Chapter - I

Introduction & Design of the Study
After the Second World War, leaders of many under-developed countries turned their attention to problems of economic growth. Their objectives were to foster high level of growth in relatively short periods of time, particularly in comparison with the earlier course followed by more advanced industrial economies. In their bid to achieve the objective of high growth, they were confronted with problems stemming from such factors as shortage of capital, limited technological capacity and inadequacy of institutions, necessary for fostering rapid economic growth. Hence, planning has come to mean to achieve certain set of targets, given the pattern of allocation of resources. When once the physical targets and funds are given, it is assumed, that the monetary and banking mechanism would adjust itself to the needs of the economy. But it is to be remembered that the characteristics of developing economies are manifold. Several technical, social and economic factors determine the complicated process of development. Apart from these factors, the process of development is also a function of an increasing capital formation through an instantaneous and simultaneous process of banking growth which has to perform several functions in a developing economy like India.

The process of capital accumulation involves increasing capital stock by saving a portion of current income and making it available for use in further production. The theoretical attribution of high importance to capital and savings in economic development appears to be to some extent owing to
the popularity of the Harrod-Domar growth model\textsuperscript{1}. Although the Harrod Domar's approach was originally evolved with reference to developed economies, its value as a tool of analysis in regard to a developing economy could not be undermined. While Domar had satisfied to relate investment and capacity utilization to increase the income and their savings, Harrod stressed the way in which the investment can be traced back to the rate of increase in output. They come to the conclusion that growth rate is determined by savings – income ratio and reciprocal of capital output ratio.

Kurihara has also suggested that the "malleability" property of capital permits it to expand indefinitely for speedy Industrialization\textsuperscript{2}. An increased capital stock widens the structure of production and often thereby induces technical progress. Nurkse's concept of "vicious circle" of under-developed economies has also explained by making reference to the shortage of capital. In the words of Nurkse, "........ the low level of productivity, however, is a result of the small amount of capital used in production, which, in its turn, may be caused by the small inducement to invest"\textsuperscript{3}. It may be noted that this vicious circle continues in both under-developed and developing countries trapping them in low level income stagnation in which savings and investments approximate to only five per cent of national income. Therefore,

the main task of these countries is to raise by deliberate effort the level of their investment from approximately five per cent to 10-15 per cent of their national income to get themselves out of the hard ring of the vicious circle of poverty. Only in this way can a stage be achieved for proceeding from the "take off" level into sustained growth. Leibenstein also advocated a "Critical Minimum Effort" of about the same size for persistent growth to escape from backwardness.

In the light of above expressions, capital stands out in bold relief. Working within the framework of planning, the allocation of resources by the banks may break the vicious circle by increasing capital and thus set the pace for additional investment. The banking system occupies a very important place in the process of economic development, as these banks are the creators and the regulators of credit. An efficient banking system collects savings and diverts them into productive channels for the attainment of the goals of desired economic development. Hence, banking in the broadest sense and development is -- and ought to be -- closely inter-related. In traditional parlance, banks are often thought of simply as depositories and loan vendors. But in the modern age, its ramifications have been rather wider.

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The need for regulation of credit flows via. the banking system that has come into prominence. And banks have been urged to devote more attention to the "purpose" for which, they make loans or credits available rather than to "security" in the customary sense, to view themselves as 'development agencies' rather than as mere 'disburser of funds', to pick out promising new entrepreneurs and, in general to restrict both their organisational arrangements and their working rules or practices to the new requirements. Thus in this process, the role of public sector banks has become highly significant.

On the other hand, the concept of the 'Welfare State' has come to stay in the developing economies, with its lofty ideals of securing better standards of living, full employment and improved social security measures for human happiness. All types of Governments, irrespective of their ideological affiliations, aim at achieving the welfare of the people, as the ultimate objective. Banks have been instruments of the State in implementing schemes aimed at bettering the lives of the people. The importance of public sector banks in the country in accelerating the pace of economic development and thereby enhancing the welfare of the community at large cannot be undermined. This has become the catalyst for the economic development of the State. Hence, the Governments of modern states give more attention to public sector banks.

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8 Ibid.
Review of Literature:

Banking plays a pivotal role in the economic and social development of our country. Distribution of scarce financial resources in the most desired direction is a necessity to achieve better standards of living, increased employment and improved social security measures to the people. Banks are important agencies to distribute such resources and naturally what banks do, how they function, in what direction they proceed, are to be closely guided by larger national objectives to achieve welfare as enshrined in our constitution. Former Prime Minister Late, Indira Gandhi, in a statement on 21st July, 1969 said, "Public Ownership and the control of the commanding heights of national economy of its strategic sectors are essential and important aspects of the new social order which we are trying to build in this country. Financial institutions are among the most important levers that any society has at its command, for the achievement of its social and economic objectives."

From time to time several studies, official as well as non-official, have been undertaken in the domain of public sector banks at both macro and micro levels in India. The following are the some of the important studies in this endeavour:

In order to tackle the problems of low profitability in the banking sector caused by low levels of productivity and efficiency, the Reserve Bank of India, constituted a Working Group under the Chairmanship of

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Shri J.C. Luther the then Deputy Governor of the Reserve Bank of India, to formulate a prospective view so that banks can take future developments in their stride. The major findings of the Working Group are: (i) In order to increase profitability, an urgent requirement is to consider an increase in earnings and reduction in expenses through cost control and other methods like the improvement of capital base of banks (ii) The rate of interests on additional cash reserves in excess of the minimum of three per cent should be related to the cost of funds for banks and be free from taxation (iii) A review of the Income tax laws and procedures relating to banks are necessary in the light of the social responsibilities cost on them (iv) To the extent possible, a relationship should be consciously sought for, to establish between the different services provided and the returns received thereby. There should be regular and systematic sample surveys to estimate the cost of various services and profitability of different activities. (v) The cost study undertaken by the group shows that the principal source of profits for banks is funds activity while remittances and bills as well as other services were a drag on the banks resulting in a net loss. (vi) Maximisation of profitability requires effort not only at the macro-level for the system as a whole or an individual bank, but also at the micro-or branch level. (vii) The evaluation of efficiency will have to be broad-based and measures chosen will have to be such as to throw sufficient light on the varied facets of bank's performance relevant in the current context. (viii) There is need to evolve a national plan

for the banking system dealing with the different aspects of resource mobilization, deployment of funds, business and man-power planning etc. to synchronise with planning efforts of governments, both the Centre and the States (ix) A systematic, prompt and regular flow of information and analysis is important for banks to contemplate and timely corrective action for improving productivity, efficiency and profitability. (x) A proforma of the modified balance sheet and profit and loss account which could be adopted by banks has been suggested, keeping in view the need for uniformity in presentation for meaningful comparison and classification of income-expenditure in tune with the various activities enabling an analysis of the source of income, profitability of each activity etc. (xi) There is need for a phased programme of mechanization and computerization in certain specific areas which should improve remittance service as well as flow of information. (xii) The group pointed out that the rapid expansion of branch network and the increase in the volume of work have resulted in large-scale recruitment of personnel and in quickening the pace of promotion of existing staff.

