Chapter – I
Introduction
Development implies change and thus in one sense the term ‘development’ is to describe the process of economic and the social transformation within countries. This process often follows as a well ordered sequence and exhibits common characteristics across countries. But if development becomes an objective of the policy, the important question arises of: development for what? Not so long ago, the concept of development, defined in the sense of objective or a desired state of affairs, was conceived of almost exclusively in terms of growth targets, with very little regard to the beneficiaries of growth or the composition of outputs. Societies are not indifferent, however, to the distribution consequences of economic policy, to the type of output that is produced, or to the economic environment in which it is produced. A concept of economic development is required that embraces the major economic and social objectives and values that societies strive for.

Thus, the concept of economic development has been evolutionary one. Over time various economists have defined economic development from their own point of views. In the early phase, the meaning of economic development was really very narrow, i.e., economic development was synonym to increase in national income or per capita income but later on, in the economic literature, this term has adopted a very wide scope and now-a-days development has become a multi-dimensional phenomenon. There are several criteria of economic development which are presented by many economists. For example, Professor Kuznet, Paul Albert, Meier and Baldwin and Youngson are the main supporters of the ‘National Income’ approach of economic development and Professor Benjamin, Higgins, Arthur Lewis, Williamson, Viner and Harvey Leibenstain support the opinion that increase in per capita income must be appropriate index of economic development. Later on, Professor Viner, Prof. Harvey Leibenstain, Prof. Richard Lipsay, all these economists have emphasized on the increase in the level of living standard of the
people. Some of the economists like Prof. Colin Clark, Prof. Okun, and Prof. Richardson etc have tried to associate the term with an increase in general welfare of masses. Hence, development is not only the economic growth but is a sum total of social, cultural, institutional and economic changes. It is a multi-dimensional phenomenon which involves not only increment in money income but also improvement in real habits, education, health, greater leisure and in fact all those social and economic conditions that make for a fuller and happier life.

Economic development is a process whereby the real per capita income increases accompanied by reduction in inequalities of income and the satisfaction of the preferences of the masses as a whole. A distressing feature of economic development under “Laissez-Faire” since the beginning of 19th century has been the division of world economy into developed areas with high per capita income and under developed areas inhabited by people living in stark poverty. Among all countries, big or small, rich or poor, socialist or capitalist, are faced with the problems of regional disparities in economic development.

Capital formation is one of the most important and strategic factor in process of economic development. The volume of capital formation is determined by the volume of real savings in the economy, which further depends on ability, willingness, and opportunities to save to the public. In this regard, financial institutions play a major role in channeling these saving into productive uses. Financial institution’s readiness to adopt the objectives of development- economic and social- and to bring about greater mobility of resources to meet the emerging needs of the economy is a necessary concomitant of development. It is aptly observed that, in India we have taken several steps designed to make our banking system, development oriented and to set up special institutions to give the requisite financial support to new development in industry and agriculture, to large scale industry and the small scale entrepreneur. Our concern has been not only with growth but also with an assurance that the benefits of development reach out more and more to the vast masses of the population.
The role of commercial banking was not so important to begin with. Prior to nationalization, most of the banks were being run like any other business, with their eye on earning good profits so as to declare a good dividend. In addition, they tried to give the maximum financial support to projects in which their principal shareholders were interested. With nationalization, the whole outlook of banking has changed. Banks have to be involved in the development process more meaningfully and positively than ever before.

Economic development is one of the greatest challenges before the developing economies. The role of commercial banks in current development strategy of developing economies is materially different from the one visualized in the traditional setting. Consequently, they have to act as the prime mover in the process of country’s economic development. In this way they have to serve, along with other development agencies, as an important catalyst in the economic and social transformation of the economy.

Commercial banks not only serve as channels that transmit funds from savers to borrowers but also act as profit making enterprises. By advancing the loans, they increase the purchasing power of the economy. They also influence the aggregate demand in the country by creating additional demand in various sectors. Thus, they have strategic importance in affecting macro economic variables viz, national income and employment, which will further increase the people’s ability and their willingness to save. Thus the banking system has a great role to play in the process of capital formation in any economy.

