PREFACE

The Indian Banking System has passed through three distinct phases in the last three decades. While seventies witnessed the banking transformation from class banking to Mass Banking, 1980s was the period of consolidation and nineties the era of financial sector reforms. The macro-economic crises faced by the country in 1991 paved the way for extensive financial sector reforms. Despite impressive expansion of banking system in the seventies and eighties, there was a general consensus that it had not become sound and vibrant as it needed to be. By 1990, there was cause for serious concern on account of poor financial condition of commercial banks, some of which had already become unprofitable, under-capitalised and with high level of non-performing loans.

The Narasimham Committee (1991) report became the referral point for a cohesive strategy for financial sector reforms. The broad aim of the reform process was that with the gradual opening of the economy, financial sector can not be kept in isolation. Accordingly, a movement from financial repression to liberalization had to be achieved through a shift from an interventionist approach to market-based mechanisms. This was to lead to an improvement in operational efficiency, i.e., reduction in costs of financial intermediation and allocational efficiency i.e, allocation of resources to the best possible uses. Thus, the reforms has emphasised on putting in place a new financial regime, which relied less on detailed controlled and directions and more on initiative, autonomy in decision making and accountability. Policy initiatives, since 1992 in this regard has been directed at building strength and ensuring the safety and stability of the financial system.
The first phase of reforms proved to be successful and the progress was non-disruptive. This has given confidence for launching the second generation reforms, which once again was mapped out by the same committee (Narasimham Committee 1998). After Narasimham Committee-II, various committees constituted by RBI studied the reforms in the banking industry.

The main aim of public sector banks is to control the heights of the economy and meet progressively and serve better the needs of development of the economy in conformity with national policy and objectives. As public sector banks comprised more than 85% of the business of the banks, the focus of the reforms has been on improving the efficiency and performance of these banks. The process of reforms have started thirteen years back, it would be evident to analyse the reforms that has come up and to measure the performance of Public sector banks.