The National Credit Councils Study Group\(^\text{11}\) on deposit mobilization has studied the progress made by banks since the commencement of the First Plan. It came to the conclusion that there is a vast scope for mobilising additional resources. The study is of the opinion that a modification of the rates of interest on deposits as well as advances in respect of rural branches might help bring into the banking-fold funds which, at present, are flowing

\(^{11}\) Bank of India Weekly Economic Survey, NCC panel on Deposit Mobilisation, 20\(^{th}\) February, 1969, p. 60.
into competing investment outlets. It has emphatically stated that there is a case for dual interest rate structure - one for the rural and another for the urban areas.

The study conducted by State Bank of India - Evaluation and Monitoring Cell on Small-Scale Industries Units in 1975\textsuperscript{12} revealed that, unlike large number of borrowers, small-scale industries normally have access to financial resources on reasonable terms, whenever they faced temporary cash flow problems. In view of the above fact, and considering their heavy dependence on financial institutions for their entire financial requirements, availability of timely and adequate credit becomes a crucial factor not only for their healthy growth, but also at times for their very survival.

Saxena\textsuperscript{13} made an appraisal of what the commercial banking system has done in profitability since the nationalization of major commercial banks in July 1969 and how best it can make a more effective contribution in further analysis of the objective of improving the lot the community. The survey revealed that even in areas where Co-operative Credit Societies had been functioning, a large part of the cultivating population was completely outside its orbit and again barring two or three well-developed provinces, large parts of the country were not at all covered by the co-operatives. He felt that one of the most significant achievements after nationalization was


the rapid expansion of the banking network in the country as a whole and in the rural areas in particular. The National Commission also in its interim report on rural credit had come out with the suggestion that an effort should to be made to organise in the rural areas Farmer’s Service Societies (FSS), providing a variety of services, including credit, supply of inputs, marketing services and technical guidance under one roof.

Chhipa\(^{14}\) has measured the performance of nationalised commercial banking in the various districts of Rajasthan on the basis of “Advance-Deposit Ratio” during 1967-74. It has been found that during post-nationalisation period, banking facilities have been developed more rapidly in the rural and semi-urban areas than in the urban areas. Inter-regional differentials in the allocation of advance-deposit ratio have also been reduced to a minimum possible level. With the help of rank correlation co-efficient Chhipa had tried to establish the relationship between economic and banking development and it had been found that the bias in favour of developed districts had been reduced.

The Study Group headed by James S. Raj\(^{15}\) made an attempt to study the branch expansion of commercial banks and observed that there should be a process of selective consolidation of gains achieved in branch expansion by each bank for a period of three to five years on the basis of the size of the bank as well as its performance in respect of its spread in rural areas. Under lending to the priority sectors especially agricultural sector, the Committee


recommended that State Governments, which have not yet enacted the legislation recommended by the Talwar Committee, State Government, should evince more interest in setting up of Regional Rural Banks in suitable areas. Regional Rural Banks may lend either directly to farmers or through payment accounts committees, wherever the latter are effective. In regard to the efficiency in banks on internal efficiency, it is suggested that (i) banks should evolve a suitable machinery to ensure that the procedures prescribed visits by the senior management and the procedures be modified whenever necessary, so that new management techniques are sufficiently and widely adopted in all branches and (ii) bank should make advance man-power planning for both recruitment and training to take care of the planned expansion in branches and in the concerned types of business. As for external efficiency, the Committee recommended that banks must try to dispel the general prejudice on the part of workmen unions against the use of computers, so that partial and judicious use of computers for selected services could be resorted to.

Raj Committee\textsuperscript{16} examined the problems of regional imbalances in commercial banking and studied the efficiency of public sector banks. The Committee made an effort to measure the regional imbalances in commercial banking development by constructing the index number of each State by dividing the share of offices, deposits and advances by the share of population in each state for 1977. The study, however, failed to examine the regional imbalances in rural banking, semi-urban and urban and metropolitan

banking development despite the commendable work done by the rural, semi-urban, urban and metropolitan branches in deposit mobilization and credit deployment.

Partha Partin Mitra\(^{17}\) focussed on the measures to be adopted by District Credit Plan under Lead Bank Scheme. Such methodology pivoted round (i) a careful study of potential resources and needs of the area, (ii) looking into the technical feasibility and economic viability of the projects, (iii) schemes which are in operation (iv) their integrated nature with reference to the backward and forward linkages, (v) estimation of financial resources, in order to avoid unforeseen problems and infrastructural gaps.

Kamath\(^{18}\) made an attempt in "Optimisation of Bank's Profits ", to frame guidelines for a scientific analysis of problem of profit optimization. He used maximization function in linear and non-linear equations and profit function. The study concludes that in order to get optimization of profit, banks have to ensure good man-power planning, provide training to the personnel, creating new positions and allocate them to their respective functions, motivate the employees, help reduce service charges and provide good customer service.

\(^{17}\) Partha Partin Mitra, "Inter-District Credit Planning and Rural Development", \textit{Yojana}, Vol. XXII, No. 16, September 1, 1978, p. 5.

The Evaluation and Monitoring Cell of the State Bank of India conducted an evaluation study to ascertain the impact of bank credit on the weaker sections of society. The study covered 602 sample borrowers drawn from different avocations like conch-shell, bangle-making, basket-weaving, shoe-making and the like. The main findings of the study are: (i) the average net value of output in all the activities was higher in the post-loan period as compared to that of the pre-loan period (ii) incremental return was impressive in low-investment activities. The net surplus income was not impressive and in some cases it was indeed very negligible. This study covered varied type of weaker-section borrowers engaged in different activities. However, the study suffers from the limitation of being restricted only to selected activities mostly of artisans. Further, the study did not deal with the rural poor who form the major and significant segment of the India’s population. The study also did not touch upon the problem involved in the process of credit deployment.

A study conducted by Evaluation and Monitoring Cell, State Bank of India Bombay observed that the average net value of output per month in all the activities was higher in the post-loan period compared to that of the pre-loan. The incremental net value of output per month ranged from Rs. 17 in the case of cycle-rickshaw beneficiaries and by Rs. 388 for auto-rickshaw beneficiaries. Returns on investment were positive in all the

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activities, the range being from Rs. 4.56 in shoe-making activity to Rs. 38.53 in mat-weaving. The study focussed on absolute progress made in financing economically weaker sections of society.