India is not an exception as today Indian Economy is facing the problem of wide regional disparities. The problem is not new and not confined to India alone. Most of the developing as well as developed countries are facing this problem. However, the magnitude of the problem in a large country like India is so great that it calls for serious attention of the government, policy makers and institutional agencies. The problem of regional disparities, if allowed to continue for a long time, leads to numerous social, economic and cultural problems.
In the process of correcting the regional imbalances, the commercial banks can play an important role but India is also facing severe disparities in the form of banking disparities. They can also contribute in minimizing the regional disparities of the economic development. The commercial banks are the critical resource centers and engine of growth. Prior to the nationalization of the major commercial banks in the country in 1969, the working of the commercial banks was mostly guided by the principles of profit maximization. The backward and less developed regions, which did not offer any profitable ventures, were utterly neglected. This discriminating policy of the banks led to glaring disparities between the relatively advanced and backward areas of the economy.

The regional disparity in banking development has been one of the most neglected branches of social and economic research. Banking development, in broader terms, is measured by means of branch expansion, deposit mobilization, and deployment of credit. Theoretically, in capitalist economy, where the banking industry is based on profit maximization principle, these three aspects should be highly correlated in such a way that an analysis of any one aspect should provide an insight into problem of regional disparities in banking development. However, in socialist or mixed economy, where the government is capable of influencing different aspects of banking, the high correlation between these three basic banking variables might not strictly hold good. In order to capture all these aspects of banking sector and to make a comprehensive analysis, a composite study of the banking development should be highlighted and structured.

1.1 Identification of Problem:

Various types of regional disparities are the basic characteristics of the Indian Economy. Disparities in banking sector also have a crucial role in increasing the magnitude of these disparities. Though the process of nationalization of commercial banks was completed in 1980s and there is no doubt that the productivity and efficiency of the commercial banks have increased not only in developed areas but also in backward and neglected areas in comparison to the pre nationalization period. Despite of it, there are so many reasons which are responsible for the increment of the regional disparities, for example, we see that urban and
developed regions and states are more developed than the rural and semi urban areas in respect of banking development.

During the process of reviewing the literature, the researcher has realized that very few studies have been conducted related to various aspects of regional disparities in Indian banking sector. Researcher also found that no further research has been carried out after 1987 to portray a contemporary crystal clear picture of the development of commercial banks at regional level. Therefore, it is natural to be curious about these regional disparities which are creating a demoralizing impression on their customers. To pacify the curiosity, the researcher has decided to pursue the research work on this topic as it is not only limited to study the regional disparities of particular banks of a region but also provides an extended scope to study, analyze and compare regional disparities among the banks on national level. Therefore, the whole country is the work area of the researcher.

1.2 Review of Literature:

Notwithstanding the fact that several studies have been conducted for measuring the regional disparities in economic development, no comprehensive study has so far been conducted to analyze regional disparities in banking development in terms of major banking variables. Most of the studies have been undertaken by the Reserve Bank of India. Besides these studies, few scattered efforts have also been made by individual scholars.

In 1966, a study was conducted by the Reserve Bank of India\(^1\) with a view to construct and study the composite indices for the measurement of agriculture development, spread of banking facilities and extent of deposit mobilization in the 302 districts in the country during 1961 to 1965. The districts were ranked, within each State, according to the three indicators and their ranks were juxtaposed to arrive at the conclusions about the gaps existed in the banking facilities in general and in the rural areas in particular in the district. The composite index of spread of banking was arrived at on the basis of the (i) number of villages, (ii) total population, (iii) gross cultivated area, (iv) gross irrigated area and, (v) cash crop area, per bank center and per bank office. While the per bank center position
indicated the spread of banking in rural area, the per bank office position revealed the concentration of bank offices within the district. This short period study assigned arbitrary weights to the indicators of banking development which distorted the position of a number of districts. Very few indicators had been taken to explore the regional variations in branch expansion and deposit mobilization. By using some more indicators, it could have better analyzed the picture.

In pursuance of a decision taken by the National Credit Council at its meeting, held on July 24, 1968, a Study Group was constituted in October, 1968 to go into the question of the building up of an appropriate organizational framework for the implementation of social objectives under the Chairmanship of late Professor D.R. Gadgil. One of the main objectives of appointing the Study Group was to estimate the credit gaps in agricultural and other sectors of the economy and to give direction for the fulfillment of these gaps by the institutional sources of finances.

The Study Group also measured the extent of inter-state variations in the development of commercial and co-operative banking in the country. On the basis of important indicators of commercial banking development such as population per bank office, per capita deposits per capita advances, credit deposit ratio and ratio of deposits and advances to State income, it was observed by the Study Group that the banking facilities were generally more developed in those States which were relatively backward.

