-up in bank credit after November 2013, as economic recovery became more broad-based.

4. INVESTMENTS

In 2013–14, investments of SCBs, like bank credit, showed a deceleration in growth. Moreover, there was a perceptible change in the composition of investments of SCBs, as the percentage contribution of investments in approved securities to incremental investments showed a decline in 2013–14 in contrast to a striking increase in 2012–13, when banks had shown preference for low-risk investments following market uncertainties resulting from the global financial crisis (See Chart 2 given below).

Non-SLR investments of banks, which include investments in mutual funds, bonds/ debentures, shares and commercial papers, showed significant increase in 2013–14. This increase in non-SLR investments was primarily on account of investments in mutual funds, which increased to the tune of 42.8 per cent during the year, though it showed large intra-year volatility. Bonds and debentures, which constitute the largest portion of banks' non-SLR investments, showed a declining trend in share in the recent years. The share of investments in shares, which had registered a steep fall in 2012–13 resulting from the subdued conditions in the capital market in the aftermath of the financial crisis, showed a further—although marginal—fall in 2013–14. Thus, as against the waning importance of bonds/debentures and shares in the investment portfolio of banks, the share of investments in mutual funds showed a steady increase in the recent years.

Chart 2: Percentage Contribution of Investments in Approved and Non-approved Securities to Incremental Investments

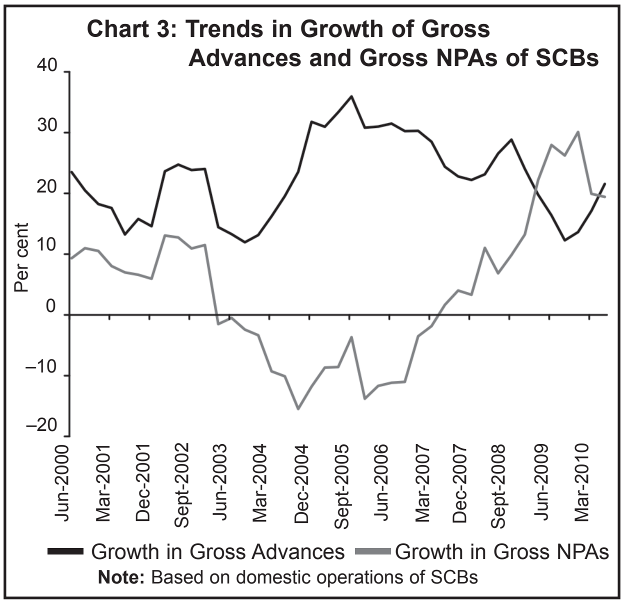


5. SOUNDNESS INDICATORS

Financial soundness of banks has an important bearing on the stability of the financial system as a whole. In the aftermath of the crisis, initiatives have been taken to strengthen the prudential regulatory framework across countries under the enhanced Basel II framework. Using three indicators of Capital to Risk Weighted Assets Ratio (CRAR), Non-Performing Assets and leverage ratio, this section analyses the financial soundness of Indian banks during the year 2013–14.

6. NON-PERFORMING ASSETS (NPAs)

While the capital adequacy of Indian banks remained robust, there were some emerging concerns with regard to the second important soundness indicator of banks of Non-Performing Assets (NPAs). Asset quality of Indian banks had generally seen a steady improvement as evident from a declining level of gross and net NPA ratio since 1999. The gross NPA ratio of SCBs placed at 14.6 per cent at end-March 1999, had declined steadily to 2.25 per cent at end-March 2008. During the crisis year 2008–09, the gross NPA ratio remained unchanged for Indian banks. However, during 2009–10, the gross NPA ratio showed an increase to 2.39 per cent. After netting out provisions, there was a rise in the net NPA ratio of SCBs from 1.05 per cent at end-March 2009 to 1.12 per cent at end-March 2010.



It is noteworthy that the growth in NPAs of Indian banks has largely followed a lagged cyclical pattern with regard to credit growth (See Chart 3 given above).

7. FAIR LENDING PRACTICES CODE (FLPC)

FLPC aims at providing information to customers seeking credit facilities of all categories of loans irrespective of amount of loan sought by the borrower and facilitates effective interaction of customers with the Bank.

The Fair Lending Practices Code is as follows:

1. *Important Declarations:* Our Bank declares and undertakes:

   To provide professional, efficient, courteous, diligent and speedy services in the matter of retail lending.

   Not to discriminate on the basis of religion, caste, sex, descent or any of them. To be fair and honest in advertisement and marketing of loan products. To provide customers with accurate and timely disclosure of terms, costs, rights and liabilities as regards loan transactions.

   If sought, to provide such assistance or advice to customers in contacting loans.

   To attempt in good faith to resolve any disputes or differences with customers by setting up complaint redressal cells within the organisation.

   To comply with all the regulatory requirements in good faith.

   To spread general awareness about potential risks in contacting loans and encourage customers to take independent financial advice and not act only on representation from Bank.