In the recent years, there is shift in the methodology of analysing profitability and measurement of costs and revenues of banks. Varsha S. Varade and Sampat P. Singh, in their study, stressed the need for profit planning at both the national and bank levels. They suggested three broad approaches to profit planning at banks, viz., (i) profit and loss account approach, (ii) balance sheet approach and (iii) product services approach. But these models could not suggest a systematic methodology for profit planning in banks.

The studies by Shah, Deshpande, Angadi and Devraj and Singh were mainly based on the published financial statements instead of their break-up. The simple methods of modern management science have not been used to study the problems. Some of the studies published during the last few years clearly establish the declining trend in bank profitability. These studies show that there are wide inter-bank as well as inter-temporal differences. They also indicate specific factors which have in different degrees affected profitability adversely.

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24 Angadi and Devaraj, ‘Productivity and profitability of banks in India’ Economic and political weekly, Vol. 18, November, 26, 1983.
The study by Mello et al.\(^{26}\) aimed at assessing the extent of benefits derived by the weaker sections in terms of increase in income, output and employment etc. The major objectives of the study were to assess the impact of bank credit on borrowers in terms of improvement in levels of operations of the activities, income and employment; to assess the improvement in the levels of living of borrowers after the bank loans, to identify factors affecting the economies of the activities financed and to derive important policy implications for financing the weaker sections. The more important restrictions in the achievement of desired goals of bank credit were the more diversification of funds by beneficiaries and some lacuna in the method followed by both Government and the Bank. The study was undertaken in Srinagar and Anatanag districts of Jammu and Kashmir covering 110 borrowers out of 686 samples. It felt that it was necessary that all financial institutions sit together with Government agencies and work out a commonly agreed action programme for the smooth implementation of the schemes which also safeguard the interest of financial institutions.

The works of Paul Manpilly and Garg\(^{27}\) are a modest attempt to assess the cost and profitability of commercial banks in India. These studies provide an analytical view of the trends in the components of cost and earning of


different groups of Indian commercial banks since nationalisation. These studies mainly focus on the cost and profitability of banking industry as a whole rather than individual bank.

Karkal\(^2\) examined the concept of profit and profitability, the factors that determine the volume or magnitude of profit and the techniques used in profit planning. He also has presented the contributions of various economists on the profitability issue. He has suggested some measures to improve the profitability in banks through increasing the margin between lending (advances) and borrowing (deposits) rates, improving the productivity of staff, and implementation of a uniform minimum service charges. The study did not touch the area of cost of banking services, and costing exercise in the banking industry.

The study of Hanumantha Rayappa and Deepak Grover\(^3\) examined the trends of the programmes designed for the weaker sections in the rural areas. It is noted that the abilities of the weaker sections have been completely ignored in providing assistance. It is observed that the literacy levels among the weaker sections are the lowest, particularly in the case of females. The beneficiaries should be well informed about the nature of the schemes. It was observed that upgrading of skills among workers, has not been given due consideration, as it deserves.


Oommen\(^{30}\) in his study entitled "Banks in the service of the weaker sections", made an enquiry into the working of the Differential Interest Rate Programme as well as other programmes undertaken by the public sector banks. For the study, he selected Trichur and Malappuram in Kerala and drew a sample of 32 managers and 68 households of two panchayats in the Trichur district and 24 managers and 75 households of single panchayat in the Malappuram district. The purpose of the study was to investigate:

(i) How far the Differential Interest Rate loans have benefited really the poor in the rural areas? (ii) Has it turned out to be a "relief" programme? (iii) Is there a transfer of funds from the DIR recipients to other categories and (iv) what are the problems the bankers face in implementing the programme?

The main findings of the field study of selected beneficiary households are that they noticed much misallocation and misutilisation of the loans. The loans have not always gone to the poor and the needy. Yet, the programme holds out some promise if it is implemented with supervision. It cannot be treated entirely as a relief programme. By and large, the poor are not a defaulting category.

The work of Varghese,\(^{31}\) on profits and profitability of Indian Commercial Banks in the seventies, is a comprehensive study on bank’s profitability. It provides a useful analysis of the Income statements of commercial banks during 1970-79, but some concepts have limited


applicability. For example, for the cost of usable funds, the author used the absolute amounts of establishment cost and other expenses instead of proportionate amounts. But, while consulting the yield on advances the author has taken into account the cost of servicing of loans and advances.

The studies of Varsha S. Varade and Sampath P. Singh and E.V.K. Padmini recognised the need for the methodology in measuring the profitability of commercial banks. They employed the spread-burden model to determine the profitability of commercial banks. The studies clearly establish the higher rate of decline in the spread ratio than the burden ratio. They suggested an effective cash management, merchant banking, better man-power planning and proper guidelines for improving the profitability of bank branches.

Madhukar in his study, explained the reasons and the major factors for limiting profitability of all scheduled commercial banks for a period of three years. The study is purely theoretical. He suggested some areas for improving profitability through conscious efforts, careful planning and effective monitoring in the banks.

State Bank of Jaipur and Bikanur made an endeavour to examine the Integrated Rural Development Programme beneficiaries financed in Rajasthan. The study observed that the Integrated Rural Development

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Programme helped in bringing about economic and social transformation in the rural areas and resulted in improving the standard of living of Integrated Rural Development Programme beneficiaries and also in the creation of more employment opportunities. It has also created a new era of awakening among the beneficiaries to improve their socio-economic conditions.

Malay Gupta\textsuperscript{36} and Somnath Goswami, in their study, introduced some radical changes in measuring profitability of commercial banks. They indicated the major cause for declining profitability as the enormous increase in establishment costs. The author pointed out the conventional indicators of profitability are less meaningful because these indicators are based on published profits, which do not reflect the true position. The authors, therefore, suggested an alternative measure which is based on the cost of mobilising business. Other things being equal, elasticity of establishment cost (per unit of business) with respect to staff strength may be used to compare the operational efficiency (and thereby profitability) of different banks.

Dr Tapar Kumar Chakrabarty\textsuperscript{37} made a modest attempt to assess empirically, the relative performance of each bank in the context of three variables, viz., profit, earnings and expenses. In his study, Herfindhal's index has been computed to measure the inequality in the sharing of profit,

\textsuperscript{36} Gupta, M., and Goswami, S. "Profitability and Profit Planning in Banks Establishments Cost and Staff Strength", paper presented to Bank Economists Meet, 1986, pp. 3.92 to 3.100.

net profit, earnings and expenses by each group of banks. The author has suggested that each scheduled commercial bank should take up some exercise to evaluate the relative performance of each office of the particular bank for profit planning.