In 1970, Prof. S.C. Nandwani shed light on the nationalization of the 14 major commercial banks in India, under his study ‘Bank Nationalization: A case study of India’. He covered various aspects of the nationalization of Indian banks. According to him, nationalization of banks would increase the efficiency and productivity of banking system by augmenting the resources resulting out of the increase in the deposit. It will also serve the motive of reducing the concentration of wealth and providing funds for economic development plan.

After the nationalization of the commercial banks, in 1971 the operational efficiency of the commercial banks was also measured by the various economists.
Prof. A.M. Khusro and N.S. Siddhartha in their study ‘Bank Efficiency and Banking Growth’. They developed a measure of banking efficiency in term of the elasticity of bank deposits with respect to advances, i.e. the percentage increase in a bank’s deposits consequent to a 1% increase in the advances of the banking system as a whole. Initially this measure had been applied to 4 commercial banks in India, but after that Prof. Raghavan and Khushi Ram extended this application to another 11Commercial banks and had further shown the linkage between banking efficiency and banking growth. This study was related to the time period, 1951 to 1968.

The problem of regional imbalances in Commercial banking was also peripherally studied by the Raj Committee in 1978 which was appointed by the Reserve Bank of India to study the efficiency of public sector banks. The Committee made an effort to measure the regional imbalances in commercial banking development by constructing the index numbers 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, did not examine the regional imbalances in rural banking, semi-urban and urban-metropolitan banking development despite the commendable work done by the rural, semi-urban, urban-metropolitan branches in deposit mobilization and credit deployment.

Several Government-sponsored surveys have studied in depth the problem of rural credit and the role of commercial banks in meeting the credit needs of the rural sector. The All India Rural Debt and Investment Survey 1961-62 estimated asset group-wise loans per rural household taken from commercial banks for all states and all India. It was found that in Madras (Chennai) and Kerala, the contribution of commercial banks was comparatively more significant. The All India Rural Credit Review Committee observed that, even after the commercial banks had overcome their earlier reluctance to carry banking facilities to smaller centers and had derived deposits from these centers which grew steadily, they had not, till recently, made any significant progress in fulfilling the complementary responsibility of meeting the credit needs of the semi-urban and rural areas.
The remarkable change in banking sector in India during 1969 to 1979 (as it is the time period of the study) has also been observed by Dr. S.A.R. Bilgrami. According to him, from a purely profit oriented private owned and urban biased sector, it has now converted into a development oriented and social justice based public sector banking industry. There were so many basic objectives to transform it into the desired manner. In the pre-nationalization period, there was the emergence of sectoral, regional and state-wise imbalances and rural sector, small scale industries, education, professionals, artisan-class were deprived of all banking services. The emphasis was on “credit worthiness of persons” and not on “credit worthiness of purpose” and banks were not being utilized in the interest of nation as a whole. It was realized that banking industry in general had been supporting anti-social and undesirable activities such as hoarding and speculation and had been mobilizing public saving in certain areas by investing them elsewhere, thus aggravating inter-regional and inter-state imbalances.

In his study, Dr. S.A.R Bilgrami has used the location quotient method (L.Q.) which refers the ratio of the ratios. This ratio (L.Q.) will either be proportional or greater or less than one. If L.Q. is proportionate it would indicate that regional or state average is in balance of national average. The same technique has been adapted to estimate regional and state-wise deposit and credit-imbalance. The study reveals that although regional and state wise disparities in terms of banking services (expansion of branches, mobilization of deposits, and distribution of credit especially to weaker section of society) still exist, but some healthy trends have been developed during these years which might have helped significantly, if continued in the future, in minimizing the widening disparities. The Banking Commission also examined the inter-State variations in the growth of co-operative and commercial banking in the country and suggested the scheme of co-ordination between the two in the sphere of geographical coverage, loan policies and procedures, resources and organizational aspects.

Prof. R.K. Jena and Samson Moharana have tried to focus on the pre-nationalization period, one of the serious allegations, made against the banking industry, was that they mobilized the resources in form of deposits in certain areas
and invested them elsewhere, thus aggravated the regional imbalance. The credit deposit ratios calculated in respect of different regions, states and population centers for the year 1969/1972, proved the point beyond doubt. The nationalization of the major commercial banks in 1969 was an important step for the reorientation of the banking policies towards the development of the backward and less-developed regions & states. In post nationalized time period (1969-1985) they analyzed that the credit deposit ratio, in respect of different regions, states and population centers, which were below the national average at the time of nationalization recorded, marked increases.

