

Surviving the financial crisis: The Indian case

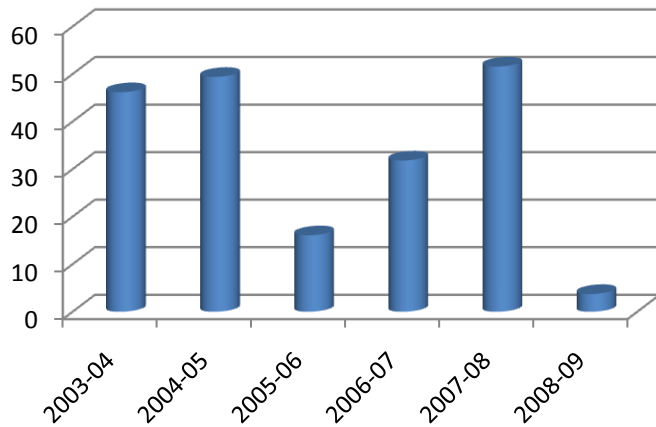
Dr Sumon Bhaumik
Aston Business School

Anatomy of the crisis

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

Monetary policy

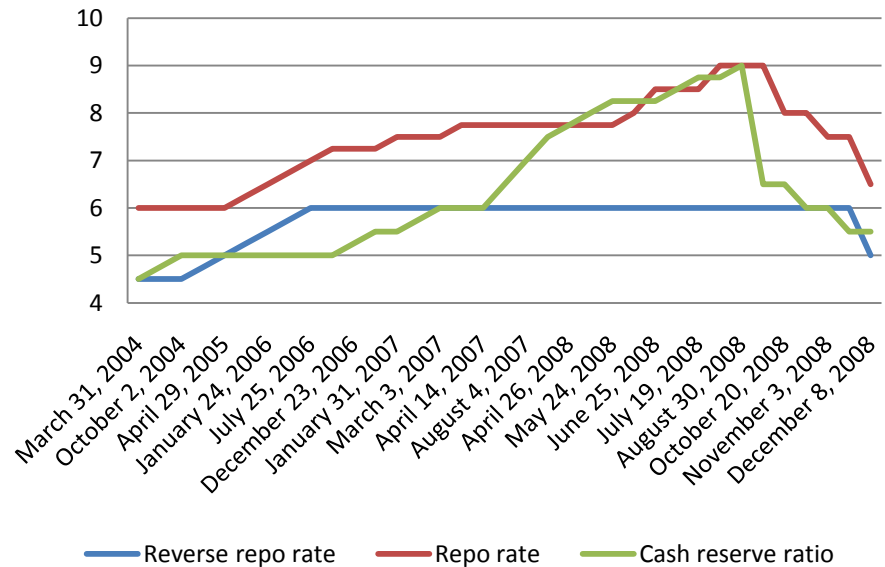
Contribution of forex inflow to M3 growth



