CHAPTER V
The pace progress of Indian economy is majorely depended on the effective functioning of banking sector as credit is key input in the process of growth and development. In other words, banking facilities are indispensable to achieve the expected rate of growth of economy. Having thought, and identified the significant role of the banking sector in the growth and development of economy, the Government of India took various measures in the banking sector for its effective functioning. The formation of the Imperial Bank of India, existence of the Reserve Bank of India, enactment of the Banking Regulations Act, imposition of social control and the nationalisation of 14 commercial banks in the first phase followed by six more commercial banks in the second phase were the important steps taken by the Government of India to put the banking system on the right lines for achieving the national goals. A brief summary of the findings observed in the previous chapters and a few suggestions are dealt in this chapter.

Prior to nationalisation, many commercial banks were not following a liberal credit policy in the matter of advances to the small borrowers such as farmers, small and cottage industrialists, small and retail traders, etc. In other words, the functioning style of the commercial banks was appropriately described thus: where enterprise leads finance follows. This
A monopolistic banking system led to sectoral, regional, and State imbalances in banking facilities. The rural sector and weaker sections were deprived of banking services. They are no doubt weak, but their credit needs for development are strong and potential. Added to this was mobilising savings in certain areas and deploying them elsewhere. The working of banking sector thus, was considered as "class banking".

During the post-nationalisation period, many measures have been effected in organisation and management of banking sector, to widen and deepen banking services on an integrated approach. Finding means for effective use of resources for rapid balanced growth and development of the economy is the splendid innovative in the banking industry. The banking policy has been changed from time to time to meet the changing demands and changing conditions. In other words, the banking policy aims at branch expansion to the unbanked and underbanked areas, collection of small, idle and scattered savings as deposits; and deploying funds rather distribution of credit for higher production and higher return.

Besides this, the commercial banking system has also been performing numerous services under utility and agent category functions to its customers. A policy on the branch expansion with true spirit of nationalisation objectives came into operation in 1977 which was known to be 4:1:1. This policy gained a series of urgency to snap the dictum 'Real India lies in Rural India'.

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Many deposit savings schemes sprung into the field to tap more and more deposits from the door steps of savers through the means of branch expansion. Subserving the bank objectives and national goals would come to an end only when the bank invested the deposits in production-oriented projects. This production oriented approach embraces many a weaker sections who have man power with willingness to work; and also undermine the influence of security based credit concept. The banking, to-day, is thus entirely different from what it was 25 years ago in quality and range of services offered to the public.

It is inferred from the study that the impact of the post-nationalisation efforts on the branch expansion has been encouraging with the progress of time since the nationalisation. In 1994, the per branch population served was 14,526. However, a greater scope and scale for the branch expansion is needed covering at least 10,000 people per branch.

Mere progress in the branch expansion is not a sufficient rod to measure the banking performance. Then what is needed to measure its performance? The even dispersion of the branch expansion is the norm to highlight the performance of the banking sector. It is found that though branch expansion moved in the right direction to rural areas, there has been the corresponding reduction in the semi-urban areas. The progress of commercial banks in deposit mobilisation during the latter part of the nationalisation is far better. The rural deposits
constituted 14 per cent of the total deposits but these deposits mobilised by about 60 per cent of total branches.

The progress and performance as revealed in the above paragraphs with reference to branch expansion, deposit mobilisation, credit deployment and credit deposit ratio is an impressive record being the result of the nationalisation. However, care is to be taken to improve deposits and credit potential of the rural branches.

As far as the regional imbalances are concerned, the following observations are made:

1. The regions which were above and below the national average in 1969 with reference to branches, deposits and credit remained above or below the national average in 1994 also.

2. The regions above the national average in respect of branches, deposits and credit despite remaining above the national average during 1969-94, show a decreasing trend. The regions below the national average in the above aspects remaining below the national average during 1969-94 show an increasing trend.

3. The gap that existed between the western region and the northern region in 1969 is showing a decreasing trend in 1994.
4. The observations made in the above points are worthy conclusions relating to States also. This positive sign in reducing hiatus shows a reduction in the banking facility - lag which is in line with the objective of nationalisation and a good characteristic feature for the future challenges.

In brief, the region/states which were above the national average in 1969 showed a decreasing trend while, the regions/States which were below the national average in 1969 showed an increasing trend. This concludes that the commercial banks are proceeding in the right direction. In relation to deployment of credit, a similar observation could be made.

The analysis relating to the performance of the banking in reducing sectoral, regional and state disparities show a positive trend in the backward regions and backward States whereas a negative trend in the advanced regions and advanced States. In deposit mobilisation, the trend of 1969 was continued in 1994 also at an increasing rate both in advanced regions and advanced States. To sum up, the progress of banking during 1969-94, is described as a landmark in the Indian banking history and its performance followed the objective of nationalisation.

The study on priority sector credit highlights the commercial bank's participative role. They could provide credit to the priority sector fulfilling the norm of 40 per cent of bank credit laid down by the Reserve Bank of India. Further, the sub-
norms relating to agricultural credit, credit to the weaker sections, credit under differential rate of interest fixed at 16 per cent, 10 per cent and one per cent of the bank credit are also fulfilled. Statistically speaking, the priority sector credit is accounted for 107 fold increase in 1994 to that of 1969.

The commercial banks have played a crucial role to boost up the weaker sections' economic status through their services. Yet, the process is in its infancy. The priority concept is to be redefined covering the informal sectors and all the points relating to rural development under the 20 point programme. The bank credit is to be enhanced from the present 40 per cent to 50 per cent. The facility under Differential Rate of Interest (DRI) scheme is to be further broadened covering all small and marginal farmers, rural self employment and educational loans.

The integrated services like supply service, marketing service, demonstration service and credit service should be undertaken by the commercial banks. To mention a few areas for which the commercial banks should provide loans are:

1. Extension of bank-card and agri-card to the rural people.
2. Ensuring better market to the production under the linking of credit with marketing programme.
3. Preferential treatment in giving loans to the persons who have adopted family planning.
4. Loans to scholarly students who could not prosecute their studies due to financial constraints.

5. Rehabilitation of sick/dormant enterprises.


7. Hire purchase credit and alike.

Having achieved rapid progress, it is, perhaps, necessary to take into account the situation and consolidate the banking system. A greater need for control and supervision of various activities is the call of the day. This would be helpful for rejuvenating the efforts of the banking system in making its contributions more effective and useful to meet the ever growing and complex challenges. This would set on to trigger the growth of economy with a social purpose.