

Surviving the financial crisis: The Indian case

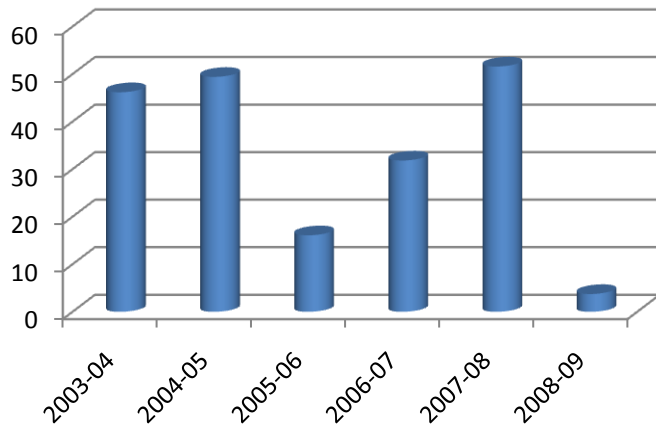
Dr Sumon Bhaumik
Aston Business School

Anatomy of the crisis

- Cheap money
- Balance sheet expansion: sub-prime mortgages
- Securitisation
- Uncertainty about asset quality

Monetary policy

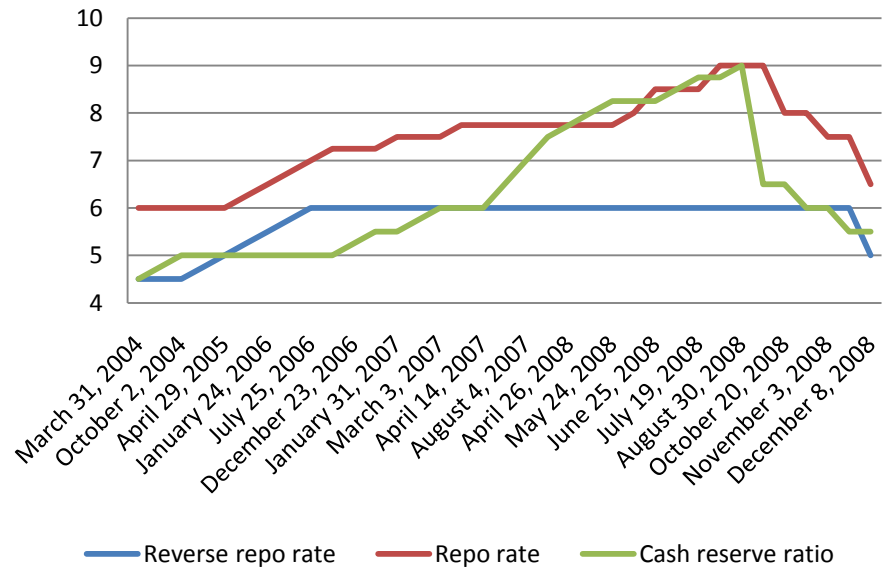
Contribution of forex inflow to M3 growth



.... decidedly hawkish monetary policy stance up until the Lehman crisis in September 2008