2. *Fair Practices*

   2.1. *Product Information:* A prospective customer would be given all the necessary information adequately explaining the range of loan products available with our Bank to suit his needs.

   On exercise of choice, the customer would be given relevant information about the loan product of choice.

   The customer would be explained the processes involved till sanction and disbursement of loan and would be notified of timeframe within which all the processes will be completed ordinarily at our Bank.

The customer would be informed of the names and phone numbers of branches and the persons, whom he can contact for the purpose of loan to suit his needs. The customer would be informed of the procedure involved in servicing and closure of the loan taken.

2.2. *Interest Rates*

2.2.1. Interest rates for different loan products would be made available through any one or all of the following media, namely, Bank's website.

Over phone, if telebanking services are provided.

Through prominent display in the Branches and at other delivery points.

Through other media from time to time.

2.2.2. Customers would be entitled to receive periodic updates on the interest rates applicable to their accounts.

2.2.3. On demand, customers can have full details of method of application of interest.

2.3. *Revision in Interest Rates:* Our Bank would notify immediately or as soon as possible any revision in the existing interest rates and make them available to the customers in the media listed in Para 2.2.1. Interest rate revisions to the existing customers would be notified within 3 working days from the date of change.

2.4. *Default Interest/Penal Interest:* Our Bank would notify clearly about the default interest / penal interest rates to the prospective customers.

2.5. *Charges:* Our Bank would notify details of all charges payable by the customers in relation to their loan account.

Our Bank would make available for the benefit of prospective customers all the details relating to charges generally in respect of their retail products in the media specified in Para 2.2.1.

Any revision in charges would be notified in advance and would also be made available in the media as listed in Para 2.2.1.

Our Bank would clearly specify the charge account for interest and charges, wherever necessary and get a mandate for debiting the said charge account along with the documentation.

2.6. *Terms and Conditions for Lending:* Our Bank would ordinarily give an acknowledgement of receipt of loan request and if demanded by the customer, a copy of the application form duly acknowledged would also be given, as soon as the customer chooses to buy a product or service of his choice.

Immediately after the decision to sanction the loan, our Bank would show draft of the documents that the customer is required to execute and would explain, if demanded by the customer the relevant terms and conditions for sanction and disbursement of loan.

Loan Application Forms, Draft documents or such other papers to be signed by a customer should comprehensively contain all the terms and conditions relating to the product or service of his choice.

Wherever possible, reasons for rejection of loan would be conveyed to the customers. Before disbursement of loan and on immediate execution of the loan documents, our Bank would deliver a copy of the duly executed documents to the customers.

2.7. *Account Practices:* Our Bank would provide regular statement of accounts, unless not found necessary by the customers.

Our Bank would notify relevant due dates for application of agreed interest, penal interest, default interest, and charges, if they are not mentioned in the loan applications, documents or correspondence.

Our Bank would notify in advance any change in accounting practices, which would affect the customer before implementation.

2.8. *Information Secrecy:* All personal information of the customer would be confidential and would not be disclosed to any third party unless agreed to by customer. The term 'Third Party' excludes all Law Enforcement Agencies, Credit Information Bureau, Reserve Bank of India, other Banks and Financial Institutions.

Subject to 2.8, customer information would be revealed only under the following circumstances, namely:

If the Bank is compelled by law.

If it is in the public interest to reveal the information.

If the interests of the Bank require disclosure.

2.9. *Financial Distress:* Our Bank would reckon cases of customer's financial distress and consider them sympathetically.

Customer would be encouraged to inform about their financial distress as soon as possible.

Our Bank would adequately train the operational staff to give patient hearing to the customers in financial distress and would render such help as may be possible in our view.

2.10. *Grievance Redressal:* Our Bank would have a Grievance Redressal Cell / Department / Centre within or outside the organisation. Our Bank would make available all the details, namely:

Where a complaint can be made, How a complaint should be made, When to expect a reply, Whom to approach for redressal of grievance, etc., to the customers individually on demand and through the media listed in Para 2.2.1. Response to a complaint whether positive or negative or requiring more time for redressal would be given within a maximum period of four weeks from the date of complaint, unless the nature of complaint is such that requires verification of voluminous facts and figures.

8. CASE STUDY: PUNJAB NATIONAL BANK

Punjab under the British especially after annexation in 1849 witnessed a period of rapid development giving rise to a new educated class fired with a desire for freedom from the yoke of slavery. Among the cherished desires of this new class was also an overriding ambition to start a Swadeshi Bank with Indian capital and management representing all sections of the Indian community. The idea was first mooted by **Rai Mool Raj** of Arya Samaj who, as reported by **Lala Lajpat Rai**, had long cherished the idea that Indians should have a national bank of their own. He felt keenly "the fact that the Indian capital was being used to run English banks and companies, the profits accruing from which went entirely to the Britishers while Indians had to contend themselves with a small interest on their own capital."

At the instance of **Rai Mool Raj**, **Lala Lajpat Rai** sent round a circular to selected friends insisting on an Indian Joint Stock Bank as the first special step in constructive Swadeshi. **Lala Harkrishan Lal** who had returned from England with ideas regarding commerce and industry, was eager to give them practical shape.

