INTRODUCTION

Banking has been playing a very important role in the economic development of all the nations of the world. In fact, it is the life-blood of modern commerce. It may truly be said that modern commerce is so dependent upon banking that any cessation of banking activity, even for a day or two, would completely paralyse the economic life of a nation. Gerald M. Meier has rightly said that, "no nation can afford to live without active capital". It means the operations of banking sector improve per capita income of the people and improve their quality of life. In Japan and Germany, banking has close ties with the agricultural and industrial sectors; and has been playing a vital role in the rapid economic development of these countries. The economy of great Britain also have had a close relation with the priority and industrial sectors which sought the active cooperation and collaboration of banking sector.

The famous economist Schumpeter says "credit is a phenomenon of development". Credit service is an essential feature and phenomenon of banking system. The direction and spreading of credit are of paramount in the context of rapid economic development and growth. The former finance minister, Morarji Desai had rightly observed that "banking when properly organised aids and facilitates the growth of trade and industry -

and hence of the national economy". Therefore, it is being realised that the effective operations of banking industry will improve the quality of economic life of the people. "Banking is, the nerve centre of economics and finance of a nation; and the barometer of its economic prosperity". The saving ratio which was only about 10 per cent of national income in 1950-51, has reached a level of about 23 per cent in 1990-91. This large increase in savings was made possible by the fact that the benefits of wide-spread institutional development of banking system. Bank is therefore a key change facilitating the attainment of social and economic aims of a country.

The progress of commercial banking in the ancient period was closely associated with the business of money-changing. Another significant factor responsible for the development of early banking was the exigent financial needs of the Governments of the day who granted banking privileges in exchange for loans. Throwing light on this, Adam Smith has observed: "The earliest banks of Italy, where the name began, were finance companies to make loans to and float loans for the Governments by which they were formed. After these banks have been long established, they began to do what we call banking business, but, at first, they never thought of it."
Indian banking system has undergone a drastic change after the Independence of the country in August, 1947. Eventually, at the time of Independence, India inherited an extremely weak banking structure, with urban-orientation, comprising 544 small non-scheduled banks and 96 scheduled banks, giving a bulk finance to the trading sector. The Indian banking scene is of varying origin and sizes. A Bill giving effect to the recommendations of the Royal Commission on Indian Currency and Finance was introduced in the Legislative Assembly on January 25, 1927 for nationalisation of the Reserve Bank of India, but it was dropped for constitutional reasons. Again a fresh Bill was introduced by Sir George Schumpter in September, 1933 which became law on March 10, 1934. The premier institution, Reserve Bank of India, came into operation on April 1, 1935. It keeps the financial structure upon an even keel. As late as the early eighties brouchers of many nationalised banks while disclosing their own deposit. In the credit side, the problem was even more acute. For nearly two decades beginning with the seventies, the banker borrower relationship was largely permanent, if less than cosy, partly because of RBI guide lines frowning upon poaching of loan accounts and partly because of seasonal resources constraints.

faced by individual banks. A high proportion of credit accounts that changed hands were reported to be less than sound.7

Honourable Prime Minister of India, Smt. Indira Gandhi in her speech delivered in the Parliament on nationalisation of commercial banks said that "our sole consideration has been to accelerate development and thus make a significant impact on the problems of poverty and unemployment, and to bring about progressive reduction in disparities between the rich and the poor sections of our people and between the relatively advanced and the backward areas of our country".8

Nationalisation of banks led to much rooming branches and exposed vast number of the population to banking. There were 8000 branches at the time of nationalisation. Now, there are over eight times the number. While there was one branch for every 64,000 People then, now, it is one for every 12,000. The Prime function of banks can be defined as the creation and delivery of customer needed services in a customer satisfying manner. Whether he be a depositor or borrower or one uses the other services provided by banks, the motto should be "Customer's Satisfaction". After Nationalisation Customer service gained

8. The Banker July, 1969 P.366
greater focus. There has been a tremendous increase in banking transactions after nationalisation, and this leads to economic development of the country\(^9\).