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

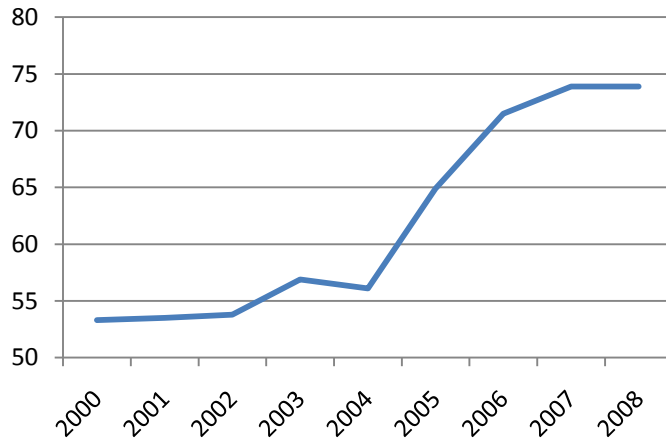


Monetary policy



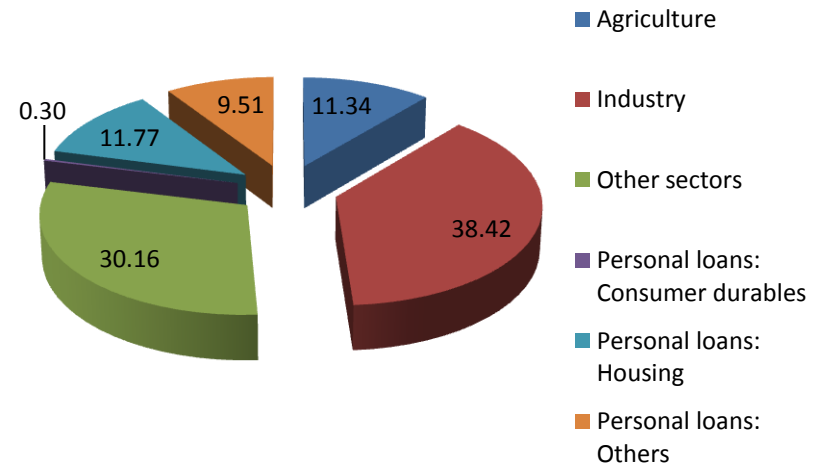
Credit expansion

Credit-deposit ratio



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

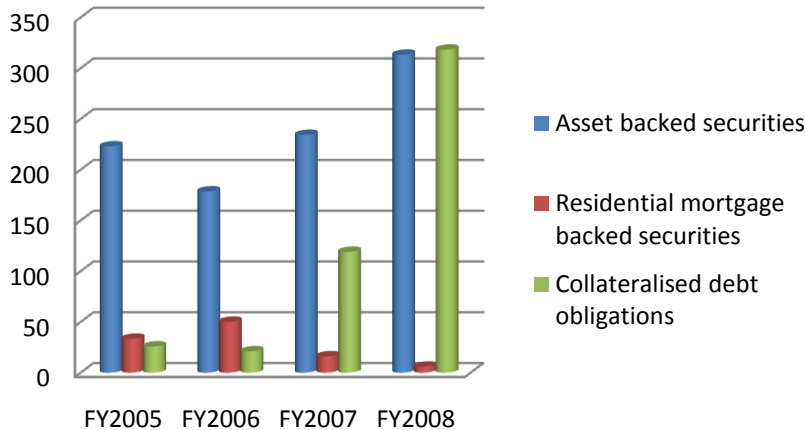
Share of bank credit



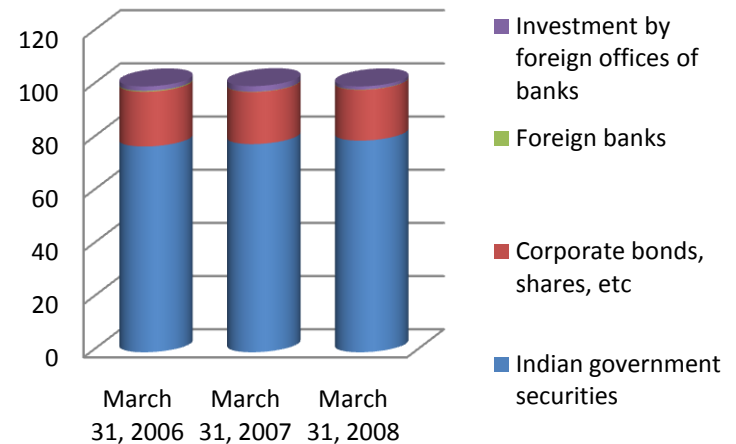
.... mortgages account for a relatively small fraction of the balance sheet

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...

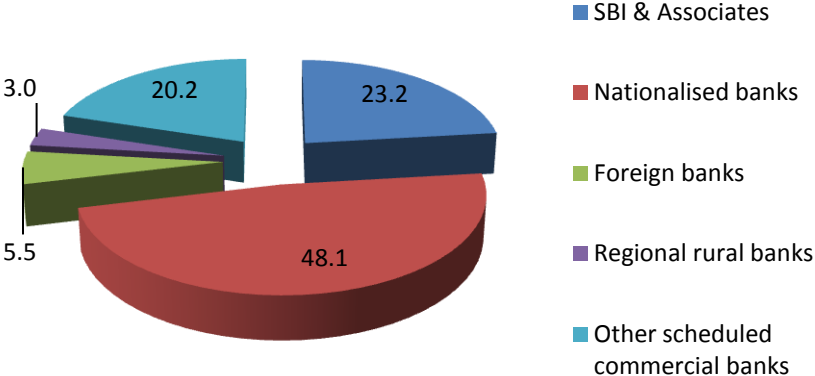
The securitised portfolios of select mutual funds.