The contributions of Joshi\textsuperscript{38} et al., indicated various reasons for declining trends in profitability. These studies are based on published data. They have suggested profit planning both at micro and macro levels for the banking industry to overcome the declining trends in profitability.

Singh\textsuperscript{39} has studied the effect of profit planning on bank profitability. He discussed it under two heads viz., (i) the concept of profitability. Profitability ratio of 14 Nationalised Banks from 1969 to 1981 and factors responsible for such a declining profitability and (ii) position of present system of profit planning in banks and suggested a model for such planning in future. The study stated that if the banks are to subserve the developmental needs of the economy and to fulfill the social objectives effectively, banks should strengthen their commercial viability by profit planning only.

The work of Tiku and Radhakrishnan\textsuperscript{40} presented the factors responsible for declining profitability over the years. The authors opined that there is a need to identify controllable and non-controllable factors both in income and

\textsuperscript{38} Joshi, P.N., "Profitability and Profit Planning in Banks", Banker's Economists Meet, 1986.
\textsuperscript{39} Dr. Singh, S., "Profitability and profit planning in Banks", The Banker, Bombay, December 1986, pp. 41-46.
\textsuperscript{40} Tiku, R.N., and Radhakrishnan, R., "Profitability and Profit Planning in Banks" Paper presented to the Bank Economists Meet, 1986.
costs so as to maintain a substantial spread between costs and revenues. They have identified the need for efforts from within banks in the form of cost control and from the Government and monetary authorities in the form as distinction between banks' commercial role and their social obligations.

Deshpande, strongly argued that the analysis of bank profitability has neglected the loss of interest on cash reserves and the penalty paid to Reserve Bank of India for defaults in the maintenance of statutory reserve requirements i.e., Cash Reserve Ratio and Statutory Liquidity Ratio. So, he suggested that there should be a greater need to take into account the accumulation interest cost and penalties though not shown separately in the published balance sheets, which severely affecting the profitability of such banks.

The Evaluation and Monitoring Cell, State Bank of India conducted a survey in Parbhani district of Maharastra State. It is interesting to note that due to bank finance, the income in all the activities assisted, improved significantly. The additional employment creation due to bank finance in respect of all activities in the post-loan period was significant. The position of the assets of the beneficiaries has also showed tremendous improvement.

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Ravindranath made an attempt to identify the factors that have contributed to the growth of deposits. An exemplary attempt is made towards empirically studying relationship between deposits of the banking system and some of the relevant variables. An attempt is also made to project a scenario of banking development in Karnataka State. From the foregoing analysis, it may be inferred that the deposit growth of Karnataka is more or less, equally dependent upon the growth of income of all the three sectors of the economy; whereas, at the national level the deposit growth seems to depend heavily upon the growth of the secondary and tertiary sectors. Although branch expansion appears to be having a positive impact on deposit growth, both at the national and state levels, branch expansion by itself does not appear to be important. The growth of income appears to be more important for the growth of deposits. The new branch expansion would also add to exploitation of deposit and credit potential in the state.

Narayana’s paper has made an attempt to analyse the impact of bank finance on farmers selecting 48 borrower cultivators and 48 non-borrower cultivators in Warangai district of Andhra Pradesh. It is noticed that the impact of bank finance is reflected in the cropping pattern of the borrower-farmers. It reveals that the borrower-farmers managed to improve the level of production per unit area. Due to biased nature of banks against marginal farmers in extending crop loans, their yields are comparatively low, so, banks should provide short term loans through subsidised schemes under

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IRDP. The bank finance to agriculture has helped to raise the per area net income of the borrower-farmers substantially. Thus, the bank finance seems to have helped them to improve their standard of living in a very tangible manner. It is suggested that the bank should be persuaded to step up further the volume of credit to agriculture and accelerate its disbursement to the needy.

Bhale Rao et al., assessed the impact of bank finance on different size groups of farms in Prakasam District of Andhra Pradesh covering two blocks, viz., Parchuru and Podill. They applied Cobb-Douglas' production function and regression analysis for the study and covered small, medium and large farms. There is a negative relation between size of farm and resource productivity. The study suggested that the commercial banks should concentrate on small farmers and avoid misuse of some inputs and total credit must be used in an optimum combination of complementary inputs.

The evaluation study conducted by State Bank of India reveals that the Bank’s loans to the weaker sections proved to be beneficial in many ways. The loans enabled some of the borrowers to become self-employed businessmen or artisans, whereas previously they were mere wage earners. Owing to this change in their economic status, the borrowers’ social standing also went up high. For some other borrowers, the Bank loan became instrumental in getting permanent job-work. Those borrowers who continued

to pursue their pre-loan activities could either expand production or avail of
the benefits of higher production prices or low input prices on account of
becoming members of co-operative societies or other organizations
connected with their activities. The utilisation of bank loans generally raised
the levels of income and employment of the borrowers, who in turn, found it
possible to improve their quality of life. Finally, the number of borrowers
above the poverty line in the post-loan period was almost double the number
in the pre-loan period.

Dr. Shankaralah and Dr. Narasimha Murthy's\textsuperscript{47} paper attempts to study
the vital role played by the commercial banks in financing rural artisans in
the Telangana region of the State of Andhra Pradesh. It is interesting to note
that most of the respondents, particularly, tailors and barbers expressed that
the bank loans had a considerable impact on improving their economic
position. The borrowers, in general, were able to improve their business on
modern lines and expand their business in the course of time. They could
repay the previous loans and save money. There is a marked improvement in
the economic conditions of the borrowers. However, the majority of cobblers
and weavers expressed that the impact of bank finance on their economic
position was negligible as the amount sanctioned by the bank was too
inadequate to meet their demand.

\textsuperscript{47} Dr. Shankaralah and Dr. Narasimha Murthy, G., "Role of commercial banks in
Financing Rural Artisans: A Micro level Study", \textit{Journal of Banking and
Dr. Radha Raman Singh’s paper has analysed the impact of Integrated Rural Development Programme financing of dairying, poultry and bullock and bullock-carts. The proportion of the income generated by these activities in the total income of the sample beneficiaries formed, on an average, 13.30 per cent in Turkaulla block, 10.68 per cent in Pattabi block, 13.18 per cent in Bancahara block, and 13.07 per cent in Udwant Nagar block; whereas, major contributions were made by income from farm wage earnings, business and other services. Further, out of the total beneficiary house-holds in all the blocks under study, only 19.05 per cent in 1981-82 and 11.94 per cent in 1982-83, were below the poverty line. This, however, does not prove that between 1981-82 and 1982-83, 7.11 per cent of the beneficiaries crossed the poverty line. On the other hand, the enhancement in the percentage of beneficiaries in the income group between Rs. 1,500 and Rs. 10,000 form 28.57 per cent in 1981-82 to 48.81 per cent in 1982-83 only demonstrates the lack of proper identification of beneficiaries.