The Problem

Nationalisation, which is of course a Socialist policy has been purchased in India by the ruling Congress party as its objective towards establishment of a socialistic pattern of society in India. For over two decades, Control over the commanding heights of the economy was considered necessary. Particularly in a poor country where it is extremely difficult to mobilise adequate resources for development, it was necessary to reduce inequalities between regions and groups. Consequently the result was nationalisation of banking industry on July 19, 1969\(^10\). The progress of Indian Banking Industry since nationalisation is tremendous in branch network particularly in rural areas, besides deposits and credit. And still a long way to go to in softening the incidence of poverty and unemployment. Issues like changing banking scenario to rural areas, credit for gainful employment, aid to agricultural sector as well as weaker sections of the society etc., are requisites in socio-economic development. These are need to study.

Review of Literature:

Banking is a prime mover in the economic development of the country and research is so crucial to banking. Research

\(^9\) O.P. Rai, Commercial Banking In India. P. 189

involves an investigation for knowing new information which would lead to verification and expansion of the existing knowledge about banking. In other words, research is a science, and a systematic body of knowledge. Review of earlier studies done by individuals as well as institutions would help in scientific investigation. In other words, review of literature enriched with critical and reflecting approach in carrying out investigation. The review of literature, thus gives an insight with which a scientific policy can be built up.\(^\text{11}\)

The effective functioning of banking industry largely depends upon the size and composition of clients. To mention the statement of an orthodox banker is appropriate here. "Our clients are larger merchants and big industrialists. They approach us with their demand for larger loans and advances and in return give us larger business."\(^\text{12}\) Branch expansion is a vis-a-vis for economic development. Sharma said; "The expansion of banking facilities was uneven and lopsided; and banks were concentrating their operations mainly in the metropolitan cities and towns."\(^\text{13}\)

A fairly large number of rural and semi-urban centres with reasonable potentialities of growth failed to attract the

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attention of the commercial banks. As far as the deposit mobilisation in the rural areas is concerned, much remains to be done. "A policy of planned and systematic branch expansion laying stress not only on opening branches in the under-developed and neglected areas but also in providing additional banking facilities to the growing metropolitan and urban areas to cope with the ever increasing requirements of trade, industry and commerce is more desirable. The commercial banks have made a commendable progress in extending the frontiers of banking both geographically and functionally and as a result, they have covered a wider area and much larger segment of population than it did in the pre-nationalisation.

At the bankers meeting held on May 27, 1977, the then finance minister said; "The progress has been somewhat uneven and while regional disparities in banking development has been narrowed to some extent, a lot remains to be done". 'Economic development is give and take effect'. In other words, a strong positive relation must exist between input and output for leading in pace progress. And further effective banking operations are not independent but they are determined by endogenous and exogenous conditions. Monthly flash reports from the branches contain important banking indicators such as deposits.'

14. Sharma, B.P. op cit., P. 74-91
credit, credit deposit ratio, deposit and borrowal accounts, priority sector credit. Credit to weaker sections, important items of expenditure and staff position. For effective working to meet the 21st century challenges, the commercial banks should develop strategies. 16

The Indian banking industry after nationalisation has entered into many areas which would have been considered as unbanked by the private sector banks. Thingalaish is of the opinion that the progress of the Indian banking system in unique in many respects. But considering the needs of Indian economy and its population he said "Banks have still a long way to go". 17 "The banking system touches and should touch the lives of millions by inspiring the national priorities and objectives". 18

The policy of branch expansion is to cover deficit areas mainly of rural country on rational approach. Commenting on branch expansion, Upadhaya has observed: "Except opening more than 60 per cent of total branches in the rural areas, not much progress has been made by the rural branches with regard to deposit mobilisation". 19

16. O.P. Rai, Commercial Banking in India. Senior Lecturer, Banaras Hindu University, Varanasi.
Referring to the Indian banking progress achieved it has been nothing that of phenomenal, Narasimhan says "Banking anywhere in the world, has not the Indian type of explosion of branches from around 8,000 in 1969 to over to 60,000 in the short span of 20 years. And I believe that this was a very major factor in helping the Indian economy to register an impressive increase in its saving ratio". In promoting Indian economy and its population, banking has still a task before it to accomplish. "The banks should not feel complacement of what has been achieved so far but expect more in the 21st century", is the opinion of C.R. Reddy.