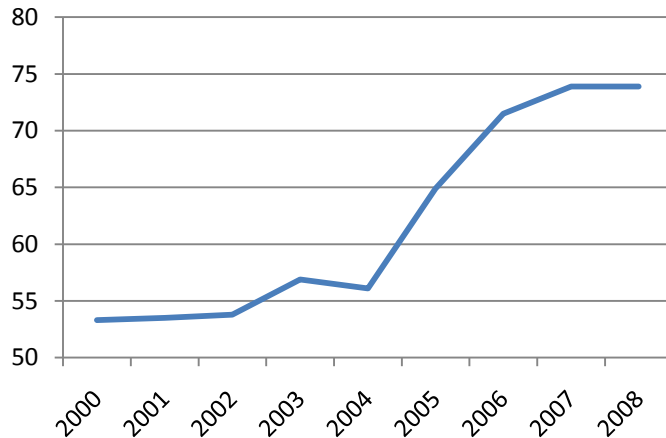


Monetary policy



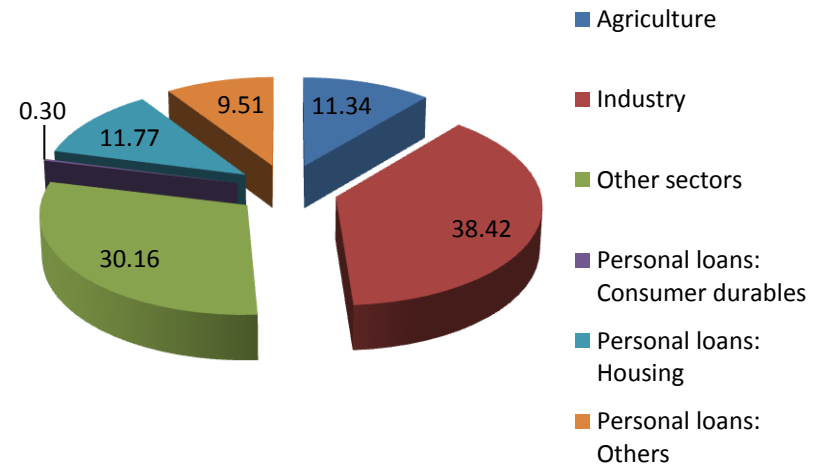
Credit expansion

Credit-deposit ratio



.... credit expansion limited by deposits, without recourse to the money market

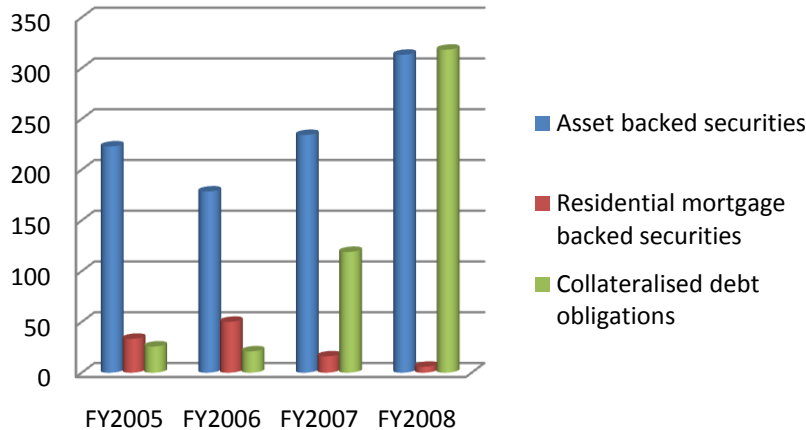
Share of bank credit



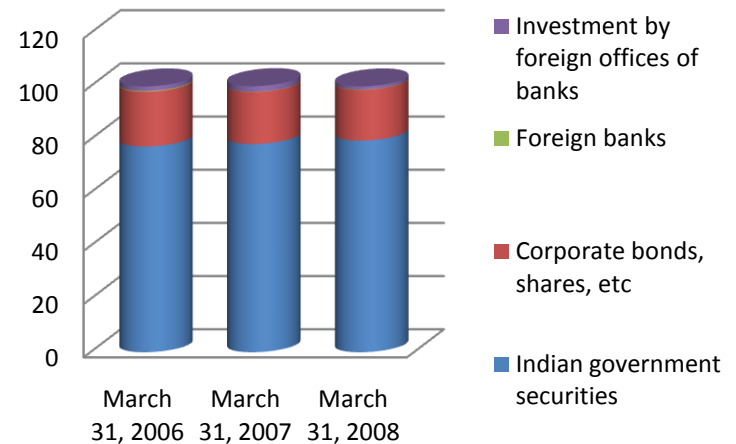
.... mortgages account for a relatively small fraction of the balance sheet

Securitisation

Structured finance issuance (Rs. billion)



Investment portfolio of banks



.... very little securitisation relative to overall size of banks' balance sheets – even less so for mortgages – and very little of the asset backed securities on banks' books

TICK, TICK...

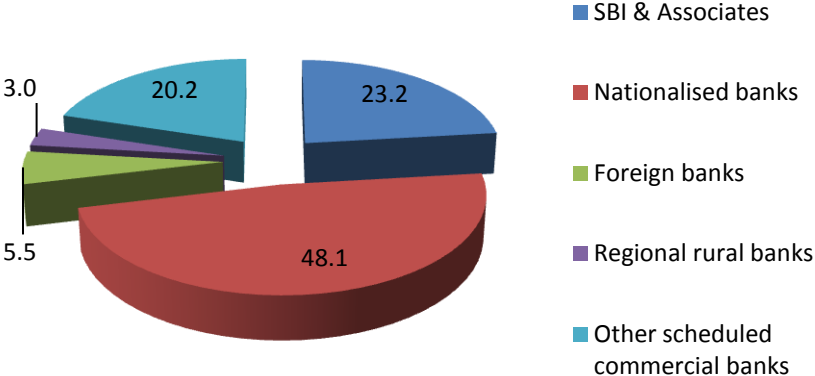
The securitised portfolios of select mutual funds.

| Schemes | Total fund size (Rs crore) | Securitized Portfolio (%) | Securitized corpus (Rs crore) |
|----------------------------|----------------------------|---------------------------|-------------------------------|
| Reliance Liquid Fund | 11,583 | 29 | 3,359 |
| ICICI Prudential Liquid | 12,610 | 14 | 1,765 |
| UTI Liquid Fund | 4,626 | 17 | 786 |
| Templeton India Bond | 2,151 | 26 | 560 |
| SBI Premier Liquid | 2,457 | 17 | 414 |
| ING Liquid Plus | 2,043 | 22 | 418 |
| Birla Sun Life Liquid Plus | 6,760 | 12 | 811 |