Shanker Shetty’s in his study investigated (i) the measurement of profitability of a branch (ii) relevance of branch profitability (iii) loss incurring branches and (iv) problems faced by rural branches in mobilizing rural savings and their failure / success meeting credit needs of rural poor. He observed that the profitability can be measured by taking into account the

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costs, advances, investments, man-power productivity and the ratio of non-performance advances to total credit. There should be continuous process of dialogue between the corporate office and the branches to improve both the productivity and efficiency in the branches. He also stressed the importance of bank branches and suggested a system to be adopted, which gives equal proportionate compensation to all the losing branches. Banks are successful in meeting the needs of the rural poor by introducing the programme like 20-Point Economic Programme, Integrated Rural Development Programme and Differential Rate of Interest etc. The loss of the bank branches can be made good of by utilising the rural deposits properly.

The work of Dr. Venkataratnam\textsuperscript{30}, highlighted the reasons for erosion in bank profits and profitability in recent years. The study is purely based on published figures. He argued that there is a trade off between social obligations to be performed by the banks and increasing profits. In a few studies, somewhat sophisticated statistical tools have been used, to rank the banks in terms of their performance; but they remain only academic exercises.

Prof. Naidu\textsuperscript{31}'s study has made an attempt to examine the role of bank finance for uplift of the weaker sections. It is observed that though, the beneficiaries were benefited by the financial assistance, the benefits were not


significant in terms of increment in net value of output per every hundred rupees on loan in the post-loan period. Likewise, the increment in the value of output per person, days of employment in different sectors was also not appreciable. However, the positive role played by commercial banks in enabling the weaker sections to improve their income and employment levels deserves appreciation.

Vijayakumar\textsuperscript{52} empirically examined the relationship between size and costs and examined whether economies of scale operate, and investigated the relationship between size and earnings of commercial banks; and identified the factors influencing cost and earnings of the commercial banks. It can be concluded from the study that there is positive relation between size and cost and size and earnings. Measurers such as ensuring high quality service, greater degree of control on human resource development, infusion of the spirit of work culture, streamlining internal control system to ensure high degree of supervision and infusion high degree of morale among the employees are suggested for better working of scheduled commercial banks in India.

A comparison of profitability of different kinds institutional credit agencies in the banking system in India brings out clearly the relatively low profitability of public sector banks. Some of the public sector banks are deeply in the red. It is possible to defend the low profitability and poor financial condition of public sector banks by referring to their "deep" commitment to social obligations "imposed" by the Government as, for

\textsuperscript{52} Vijayakumar, A. "Management Cost and Earnings In Commercial Banks", \textit{Indian Banking Today and Tomorrow}, August, 1995, pp. 5-14.
instance, opening up of rural branches, setting up and subsidizing regional rural banks financing Integrated Rural Development Programme and other poverty alleviation programmes at concessional rates of interest, priority sector lending to the extent of 40 per cent of the total credit, etc. These arguments hold good, to a large extent, to the private sector scheduled commercial banks too; but these banks make more profit than the public sector banks. In the case of foreign banks, which have offices mainly in metropolitan areas and in some selected permitted cities, the social obligations may not apply. But the other constraints on revenues such as high Statutory Liquidatory Ratio and Credit Reserve Ratio apply to them also; still they manage to make huge profits.

The Narasimham's\textsuperscript{53} Committee has clearly explained that the deteriorating profitability of public sector banks in India is the result of

i. Increasing cost of operation,

ii. Declining interest income caused by high proportion of the total deposits being impounded in Credit Reserve Ratio and Statutory Liquidity Ratio and earning relatively low rate of interest,

iii. Further, a high proportion of bank deposits had to be allocated to the priority sectors under 'social banking' and the rate of interest earned was quite low,

iv. At least one per cent of the total deposits had to be lent to the weaker sections of the community at a low concessional rate of interest of 4 per cent only,

v. In practice, barely 30 per cent of total deposits of the banks are really available for lending at the market rate of interest,

On top of that, the public sector banks had been forced by the Government to lend to dubious parties - in agriculture and industry - and large proportion of these loans become bad debts. The banks are suffering from the serious problem of over-dues. The major causes for poor profitability of the public sector banks are, to be seen in political and administrative interference and control of their working by the Government; poor work culture and activity which periodically paralyse both the banking and economic system. For all these problems, the Government itself is responsible directly or indirectly.

Narasimham Committee has suggested the following measures for improving the financial strength and the profitability of the public sector banks:

a. the setting up of Assets Reconstruction Fund to take over all doubtful debts,

b. Statutory Liquidity Ratio to be reduced to 25 per cent of the total deposits over a period and likewise, Cash Reserve Ratio to be reduced to 3 to 5 per cent of the total deposits of the banks, which would leave more funds with the banks for profitable deployment,

c. higher interest rates to be offered to the banks by the Government for Government and semi-government securities coming under Statutory Liquidity Ratio arrangements,

d. banks to get more freedom to fix minimum lending rates of interest,

e. priority sector lending to be reduced to 10 per cent instead of the 40 per cent of the total bank credit, in a phased manner,

f. all concessional rates of interest should be removed,

g. banks should explore in new sources of funds, for example, Certificates of Deposits could bring in additional funds for the banks, which, in turn, would lend the amount to the corporate sector at profitable rates of interest,
h. banks should increasingly opt for 365 days Treasury Bills which carry higher rates of interest,

i. branch expansion to be carried out strictly on commercial principles, and the banks be permitted to swap branches among themselves; and,

j. diversification at banking activities.

Varsha Varde\(^{54}\) compared trends in the performance of public sector banks vis-à-vis performance of foreign banks in India. She has taken deposits, advance, income and expenditure, profits, credit - deposit ratio, establishment expenses to total expenses, non-interest income to total income and urban and metropolitan sectors of public sector banks as parameters. She concluded that the performance of public sector banks in India is much less impressive as compared to that of foreign banks in India under the private sector during 1985-91. It also noted that fall in profitability was not a result of post-nationalisation phenomenon. Therefore, bank denationalisation and privatisation are not the right answers. Evidently, policies which ensure favourable de-regulation of rigid controls and an ambience to Public Sector Banks to function freely is the need of the hour.

Ramachandran\(^{55}\) outlined the causes for declining profitability and suggested possible measures for assessing this trend. The causes are: increased emphasis on social goods, establishment costs, incidence of over-dues, unfavourable deposits mix, investment in Government securities which yield low productivity.


