

PREFACE

Banking system occupies an important place in the Nation's Economy. Banks are an indispensable institution in a modern society and form the core of money market of advanced countries. The banking system remains a focal point in the financial setup of any developing country. In India, too, economic development has evolved around the banking system. The present banking system in India was evolved to meet the financial needs of trade and industry and also to satisfy the institutions of the country.

The commercial banks being an important pillar of modern organised society play an important role in economic transformation. They can bring about proper allocation of available resources by mobilising deposits and channeling credit into best possible uses according to national priorities. The development of banking in India has seen many phases. Initially the development of banking can be recognised as foundation phase upto 1969, in which the need of the hour was to reorganise and to consolidate the prevailing banking network, keeping in view the requirements of the economy. After the nationalization of fourteen commercial banks in 1969 and six commercial banks in 1980, the banking in India has witnessed structural, physical, qualitative and conceptual changes. The commercial banks acted as a vital instrument for this purpose by way of rapid branch expansion, deposit mobilisation and credit creation for the economic growth and development of the country as a whole; nationalization has enabled the banks to reach to the poorer section of society. Keeping in view, the motto of social banking, banks streamlined their credit off-takes not only to meet the priority sector lending norms but also to carryout their social responsibility.

Till 1990 social lending was the Prime objective of the nationalised banks. The third phase in the Indian banking system which can be regarded on a 'second banking revolution' has been subject to widespread structural changes initiated since June 1991. Reform measures such as introduction of new accounting and prudential norms, liberalization measures etc., are leading towards a truly competitive and well structured banking system which is also resilient from an international prospective. These have spurred the dynamics of Indian banking sector in all the fields.

The public sector banks have also resorted to many changes in their banking field without compromising the social and national objectives. Computerisation in public sector banks was taken up in 1984 and it was followed by LAW environment in individual branches to computerize entire banking functions. The public sector banks have been mainly focussing on completing the targets of computerization in compliance with the guidelines issued by Central Vigilance Commission by 1st January 2001.

Also, the Indian economy in the last decade of the 20th century has witnessed introduction of far reaching changes in different facets. The country has witnessed sustained reforms in India's external economic policies relating to foreign trade, investment, external debt and currency convertibility. The country has reaped the reward of such progress. These measures have promoted efficiency and competitiveness in domestic industry, enhanced consumer welfare and encouraged modernization and technology upgradation. Likewise, banking industry, an important arm of the Indian economy, experienced major policy changes though the pace of these changes was somewhat slow. In the light of all these changes in the Indian economy and banking sector a need has been felt to evaluate the performance of Public Sector Banks in India. Although a period of more than thirty-two years has passed since the nationalization of these banks and these banks along with the banks of the State Bank group has operated for a considerable period of time, the question which has arisen in the minds of the discerning public is, 'Are the public sector banks serving the purpose?' specially in the post-reform period in the Indian economy. The economy is also heading towards privatization. The banking industry has been guided by the recommendations of different reform committees, yet it is necessary to measure the performance of public sector banking the post-reform period. The study has been conducted for the period of twelve years from 1988-89 to 1999-2000.

The present study is an attempt to evaluate the performance of public sector banks and the classification of these banks on the basis of the different performance indicators. The study is divided into seven chapters. Chapter I discusses the banking business and its origin in India, growth of public sector banks, role of banks in economic development and banking sector reforms in the new millenium. A detailed review of literature on banking is reported in Chapter II of the present study which

shows that no detailed study is conducted in the post-reform period. Research design of the present study on 'Performance of Public Sector Banks in India' forms the III Chapter. Fourth IV of the study evaluates the operational efficiency of the Public Sector Banks on the basis of eight performance indicators with number of branches and the total number of employees. The seventeen principal ratios of these indicators are explained in this chapter to measure the operational efficiency of banks. The trends in Income, Expenditure and Profitability of public sector banks have been studied in Chapter V. The trends in principal ratios of income, expenditure and profitability have been discussed in this chapter. Chapter VI of the study discusses the classification of public sector banking using discriminant analysis. To categorise individual banks into one of the predetermined groups on the basis of discriminant scores, critical value method has been used. The banks are grouped into excellent performed banks, above average banks, average banks and poor performed banks on their cut-off points. Any other bank can also be classified on the basis of their cut-off point values. Finally, summing up the findings of the study and concluding remarks find place in the last Chapter VII of the present study.

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