On May 23, 1894, the efforts materialised. The founding board was drawn from different parts of India professing different faiths and a varied background with, however, the common objective of providing the country with a truly national bank which would further the economic interest of the country.

9. PROFILE OF PNB

With over 60 million satisfied customers and more than 5,100 offices including 5 overseas branches, PNB has continued to retain its leadership position among the nationalised banks. The bank enjoys strong fundamentals, large franchise value and good brand image. Besides being ranked as one of India's top service brands, PNB has remained fully committed to its guiding principles of sound and prudent banking. Apart from offering banking products, the bank has also entered the credit card, debit card; bullion business; life and non-life insurance; Gold coins and asset management business, etc. PNB has earned many awards and accolades during the year in appreciation of excellence in services, Corporate Social Responsibility (CSR) practices, transparent governance structure, best use of technology and good human resource management.

The performance highlights of the bank in terms of business and profit are shown below:

PROGRESS AT A GLANCE

(₹ Crore)

S. No.	Parameters	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
1.	Capital	315	315	317	339	353	362
2.	Reserves and Surplus	14338	17408	21192	27476	32323	35533
3.	Deposits	209761	249330	312899	379588	391560	451397
4.	Advances	154703	186601	242107	293775	308796	349269
5.	Total Business	364464	435931	555005	673363	700356	800666
6.	Total Assets	246919	296633	378325	458194	478948	550420
7.	Investment	63385	77724	95162	122703	129896	143786
8.	Total Branches* (Number)	4668	5002	5189	5670	5874	6201
9.	ATM Network (Number)	2150	3544	5050	6009	6313	6940
10.	Operating Profit	5690	7326	9056	10614	10907	11384
11.	Total Provisions	2599	3421	4622	5730	6160	8042
12.	Net Profit	3091	3905	4433	4884	4748	3343
13.	Business/Employee (₹ lakh)	655	808	1018	1132	1165	1283
14.	Profit/Employee (₹ lakh)	5.64	7.31	8.35	8.42	8.06	5.49
15.	Credit-Deposit Ratio (%)	73.75	74.84	77.38	77.39	78.86	77.38
16.	Cost of Deposit (%)	6.25	5.38	5.24	6.59	6.82	6.33
17.	Yield on Advances (%)	11.41	10.36	10.58	11.67	11.06	10.36
18.	Yield on Investments (%)	6.69	6.73	7.05	7.57	7.89	7.85
19.	Net Interest Margin (%)	3.52	3.57	3.96	3.84	3.52	3.44
20.	Return of Assets (%)	1.39	1.44	1.34	1.19	1.00	0.64
21.	Cost to Income Ratio (%)	42.5	39.39	41.27	39.75	42.81	45.06
22.	Gross NPAs (%)	1.60	1.71	1.79	2.93	4.27	5.25
23.	Net NPAs (%)	0.17	0.53	0.85	1.52	2.35	2.85
24.	Capital Adequacy Ratio (Basel II) (%)	14.03	14.16	12.42	12.63	12.72	12.29
25.	Capital Adequacy Ratio (Basel III) (%)	–	–	–	–	–	11.52
26.	Dividend (%)	200	220	220	220	270	100**

*Including Extension Counters and excluding Overseas Branches.

** The Board of Directors declared the interim dividend @ ₹ 10, (*i.e.*, 100%) per equity share of ₹ 10 each for FY'14.

The Bank always looked at technology as a key facilitator to provide better customer service and ensured that its 'IT strategy' follows the 'Business strategy' so as to arrive at "Best Fit".

Backed by strong domestic performance, the Bank is planning to realise its global aspirations. The Bank has opened one branch each at Kabul and Dubai, two branches at Hong Kong and an Offshore Banking Unit at Mumbai. In addition to the above, the Bank has Representative offices at Almaty, Dubai, Shanghai and Oslo, a wholly owned subsidiary in UK with 7 branches and a subsidiary each in Kazakhstan and Bhutan, and joint venture with Everest Bank Ltd., Nepal. During the year, the Bank acquired majority equity stake of 63.64% in Dana Bank of Kazakhstan.

IV. Suggested Questions/Answers for Viva Voce

Q.1. Name one important commercial bank in the public sector in India.

Ans. State Bank of India.

Q.2. Name one important commercial bank in the private sector in India.

Ans. ICICI Bank.

Q.3. Name one important regional rural bank in India.

Ans. Prathama Bank, Moradabad.

Q.4. What are Non-Performing Assets (NPAs) of a commercial bank?

Ans. More generally, all those investments of a bank which fail to generate income for a bank are classified as NPAs.

Q.5. What is FLPC?

Ans. FLPC aims at providing information to customers seeking credit facilities of all categories of loans irrespective of amount of loan sought by the borrower and facilitates effective interaction of customers with the bank.

Q.6. Do banks charge interest at the same rate from all borrowers?

Ans. They charge interest at different rates from different borrowers.

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