Carl, G. Thor\textsuperscript{56} opined that productivity and quality are intimately linked. An effective way to improve productivity is through total quality improvement which must be a comprehensive effort carefully linked to the strategic planning process. He also examined the factors responsible for providing a major enhancement to the organization by improving its quality and hence productivity. Very similar activities and initiatives carry a variety of names, depending on whether the major theme is quality, productivity, customer satisfaction, excellence, competitiveness or something else. Improvement flows from executive commitment, assessment and improvement teams activity. Assessment is often done poorly but a thorough and objective assessment involving customer identifications, bench-marking and training needs, and analysis will provide a basis for major improvement of an organization.

Vijayakumar and Venkatachalam\textsuperscript{57} in their paper entitled “Profitability of Indian Public Sector Banks in Eighties”, made an attempt to throw some light on the profitability of Indian public sector banks during eighties. They collected the data regarding income and expenditure for getting a better framework for computation and analysis. They considered profitability ratios such as operating income as percentage of working funds, gross profit ratio as percentage of working funds, published profit ratio as percentage of working funds. This analysis of the trend of profits and profitability of all public sector banks indicated that the funds of the banks were not used


\textsuperscript{57} Vijaya Kumar, A., and Dr. Venkatachalam, A. “Profitability of Indian Public Sector Banks In Eighties”, Indian Banking Today and Tomorrow, January, 1993, pp.10-13.
profitably. Declining gross profit ratio of public sector banks in the initial period is an unhealthy trend from the viewpoint of their performance. In this connection, it must be recognised that banks should earn sufficient profit not only to meet current obligations but also to strengthen their capital base. It is significant to note that gross profit ratio has shown an improvement over initial period under review which indicates the scope for profit potential, if efficient management of funds is carried out. It is high time that the monetary authorities gave due attention to the financial viability of banks.

Ramana Murthy\textsuperscript{58} reviewed the cost of banking services and pricing policy in public sector banks. The study carried out for 10 years from 1980 to 1989-90. The study has taken one of the public sector bank as sample. It used cluster analysis for study. The main conclusions drawn from the study are: (a) the cost information has to be permeated to all levels through issue of circulars and imparting through training programmes and cost consciousness in banks (b) the bank management has to control the controllable costs through scientific methods (c) It seemed that there is no scientific profit planning system in the bank. The cost reports can also be used for evaluating a suitable Transfer Price Mechanism for the bank. The individual cost reports, can be utilized for evaluating the performance of banks at branch level (d) with the help of cost reports, the bank management can fix the prices of some bank activities like - dividend warrants, interim warrants and safe deposit-lockers etc (e) The optimum and effective utilization of man-power, in turn, improved the profitability of the bank (f) The budget and continuous monitoring of expenditure will help the

\textsuperscript{58} Ramanamurthy, P.V., "Cost of Banking Services and Pricing Policy", \textit{The Indian Banking Today and Tomorrow}. Vol. 19, November, 1994, pp. 5-10.
bank management to cut the expenditure to size (g) The profitability of banks was mostly affected due to the unfavourable deposits mix (h) the branch offices of banks may divert efforts to maximize revenue to improve the profitability through regulatory measures (i) in the present complex business environment, mechanization is the need of the hour. Computerisation is not only imperative from the point of view of profits, but also to improve the management information system which is heart of the decentralized banking setup (j) Regarding productivity and profitability meticulous care in the recruitment of personnel is needed. Intensive job work training, scientific deployment of man-power resources and adequate degree of motivation would bring about improvements in productivity and in the process productivity will improve the profitability (k) The most important aspect on the part of the banking industry is strengthen their capital base. It is suggested that (l) There should be restructuring of banks and merger of the loss making banks with strong banks. (m) It is the need of the hour to introduce among the priority sector borrowers, the distribution between commercially viable units and those needing concessional assistance so that the units pursuing activities which are viable could be removed from the purview of the priority sector definition.

Vijaya Kumar in his paper entitled “Economies of Scale in Commercial Banks” in this context, a study of size – cost relationship, size – earnings relationship and of operational efficiency assumes larger significance. The study pertains to all scheduled commercial banks. It can be concluded from the study that there is a positive relationship between size and cost and size

and earnings. Thus, the results substantiate the hypotheses of economies of scale only for the earnings of scheduled commercial banks, therefore, it is more appropriate to gear the banking policy in the years to come in such a way that operating cost of banks should be reduced.

Kallu Rao and Shaji Thomas\textsuperscript{60} made an attempt to earth out the impact of Statutory Liquidity Ratio on banks loaning activities, income and profitability. The main objective of the study is to find the influence of Statutory Liquidity Ratio on advances disbursed of various sectors as well as the income and profit of the three sample banks. The study further stepped forward to understanding the impact of year-wise changes in statutory liquidity ratio on charges in individual variables. The analysis shows that among the three banks the least influenced one is Andhra Bank and it was influenced most on the advances of Canara Bank to small scale industry. The co-efficient variation shows that the influence of Statutory Liquidity Ratio was more on the profit of Andhra Bank and Canara Bank and comparatively less in Vijaya Bank's profit.

Ramamoorthy\textsuperscript{61} in his study "Profitability and Productivity in Indian banking International comparisons and implications for Indian Banking has discussed the key determinants of profitability, analysed the profitability of Indian Commercial Banks segmentive assessed their performance of vis-à-vis international banks, gauged the level of productivity of Indian banks and