The country wide survey conducted by the National Institute of Bank Management has revealed, "there are still untapped sectors in the country. Banking is largely a habit of the literate Indian and the market strategies so far have not fully exploited the potential of illiterate - non-bank savers. And many in the urban areas still do not know about banking business". Following a series of steps, Edward Faliero, the Minister of staff for Finance says "The customers service in banks has improved. But we are not satisfied and are trying to do better".

Credit has been channelled to various sectors of the economy due to the existence of multi-agency approach. It is believable fact that due to stronghold of money lenders in the rural areas, the rural credit agencies are not covered the rural people widely and deeply. "Though the amount of credit to rural areas has increased by nearly 80 times, only 14 per cent of the rural households were so far covered".

On regional imbalances in banking development, Chandra Sekhar Rao has stated, "The bank branches in Southern region alone have achieved the national target of 60 per cent both in the rural and semi-urban areas. Banks in the central and western regions have attained the target only in the rural areas. In the northeastern region banks have come close to achieving the target in the rural areas. The northern and eastern regions lagged behind the target both in the rural and semi-urban areas".

Though better recommendations are found in the above studies for effective functioning of Indian Banking Industry, they lack indepth analysis on sectoral and geographical credit pattern, deposit mobilisation and rural and urban dichotomy.

After nationalisation the commercial banks have been achieved rapid progress in the annals of Indian banking. Finance.


follows where enterprise leads was the functioning style of the commercial banks in pre-nationalisation era. To overcome this constraint caused by such pattern of banking, nationalisation was, therefore considered to be an immense and imperative measure. Wider bank credit and engulfing banking disparities are placed on the banking sector in post-nationalisation period to check imbalances and to achieve balanced growth and development of economy with social purpose. As a result of planned development which brought about a speedy and radical change in the banking structure, the commercial banks, today, have identified themselves as 'change agents'. It is a fact that the progress achieved by the banking sector is marked a head way. Has nationalisation of commercial banks been serving the ends in view? or Has the banking system reduced regional imbalances inspired by social purpose? This made the author select the topic, "Nationalisation of Banks" for investigation.

Objectives of the Study :

The specific objectives of the present study are:

1. To study the progress and performance of banking in branch expansion, deposit mobilisation and credit deployment and credit-deposit ratio.

2. To examine the rural-urban banking pattern.

3. To analyse the priority sector credit.

4. To suggest remedial measures for a healthy growth of banking so as to meet the future challenges.

Scope and Methodology:

The commercial banking sector is a key constituent of the economic life of people. Developing countries cannot achieve rapid growth without strengthening their banking structure. The banking sector has major instruments that governed the savings of the people and made them available for deployment both for industrial and rural sectors. Tapping deposits and creating credit is to create necessary banking infrastructure facilities by establishing branches. The others are deposit, credit and disbursement of credit to priority sector. The present study covers (1) branch network (2) deposit mobilisation (3) credit deployment (4) credit-deposit ratio (5) regional imbalances for analysis (6) priority sector credit for analysis.

Data Source And Collection:

The data used for the regional growth analysis and appraising the performance of banking is taken from the secondary source. The required data was compiled from the Banking Statistics, Trend and Progress of Banking in India, Bulletins of Reserve Bank of India and Reports on Currency and Finance and the other published works. Data is also collected from the issues of Pigmy Economic Review.

Tools Of Analysis:

Analysis of data refers to presenting it for drawing the statistical inferences. In other words the underlying objective of drawing scientific inferences lies on the use of
scientific tools. To identify the progress of the banking sector, in terms of branch expansion, deposits, credit and priority sector credit, scientific techniques are studied. Besides, the data is classified and arranged in the form of tables. The used statistical techniques are:

**Location Quotient**:

Location Quotient is studied to estimate the locational imbalances. It is the ratio of ratios. The national average is calculated by dividing the number of bank branches in the country, to the total population. It is determined from dividing the ratio of number of branches in a region to total population in that region dividing by the ratio of number of branches to total population. The location quotient will either be proportionate or more or less than one which would mean that regional average is in balance to or above or below the national average. This technique is also applied to the deposit and credit aspects. The location quotient is written algebraically as:

