

Banking Sector In India

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Abstract:

The economy of India is currently world's fourth largest in terms of real GDP (PPP). The growth rate of Indian economy was about 7.8 per cent during tenth five year plan. It is set at 9 per cent for eleventh plan. The industrial sector, agricultural sector and services sector have played very important role economic development. However, the research paper considers only banking sector and its impact on development. India is marching towards superpower in the world. In this mission the role of banking sector is very crucial. The present research paper intends to study the role of banks in economic development and strengthening the economy to emerge as superpower in the world.

COMMERCIAL BANKS IN INDIA

The banks help various industries in mitigating working capital requirements. Till 1969 all commercial banks were working in private sector. But 14 large commercial banks were nationalised in 1969. And in second phase 8 large banks were nationalised in 1980. Thus since 1969 commercial banks are broadly classified into nationalised or public sector banks and private sector banks. The State Bank of India and its associate banks along with another 20 banks are known as public sector banks. A small number of Indian scheduled banks and foreign exchange banks are included in private sector banks.

In 1950-51 there were 430 commercial banks in India. However, in order to strengthen the banking system Reserve Bank of India implemented the policy of mergers and amalgamations of small banks. So the number of banks declined rapidly. For instance, in 1960-61 there were 256 small non-scheduled commercial banks. In 1980-81 there were only 4 such banks. The rest of other banks were merged with bigger banks. In 2007-08 there were 172 reporting scheduled commercial banks in India.

The important feature of banking development, especially since 1969, has been the remarkable progress in branch expansion. Table 1 shows the progress to branch expansion of public sector and other commercial banks.

Table 1 : Branch Expansion of All Commercial Banks

As on June, 30	Total No. of Branches	Rural Branches	Rural Branches as % of the Total	Population per Bank office
1969	8,260	1,860	22	63,800
1991	60,650	32,750	54	14,150
2007	72,170	30,590	42	15,000

Source: Economic Survey, 2009-10.

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It is evident from the above table, that the total number of branches of all commercial banks has increased by leaps and bounds. In a matter of last 85 years, after bank nationalisation, there was over 800 per cent increase in number of branches. The most spectacular progress was in rural branches. The total rise in such branches was about 1860 to nearly 30,600 bank offices.

Nationalised banks have reduced the regional imbalances in the availability of banking facilities. The majority of branches have been opened in unbanked areas. There were very few branches of banks in the states like Assam, Haryana, Himachal Pradesh and Nagaland, before nationalisation. But after nationalisation many branches were started in these states. 35 per cent of branches were opened in the states where banking facilities were less.

There has been a marked increase in the deposits of scheduled commercial banks. Planned economic development, deficit financing and increase in currency issue are primarily responsible for the increase in the bank deposits. Banks have played very important role in the development of banking habit among people through sustained publicity, extensive branch expansion and relatively prompt service to the customers.

Table 2 : Deposits of All Scheduled Commercial Banks

Year	No. of Reporting Banks	Bank Deposits (Rs. Crores)
1950-51	430	820
1970-71	73	5,910
1990-91	271	1,92,541
2000-01	297	9,62,541
2008-09	165	9,38,922

Sources: i) RBI Bulletin, June, 2008.
ii) Hand book of Statistics on Indian Economy (2008-09).

It is clear from the above table that during 1951-1971 (20 years) there was about 700 per cent growth in deposits. During 1971-91 (20 years) the growth in deposits was 3260 per cent. Fro 1991-2009 (18 years) deposits grew by 1690 per cent. This phenomenal rise in the deposits of banks can be attributed to various factors such as,

i)rapid branch expansion,
ii)increase in the amount of cash with the banking system,
iii)favourable business environment,
iv)high rates of interest
v)greater monetization of the economy.

The banks are meeting the credit requirements of industry, agriculture and trade. Just as bank deposits have expanded, bank credit too has expanded tremendously, especially since, 1969. Table 3 : Credit of All Scheduled Commercial Banks

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Year	No. of Reporting Banks	Bank Credit (Rs. Crores)
1950-51	430	580
1970-71	73	4,690
1990-91	271	1,16,300
2000-01	297	5,11,430
2008-09	165	27,70,012

Sources: i) **RBI Bulletin, June, 2008.**

ii) **Hand book of Statistics on Indian Economy (2008-09).**

The above table reveals that banks are succeeded in expanding credit facilities to various factors. Banks have expanded credit from about Rs. 1,16,300 crores in 1990-91 to 27,70,012 crores during 2008-09. Now-a-days bank credit has picked up smartly by around 20 to 22 per cent per year. A number of factors have contributed to this spurt in advances, such as,

- i) reduction in cash reserve requirements
- ii) increase in bank deposits
- iii) increase in money supply
- iv) rise in lendable resources of commercial banks.

ADVANCES TO PRIORITY SECTOR

Priority sectors include agriculture, small scale industries, road and water transport operators, retail traders, small businessmen, self-employed persons and exports. In spite of the fact that agriculture and small-scale industries occupy an important place in our economy, they were neglected by the banks before 1969. But after nationalisation commercial banks have extended advances up to 40 percent to this sector. Priority sectors have been an integral part of bank credit delivery in India. There was a growth in priority sector credit from domestic commercial banks of 18.4 per cent. The growth in agricultural credit from domestic banks was to the tune of 22.6 per cent in 2009-10. At the end of March, 2010, domestic (public and private sector) banks had more than met their overall priority sector lending target of 40 per cent.