stated the strategic issues which have a bearing on the profitability and productivity of Indian banking system. In this process, comparison of profitability and productivity of Indian banks with the banking systems abroad would help hasten such integration besides enabling an introspection on our part to assess the relative strengths and weaknesses of Indian banks as to their ability to meet the challenges of competition. The following points emerge from the above analysis: The interest margins and opportunity costs of Latin American Banks are quite higher and perhaps not comparable. Nevertheless Indian banking system of average interest spread at 2.9 per cent of working funds in the last few years is higher than that of many Non-Latin American countries. The opportunity cost for India at 2.6 per cent of working funds is still far higher than those of Non-Latin American countries, which have opportunity cost in the range of 1.43 per cent - 1.95 per cent indicating the differential in operational efficiency between India and the Non-Latin American world including the Asian Countries like Korea, Malaysia, Japan and Thailand etc. Irrespective of Latin America or Non-Latin American group, the return on assets as an average in the last few years (1990-94) for the 17 countries showed 1 per cent of their average working funds as against not less than 2 per cent for Indian banking system. The main conclusions are: (a) Indian Banks have higher interest spreads than other banks abroad (b) Indian banks have higher opportunity costs than the banks in foreign countries and (c) Indian banks have higher risk provision levels.
A survey conducted by Hemavathi Sekhar\(^2\) in a few public and private sector banks, revealed the present trend of computerization in Indian banks. Important findings from the survey are: (i) computers have greatly helped the banks in achieving arithmetic efficiency and hence given top priority in both the public and private banks (ii) private banks seem to have given a comparatively higher ranking to the attribute of social prestige while the public banks are reluctant to do so. (iii) lack of trained staff was the main problem initially faced by both public and private sector banks (iv) the percentage increase in overhead cost due to computerisation was only between 10 per cent and 30 per cent in both the private and public sector banks (v) saving in employment cost was considerable low or otherwise nil in both the public and private sector banks. (vi) the use of computers would not be really very advantageous if it did not result in time being saved. (vii) there has also been considerable amount of time and energy saved both for the bankers as well as the customers, since cheques can be cleared and deposits made at a faster pace today due to computerization (viii) very few banks have the use of integrated management systems to deal with other branches. Thus, the computerisation of Indian banks is still in its Infant stage (ix) the highest ranked direct and Indirect benefits of computers to the banking sector have been better customer service and better bank image and good will respectively. (X) higher capacity disks will greatly help in easier Information access specially in decision - making. (xi) It was also felt that using complementary machines like the Automatic Teller Machine to check money would greatly complement the reduction in time in monetary

transactions. (xii) most of the respondents were of the view that it would not take very long before banks were totally computerised that is within an average period of 5 years (xiii) banks also admit the fact that computers can ensure efficient delivery and speedy transfer of funds and in sending professional advisory services to Non-Resident Indians on investment opportunities.

Abhiman Das\textsuperscript{63} in his paper "Technical, Allocative and Scale Efficiency of Public Sector Banks in India" has examined the efficiency of public sector banks in India since nationalization using longitudinal data. A non-parametric programming approach is used to calculate the overall, technical, allocative, pure technical and scale efficiencies of public sector banks. The results indicate that State Bank Group is more efficient than the nationalized banks. The main source of inefficiency was technical in nature, rather than allocative. Inefficiency in Public Sector Banks is due to under-utilization or wasting of resources rather than Incorrect input combination. Public sector banks improved their allocative efficiency significantly in the post-liberalization period.

Murugesan and Chandra Sekhar Rao,\textsuperscript{64} in their pioneering work, made an attempt to analyse the trends in productive efficiency in the public sector banks since nationalisation, especially in respect of size of advances mobilised, ratio of establishment expenses etc. In the light of multiplicity of


goals, social objectives, and priorities, the performance was viewed by them as a function of Cobb-Douglas. The main findings are as banking being service industry, the size of establishment expenses would determine the efficiency of operations. A decline in both operating expenses and establishment expenses to total income could indicate better efficient management of banking activities.

Subodh Chandra Garai and Prabir Ghosh's study attempted to assign ranks to the scheduled commercial banks operating in India and belonging to different groups of ownership pattern on the basis of their overall performance scores. The said scores were thought to be the weighted aggregates of operational efficiency and financial effectiveness based on accounting ratios. The weights were objectively derived on the application of the multi-group discrimination analysis technique using the said variables. Depending upon the availability of suitable data for the financial years 1994-95, 1995-96 and 1996-97 for a considerable number of banks, two approaches to the empirical data analyses were carried out. Using five variables indicating operating efficiency and taking the data for eighty-two banks belonging to five groups as Group-1: State Bank of India and its associates (8 units), Group-2: Nationalised Banks (19 units), Group-3: Old Private Sector Banks (22 units), Group-4: New Private Sector Banks (8 units), Group-5: Foreign Banks (25 units), the ranking results confirmed

the view that the operating performance of public sector banks was generally not good enough in comparison to those of the private sector and foreign banks, although the performance of foreign banks showed an improved position, with wide variation within the group. But taking balance sheet figures also, and calculating the values of the variables determining financing effectiveness in addition, the ranking result based on over-all performance (computed using nine variables in two categories) indicated that the performances of public sector banks were not consistently bad, year after year. Rather if different reformed measures are taken to improve the socio-economic environment congenial to healthy administration and the non-performing asset position is strictly controlled, our nation may harvest a better yield from this strategic sector, in pursuit of the policy for efficient utilization of financial and human resources.

Amarchand Kaushik's study entitled "Productivity of Regional Rural Banks Credit in Haryana" makes an attempt to (i) estimate the productivity of credit through income generation of the beneficiaries (ii) identify the major influencing / determining factors of credit productivity and (iii) draw policy implications. The study is confined to thirteen branches of two regional rural banks i.e., Haryana Kshetriya Gramin Bank, Bhiwani and Gurgaon Gramin Bank, with a sample of 135 beneficiaries from different occupational categories. The main conclusions are: (a) productivity of credit was calculated to be 66 per cent (b) productivity of non-agricultural activities was

found to be higher than that of agricultural activities. Average productivity was experienced in the lower and lower middle levels (c) human labour use, credit assets, and dependency ratio had significantly determined / influenced the levels of productivity. While pre-credit asset holdings and income could not influence (d) an inverse relationship between credit assets and credit productivity had been experienced owing to low income generation. Further credit inadequacy (credit gap), lack of appropriate skill and infrastructural facilities. It is, therefore, suggested that the banks should supply adequate credit along with skill-forming and training facilities to the beneficiaries.

1.2 NEED FOR THE PRESENT STUDY:

Of late, there has been considerable progress in the public sector banks. It is, therefore, time to make an empirical study of the performance of public sector banks so that their problems that confront them could be identify in the light of experience: Questions such as: how far the public sector banks are effectively and efficiently functioning? How and what is their profitablility? How far the social objectives are achieved? What is the role played by public sector banks in achieving economic development? Have the banks allocated their credit effectively and evenly among the various regions and sectors? What are the various problems being faced by them in achieving profitability and productivity, thereby fulfilling the social objectives? Cali for an empirical study. In India, several official and non-official studies have been undertaken from time to time in the domain of public sector banks at national, state and regional levels by selecting at least one or two public
sector banks. These studies have provided answers to only certain questions; but, then, an in-depth, specific studies are comparatively limited in number. Such studies are of great significance in the context of vast regional and institutional variations in developing countries like India. The present study is an attempt to close the research gap in this regard.

1.3 MAJOR OBJECTIVES OF THE STUDY

The present study has been undertaken keeping the following major objectives in view viz.:

(a) To study the trends in and progress made by public sector banks.
(b) To examine the productivity of public sector banks.
(c) To analyse the profitability of public sector banks, and
(d) To study the extent to which public sector banks have fulfilled the social objectives.