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

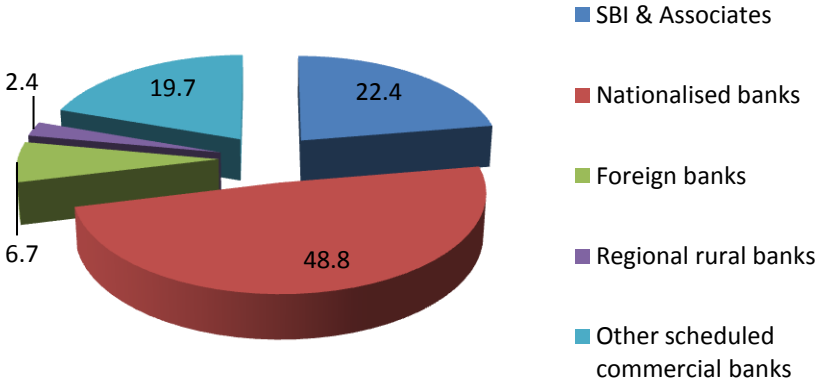
Deposits



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

.... reduced likelihood of bank runs

Credit



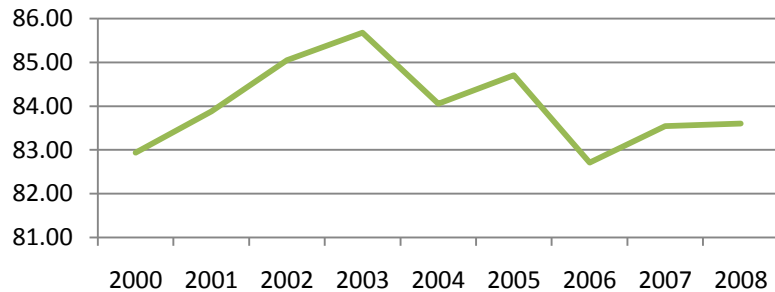
Health of banks

	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

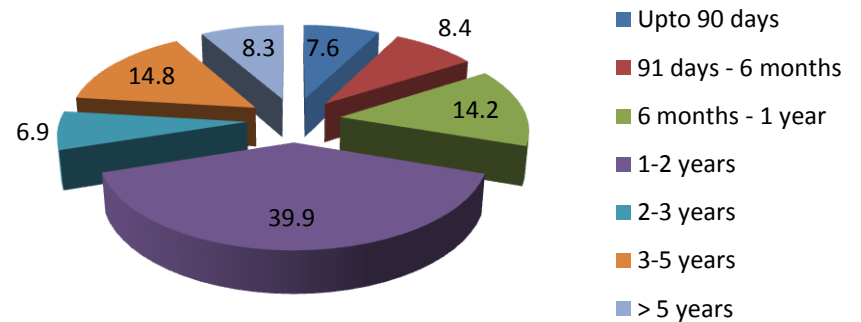
.... in addition, to satisfy the regulation regarding *statutory liquidity ratio*, 25 percent of deposits invested in (largely) government bonds

Maturity of deposits

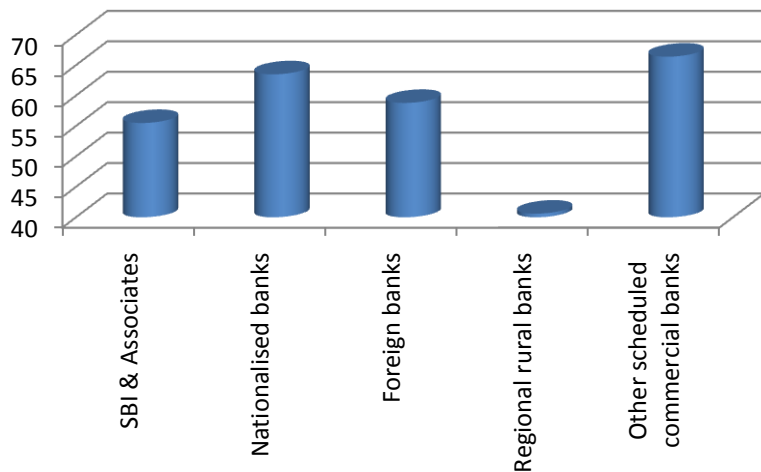
Time deposits as percentage of total deposits



Maturity distribution of time deposits



.... across bank groups



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