1. **Branches** \( LQ_b = \frac{NBr}{Pr} \div \frac{NP}{P} \)

2. **Deposits** \( LQ_d = \frac{TDr}{Pr} \div \frac{TD}{P} \)

3. **Credit** \( LQ_c = \frac{TCr}{Pr} \div \frac{TC}{P} \)

where,
Number of branches \( NB \)

Total deposits \( T_d \)

Total credit \( T_c \)

Population \( P \)

Region \( r \)

Branch location quotient \( LQ_b \)

Deposit location quotient \( LQ_d \)

Credit location quotient \( LQ_C \)

Coefficient of Variation:

The pace of progress, steady and continuous, indicates the effectiveness of the banking sector. The coefficient of variation indicates how consistent or uniform the bank is in achieving progress. The coefficient of variation is a relative measure of dispersion. If the coefficient of variation for the series is less, it is said to be a less dispersion or more uniform. The trend in the coefficient of variation disclose the direction in the regional disparities and is applied to study each indicator and each region/State. This technique is studied to the aspects of branch expansion, deposit mobilisation and credit deployment. It is calculated as

\[
C.V. = \frac{\sigma}{\bar{x}} \times 100
\]

\[
\sigma = \sqrt{\frac{\sum x^2}{n}}
\]

- \( C.V. \) = Coefficient of variation
- \( \sigma \) = Standard deviation
- \( \bar{x} \) = Arithmetic mean
Growth Rate:

The growth rate $(r)$ is studied to measure the progress of the banking sector over a period of 25 years of nationalisation. Whether the data is increasing or decreasing trend over a period of time, the technique of semi-log trend, $Y = ab^x$ is studied. The equation in the logarithmic form minimises the square deviations of the observed values from the logarithmic trend values. The log-linear function of least squares technique can be written as

$$\log Y = \log a + \log bx.$$ 

Where,

- $\log Y =$ Value of variable (deposits/credit)
- $\log a =$ intercept
- $\log b =$ Regression coefficient
- $x =$ Time (in years)

The growth rate is calculated by solving the equation,

$$(1 + r) = \log b$$

or $r = (\text{Antilog } b - 1) \times 100$

This regression helps in estimating bank deposits and credit. In otherwords, this analysis aids in decision making.

Elasticity Coefficient:

The rate of change in the relative position of a region or State with reference to the national average is being studied by the elasticity coefficient technique. It explains the
proportionate change in the volume of deposits or credit as a result of proportionate change is the number of branches. The elasticity coefficient is denoted by 'e' and is expressed as:

(1) Deposits \( De = \frac{(\Delta d/D)}{(b/B)} \)
(2) Credit \( Ce = \frac{(\Delta c/C)}{(b/B)} \)

Where
- \( \Delta d \) = Change in deposits
- \( \Delta c \) = Change in credit
- \( \Delta b \) = Change in branches
- \( D \) = Total deposits
- \( C \) = Total credit
- \( B \) = Total branches
- \( De \) = Deposit elasticity co-efficient
- \( Ce \) = Credit elasticity co-efficient

The elasticity coefficient will either be proportional or less or more than one if the elasticity coefficient is proportionate, it would mean the marginal increase in deposit or credit is more than average increase in number of branches. If it is greater or lesser than one, the marginal increase in deposit/credit is more or less than the average increase in number of branches. Therefore, the marginal and average increase is equal. In other words, where elasticity coefficient is more than one, that region or State may be called more deposits potential or more credit disbursement region while it is less than one, that region or State may be known as low deposits potential or low credit disbursement region.
ADDITION TO LITERATURE:

The present investigation on progress and performance of banking would help in drawing inferences on scientific lines which in turn would aid the management in taking decision to overcome constraints and patronage thrust for rapid economic development. Since the data is obtained from the published reports of the commercial banks as well as the Reserve Bank of India, the need for its accuracy cannot be over emphasised.

CHAPTER PLAN:

The present study, presented in five chapters. The methodological issues are discussed in the first chapter. Organisation and management of banks are dealt in the second chapter. The progress and performance of banking sector are analysed in the third chapter. The discussion on priority sector credit finds place in the fourth chapter. Conclusions and suggestions are dealt in the last chapter.