1.4 HYPOTHESES

The following hypotheses are tested:

(1) The productivity of public sector banks is not significant.
(2) The profitability of public sector banks is not satisfactory.
(3) The social objectives of the public sector banks have not been fulfilled.

1.5 SCOPE AND LIMITATIONS OF THE STUDY

Concerning the productivity, profitability and fulfillment of various social objectives of Public Sector Commercial Banks after nationalization, an attempt has been made with reference to the entire Indian Economy. It is chosen for the following reasons.
(1) In the post-nationalization period, the public sector banks have been playing a significant role in the process of economic development of the country. The percentage share of public sector banks in the total number of branches is 83.3 per cent whereas their share in the total deposits and advances is 93.0 per cent and 93.7 per cent.

(2) Banking Industry is one of the important service industries in which the levels of productivity and profitability need to be raised and the operational machinery geared to fulfill the social objectives which formed one of the major objectives of bank nationalisation.

(3) Indeed it is not an easier task to capture the multi-faceted dimensions of the performance of Public Sector Banks in a Doctoral dissertation undertaken by an individual researcher. Hence the present study is mainly confined to the analysis of productivity and profitability in public sector banks and the extent to which they have fulfilled the social objectives of the banking. Data collected for two phases, viz., phase-I from 1970-1980 and phase II from 1981-2001 were made use of for the analysis. As the financial information collected for the present study are entirely secondary in nature, the study carry's all the limitations inherent in the secondary data and financial information.

Some ratios and percentages have been approximated. Therefore, minor variations are bound to exist in the present study and the study mainly focused on the analysis of quantitative financial data. The qualitative aspects of the banking sector having a bearing on the productivity and profitability have not been taken into considerations by the present study. Various accounting and statistical tools extensively used for the present study have their own limitations. Further, proper significance tests could not be made to generalize the finding of the study for the entire Indian commercial banking sector. Thus, the findings of the present study should be used judiciously and carefully taking into account the limitations.
1.6 METHODOLOGY

a. SOURCES OF DATA

The study has made use of only the secondary data. The secondary data were drawn from the various reports of the Government of India, Reserve Bank of India, Economic Surveys, Plan Documents, Statistical Abstracts of India, various publications and reports of Reserve Bank of India such as Statistical Tables Relating to Banks in India, Banking Commission Reports, Published and unpublished data, Books, Documents, Files, Diaries and Journals.

b. TOOLS OF ANALYSIS

Apart from the simple average and percentages, the following statistical tools were employed to analyse the secondary data in the present study.

To study the trends in the growth of bank branches, deposits, credit, income, expenditure, profits, advances to priority sectors, agriculture, small scale industries, other priority sectors, spread, burden and working fund. The following form has been employed.

**Linear Growth Rate**

\[ Y = a + bx \]

Where \( y \) = Index numbers of branches, deposits, advances, income, expenditure, profits, advances to priority sectors, agriculture, small scale industries, other priority sectors, spread, burden and working fund.

\( X = \text{Time} \)

\( a \) and \( b \) are constants.
Compound Growth Rate 'g' is

\[ g = \left( \frac{B}{A} \right)^{\frac{1}{n-1}} \]

let \( A \) = beginning year value

\( B \) = end period value

\( n \) = total number of years

To study the correlation between branches and deposits, deposits and advances, branches and advances, income and profits, income and expenditure, expenditure and profits, total advances and advances to priority sectors, total advances and advances to agriculture, advances and advances to small scale industries, advances and advances to other priority sectors, profits and spread, profits and burden, profits and working fund, the coefficient of correlation and 't' test of the following form has been used.

Correlation co-efficient

\[ r = \frac{\Sigma xy}{\sqrt{\Sigma x^2 \times \Sigma y^2}} \]

where \( x \) and \( y \) stand for deviations of \( x \) and \( y \) series.

To test the significance of an observed correlation co-efficient the following test has been used.

\[ t = \frac{r \times \sqrt{n-2}}{\sqrt{1-r^2}} \]
1.7 OPERATIONAL DEFINITION OF KEY CONCEPTS

1. Priority sectors

The concept of priority sectors include in addition to agriculture and small industrial sectors, retail trade and water transport operators, retail trade and small business, professional and self-employed and education.

2. Lead Bank Scheme

It was introduced with the main objective of ensuring flow of bank credit to priority sector and to co-ordinate the activities of the various agencies, such as banks and developmental agencies of Government at various levels.

3. Deposits

Deposits consists of paid-up capital, reserve fund and balance of profit and loss accounts; borrowed funds from the public, Government and Reserve Bank of India.

4. Advances

Advances naturally consists of loans and advances; and of bills discounted and purchased.

5. Income

Income consists of interest and discount; commission; exchange and brokerage, and other receipts.

6. Expenditure

The main items of the expenditure are interest paid on deposits, borrowings, establishment expenses consisting of staff salaries, allowances, provident funds and gratuity; depreciation and repairs on banks property; and other expenditure includes stationary, postage, taxes, auditor’s fees etc.
7. **Profit**

   Excess of income over expenditure.

8. **Profitability**

   It is the ratio of profits earned to the capital invested.

9. **Working Fund**

   It is arrived by deducting two contra items, viz., (i) bills for collection, being *Bills receivable* and (ii) Acceptances, endorsements and other obligations from the total liabilities as shown in the Balance Sheets.

10. **Productivity**

    It is the magnitude of changes in the rates of output as well as input. Here in this study we measured productivity by taking staff and branch ratios.

11. **Spread**

    Spread is the differences between interest earned and interest paid.

12. **Burden**

    Burden represents non-interest expenditure of commercial banks.

1.8 **PLAN OF THE STUDY**

   **The Chapter scheme of the present study is as follows:**

   Design and methodology of the study are described in the first chapter. This chapter is concerned with the problem setting, review of literature, objectives, hypotheses, data base, tools of analysis, scope, limitations and plan of the study.
The second chapter deals with the development of Commercial Banking System - the origin of State Bank of India and its seven subsidiaries, Social Control and Nationalisation of Major Commercial Banks.

The third chapter reviews the trends and progress, branch expansion, deposit mobilization and credit deployment of public sector banks in India.

An attempt has been made to realize the objectives of the study and test the corresponding hypotheses in chapter four to six.

In the fourth chapter per branch and per employee productivity of public sector banks has been analysed.

By taking growth analysis, trend analysis and ratio analysis the profitability of public sector banks has been analysed in the fifth chapter.

In the sixth chapter the social objectives such as diffusion of branch expansion, bank group-wise allocation of credit, priority sector and allocation of credit to various welfare programmes have been examined.

The major conclusions and suggestions have been set out in the last and final chapter.