CHAPTER IV

CONCLUSIONS AND SUGGESTIONS
The economic sustenance and growth of India is majorly depends on the one input factor namely 'capital'. This capital not only ensures production, but the effective use of other inputs of production also depends on it. In brief, acceleration of economy needs active capital. In this context, the banking sector has a vital role to play in the process of rapid and balanced growth of economy of the country. Credit is an essential feature and phenomenon of banking system. The banking services upgrade the socio-economic objectives of the nation. Banking system, therefore, is an effective and a potent tool in the growth and development of Indian economy.

During the pre-nationalisation period, the banking sector was mainly motivated by profit. It was private-owned and urban-baised, causing imbalanced growth and development of the economy. 'Finance follows where enterprise leads' was literally true in such a case. The rural sector and weaker sections were denied of banking services. They are weak but their credit needs for economic development were not so. The security-oriented policy, the utilisation of funds in urban areas,
mobilised from elsewhere had an adverse effect. It led to imbalance on one side, denied services to the weak on the other. This in turn, created unemployment and poverty. To eradicate poverty, there was need for 'socialisation' of credit as well as banking services. This called for effective and stringent measures for redefining the policy and structure of banking. The result was the nationalisation of commercial banks which we see today.

Balanced growth with social justice is the main thrust of Indian banking after nationalisation. The nationalisation of commercial banks was victory of the institutionalisation of credit for social justice. What the Indian banking achieved and what it could not have been subjected to the 'focal point' for examination in this study, under the caption 'Operational Performance of Indian Banking'.

In the study, branch expansion, deposits mobilisation, credit deployment, rural-urban banking services, priority-sector credit and profitability of the commercial banks, covering the period of 24 years from 1969 to 1993, are made, using the statistical techniques, such as annual linear growth rate, location-quotient and elasticity-coefficient.
This study of Indian banking sector discloses the pace progress in branch expansion, strides in deposits mobilisation and good results in credit deployment including credit-deposit ratio. Many branches of non-scheduled commercial banks were liquidated or merged. Much progress was witnessed in the scheduled commercial banks during 1951-1969 period. This, of course, brought in material change, as the result of innovative thought and new dimension in banking business operations. Result of this is seen in reduction of population coverage per branch from 87,000 in 1951 to 60,000 in 1969, accounting a reduction of 31.03 per cent.

In deposits and credit, recorded a good progress during the above period. Considering the balanced growth of economy, in which the banking services have enormous role to play, there was need for implementation of 'social control' with a view to have check on heights of monopolistic economy. Due to one reason or the other, the social control on commercial bank was not as effective as expected. This led to the nationalisation of commercial banks. The first measure towards nationalisation of banks took place on July 19, 1969, nationalising 14 big commercial banks. Today, 28 commercial banks are under public sector and 23 private sector banks are operating in Indian economy, in addition to 23 private foreign banks.
The branch expansion programme was rapid during post-nationalisation particularly during the second decade of nationalisation. As a result, the per branch population served has come down drastically from 60,000 in 1969 to 22,000 in 1979 and to 14,000 in 1993. If this progress is compared to developed countries like Japan and the U.S.A. still there is greater scope for branch expansion in India. Also from the viewpoint of having a bank office within the area of 5 k.m. for each village focuses for further branch expansion.

The trend in branch expansion in rural areas during post-nationalisation is positive which is being accounted to 38.80 per cent. This impressive performance has taken place at the cost of semi-urban areas. Regarding regional and State imbalances in branch expansion programme, though achieved better results nearing to satisfactory, still measures are to be needed to rectify imbalances. Keeping in view, the progress achieved in branch expansion during post-nationalisation period and the steps to be taken, the opening or closing of bank office should be left to the bank subject to the broad framework of nationalisation. In other words, the option is to be given to the bank to open the branches subject to viability and
to aim at services to the economic activities generating economy should keep in mind.

Deposits are a major source of working funds to the commercial banks and account for about 80 per cent of their liabilities. Further they play an important role by assisting commerce, trade and industry. New capital formation is a very significant and important for marching the economy towards take-off. However, the degree of new capital formation will be decided by the rate of savings. In this context, banking is a potential instrument to increase the rate of savings of the public by offering saving programmes to different classes of income savers. In brief, deposits are vital to the existence of bank, credit follows it and it is only a move towards economy takes place after the former occupies a position of strength. Deposits mobilised by the commercial bank were ₹ 4,665 crores in 1969, and ₹ 2,75,523 crores in 1993, recording more than 58 times increase. The marginal increase in deposits is more than the average increase in branches. This throws light on the fact that how effective, how efficient and what crucial role is the Indian banking in the economy. The composition of deposits which consist of fixed deposits at 63.86 per cent, saving deposits at 20.46 per cent and current deposits at 15.68 per cent
in 1993. This performance is due to better income being resulted. It reaffirms that deposits-credit relation is strong and reciprocal.

A similar observation could also be noticed regarding credit deployment. However, flow of credit to various sectors of the economy is not on the base of any economic criteria. Because of this the position of overdues has been alarming from time to time. Loan melas, write-off of loans and no prescription regarding credit flow are actions of the Government being forced on the banks to follow. Both public sector and private sector banks are govern their day-to-day business operations by the premier institute, Reserve Bank of India.

In the study, it is inferred that the private sector commercial banks are far better in extending service to the people. Added profitability of this category of banks is also better. It is also clearly noticed by the Narasimham Committee that the priority sector credit should be 10 per cent of the bank credit. In order to provide face lift to the weaker sections and to rural sectors which are of economic significance, the Government should come forward to provide relief or subsidy from the fund being created specifically.
The commercial banks should undertake the integrated services such as supplies service, marketing service, bank card, and agricard, family planning in addition to banking services. It should also be better for the commercial banks to work-out the feasibility to lease finance, hire purchasing, venture capital with which it would be possible to rehabilitate the sick concerns.

The pangs of poverty is a major challenge to the society. The management of banking has a greater responsibility in bringing about the transformation in attitude and actions of the banking towards integrated rural development. Through means of research and development being carried out by the banking should innovate various programmes of economic significance taking into consideration of local conditions for the rural people including women. Then only, the ruralities come forward to avail the banking services which in long-run would create facilities for socio-economic betterment.

Finally, having grown at rapid rate during nationalisation period, a greater need taking to stock of control and supervision on the banking sector is the call of the day. Deteriorating profitability of the
public sector banks is the result of high proportion of non-performing assets, increasing in number of frauds, mounting overdues etc., would certainly need check and supervision. This effort on banking would contribute to meet the future complex challenges in developing economy.