Note: Figures are as of September 30, 2008 Source: BT Research

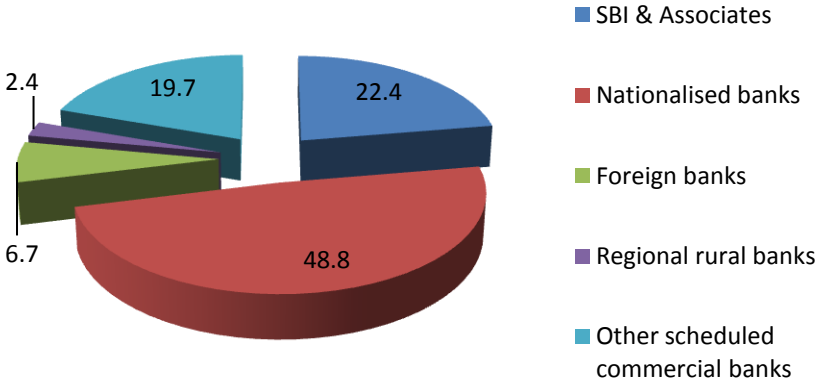
Prominence of state-owned banks

Deposits



.... reduced likelihood of bank runs

Credit



.... minimal counterparty risk for a large proportion of lending in the inter-bank market

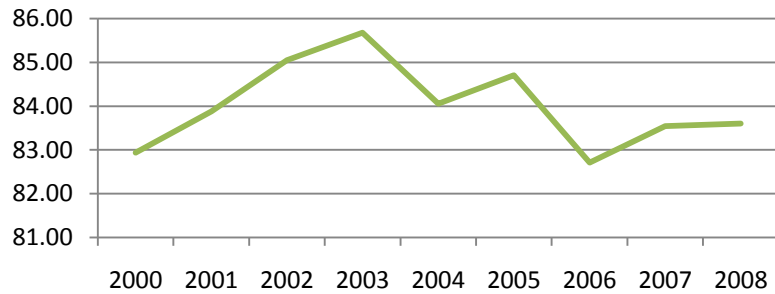
Health of banks

| | Indian Bank | | United Bank of India | |
|--|-------------|-------|----------------------|-------|
| | 2008 | 2009 | 2008 | 2009 |
| Cash-deposit ratio | 10.54 | 8.56 | 11.18 | 8.31 |
| Ratio of secured advances to total advances | 85.37 | 88.15 | 83.61 | 87.07 |
| Ratio of net-interest margin to total assets | 3.24 | 3.37 | 1.87 | 2.00 |
| Return on assets | 1.64 | 1.62 | 0.68 | 0.34 |
| Return on equity | 22.41 | 20.26 | 12.57 | 6.44 |
| Capital adequacy ratio - Tier I | 11.29 | 11.88 | 6.37 | 7.56 |
| Capital adequacy ratio - Tier II | 1.45 | 2.10 | 4.87 | 5.72 |
| Ratio of net NPA to net advances | 0.24 | 0.18 | 1.10 | 1.48 |

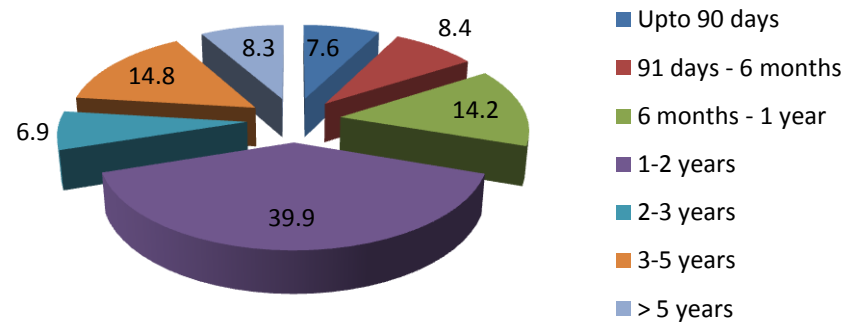
.... in addition, to satisfy the regulation regarding *statutory liquidity ratio*, 25 percent of deposits invested in (largely) government bonds

Maturity of deposits

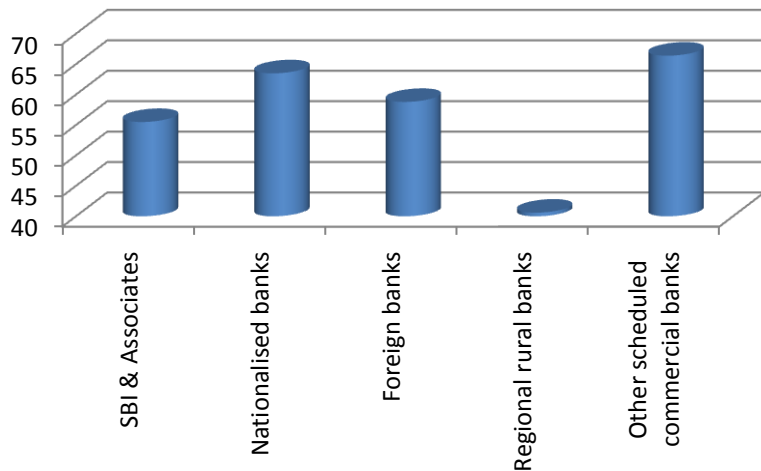
Time deposits as percentage of total deposits



Maturity distribution of time deposits



.... across bank groups



.... further reduction in the likelihood of bank runs