Table 4 : Priority Sector Lending by Banks

Item	Public Sector Banks		Private Sector Banks	
	2009	2010	2009	2010
Priority sector advances of which	7,24,150 (42.7)	8,64,564 (41.6)	1,87,849 (46.2)	2,15,552 (45.9)
Agriculture	2,99,415 (17.6)	3,70,730 (17.1)	76,102 (18.7)	89,769 (15.6)
Micro and small enterprises	1,91,408 (11.3)	2,78,398 (13.2)	46,656 (11.8)	64,534 (13.7)

Sources: Report on Trend and Progress of Banking of India (2009-10)

There were some concerns regarding the performance of domestic banks in meeting the sub-target (18 per cent) under agriculture. At the aggregate level, both public and private sector banks were below the sub-target of 18 per cent for agriculture at the end March, 2010.

FINANCIAL INCLUSION

Financial inclusion refers to the provision of affordable financial services by the formal financial system to those who tend to be excluded. The Indian policy approach towards financial inclusion since early 2000s has been focused on ensuring inclusion at the individual and household level. Accordingly, the scheme of no-frills accounts was initiated by Reserve Bank of India in 2005 to provide an easy financial savings facility to the population at large.

At end- March, 2010, 50.6 million no-frills accounts were opened by the banking system. Microfinance has been another important component of the financial inclusion process. The Self-Help Group-Linkage Programme was started in 1992. It has developed with rapid strides over the years. In 2009-10, 1.59 million new SHGs were credit-linked with banks and bank loan of Rs. 14,453 crore was disbursed to these SHGs.

Table 5 : Progress of Micro-Finance Programmes

Item	Self-Help Groups			
	Number (in Million)		Amount (Rs. in Crores)	
	2008-09	2009-10	2008-09	2009-10
1. Loans disbursed by banks during the year	1.61	1.59	12,254	14,453
2. Loans outstanding with Banks	4.22	4.85	22,680	28,038
3. Savings with Banks	6.12	6.95	5,546	6,199

Source: Annual Report of NABARD (2009-10)

At end- March, 2010, 6.95 million SHGs maintained savings accounts with banks. On an average, the amount of savings per SHG was Rs. 8915 as compared to the amount of credit outstanding of Rs. 57795 in 2009-10. Thus the commercial banks have helped immensely in promoting SHGs.

The government of India has promoted public sector banks to finance various poverty alleviation programmes. The government has introduced the scheme of differential interest rates in 1972. Under this scheme public sector banks extend loans at a concessional rate of 4 per cent to the weaker sections of the society. This scheme indicated remarkable increase in number of accounts (4.3 million) and the advance outstanding were Rs. 710 crores at the end of June, 1990. Under IRDP, banks had assisted nearly 3 million beneficiaries during 1990-91. The outstanding advances of banks under this scheme stood about Rs. 430 crores in March, 2000. Banks had advanced Rs. 19,240 crores to weaker sections of the society during 1999-2000. This stood at 7.2 per cent of the total public sector banks credit. The target in this regard was of 10 per cent.

i) Prime Minister's Rojgar Yojana for Educated Unemployed,
 ii) Scheme for Urban Micro Enterprises
 iii) Bank credit to minority communities etc. are the other important schemes which were introduced by the government under social banking. These schemes are being implemented through the commercial banking

system.

Due to branch expansion and credit supply banks could succeeded in employment generation. Particularly, since 1969 banks have expanded their branches on large scale. The banks have emphasised on industrial and agricultural development. Banks have contributed to industrial progress through extension of credit. Moreover, public sector banks have given special weightage to agricultural sector and rural areas in respect of credit supply. This has led to encouragement of agricultural and allied activities. Small scale industries, handicraft industries, cottage industries etc. have benefited of the credit facilities of banks. Thus banks have facilitated employment generation in rural areas also. In spite of this, banks have provided employment opportunities directly at various offices.

PROBLEMS FACED BY BANKS

Though the performance of the commercial banks has been very impressive, particularly after 1969, still banks have to face some challenges. The declining quality of banking services has become a major problem before banks. The timely recovery of loans is another important problem faced by banks. The rate of recovery in some areas and some type of loans have ranged between 40 and 50 per cent. The public sector banks is the growing politicalisation of banking institutions. The political interference has restricted the healthy growth of banks. Public sector banks have been resorting to large scale irregularities in their operations. For instance, favoritism in granting loans, bad quality of loan portfolios, irregularities in accounts, large bad debts, declining profitability etc. The banks are required to enhance their efficiency in order to compete with foreign banks. The organisational structure of banks is need to be strengthened. They are also forced to make provision for maintaining capital adequacy ratio. It is therefore, necessary that banks must be subject to rules concerning income recognition, provisioning and portfolio concentration. The supervisory system must also be strengthened in the absence of which financial scandals will cause serious crises.

CONCLUSION

Commercial banks have played important role in the economic development. Most of the credit-related schemes of the government. Most of the credit-related schemes of the government to uplift the poorer and the under-privileged sections have been implemented through the banking sector. The banking sector's role in deposit mobilisation and extending credit is of much importance. The commercial banks have extended loans at concessional rates to priority sector. The functioning of banks through financial inclusion and social banking is also worthy of note. The banking system has contributed to economic development of the country. The banks have helped to strengthen the economy. Thus the banking sector plays very crucial role in making the economy more stronger and facilitate to emerge as super power in global market.

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