A reverse trend however is noticed in case of these regions/states/population centers whose ratio was higher than the national average at the time of nationalization. This shows that the sanction of credit in respect of deposits has been growing at a faster rate in the below average region and at a slower rate in the above average region, resulting these by narrowing of overall differentials. Thus, it can be said that the public sector has given special importance to the development of the backward and less developed regions of the country with the goal of minimizing the regional disparities.

Before reaching to a conclusion, a very important thing mentioned by them is that the credit deposit ratio has been calculated as a proportion of the credit sanctioned by banks in a particular geographical area to the deposits collected in that area. However, for the purpose of measuring the extent to which the area has been benefited from the bank credit is utilized credit in that area rather than credit granted in the area.

Mr. Mavinkurve and Seshan have also tried to bring out the regional variations in the distribution of scheduled commercial banks credit for agriculture in India on the basis of two indicators, i.e. loans outstanding per rural family and loans outstanding per hectare of gross cropped area, both measured as on 29th December 1972. Combining these two indicators, the states have been grouped in the two categories with a view to examine the availability of commercial bank finance for agriculture. Gujarat, TamilNadu, Maharashtra, Andhra Pradesh, Karnataka, Kerala.
and Punjab were classified as developed states while Uttar Pradesh, Haryana, Rajasthan, West-Bengal, Madhya Pradesh, Bihar Assam Jammu and Kashmir, Orissa and Himachal Pradesh were termed as underdeveloped. Interestingly, it was noted that those States, which were developed in respect of commercial bank credit for agriculture, were also developed in co-operative credit.

By employing the technique of multiple regression analysis, Prof. Basu, in his study regarded per capita bank credit as the dependent variable on the basis of observations in 275 districts based on 1967 data. The selected variables together explained 64 percentages of inter-district variations in per capita bank credit.

This study was subsequently extended by him to 283 districts with some changed set of variables to measure the regional disparity in the distribution of agriculture credit by commercial banks of India in 1973. Applying the technique of multiple regressions, he has shown the factors of regional disparity in the levels of commercial bank credit to agriculture. According to this study, commercial banks have come to finance a much bigger part of the credit needs of agriculturists in the early 70’s than what they did in the early 60s. Rough estimates made by him, have been shown that whereas the credit needs of agriculturists at current prices may have increased threefold during the decade, the absolute quantum of credit assistance to the agricultural sector by commercial banks, in form of both direct and indirect finance must have increased almost thirty eight fold during the same period. However, the financing of agriculture by commercial banks has not been regionally equitable. The inter district range of agricultural credit per hectare of net sown area was as wide as 12 paisa to Rs. 1,120.18. In other words, while commercial banks had successfully increased the share of agriculture in their total outstanding credit several fold, it had failed to maintain a minimum degree of Uniformity in its regional distribution.

On the basis of the second study, he observed that the significant determinants of the level of per capita commercial bank credit of a region (district) are found to be per capita deposit, per hectare of net shown area outstanding credit of central co-operative banks, spread of bank offices relative to population and the degree of urbanization. The level of per capita deposit in the district is determined by per capita credit, number of bank offices relative to population, and the degree of
urbanization. On the other hand, the spread of bank offices is more effective in increasing deposits than credit.

The study explained the casual relationship between per capita bank credit and other banking and economic variables but it did not throw any light on overall banking development in the district. It was also static in the sense that it considers only the data of the year 1973.

Professor Chhipa has measured the performance of commercial banking in the various districts of Rajasthan on the basis of “Advance Deposit Ratio during 1967-74. It has been found that during the post nationalization 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 (ADR) have also been reduced to a minimum possible level. With the help of rank correlation coefficient, he has tried to establish the relationship between economic and banking development and it has been found that the bias in favor of developed districts has been reduced.

The eminent economist Dr. K. Munirathaa Naidu in his study, “Growth of Banking in Nationalization: A Study of Inter-State Disparities”, has concluded that the unprecedented banking growth at all the levels in India has not led to balanced development of banking at inter-state level. This is natural because the advanced and developed states have always marched ahead in banking facilities in other fields. The states that progressed well in educational agricultural, industrial and transnational sector have also achieved reliable growth in banking compared to the other states. The credit deposit ratio gains greater importance in the context of regional development. There were 14 states below national average of 66.6% and this was a reflection of the facts that the deposits recurred in these states were being diverted to other states.

According to the study, the C-D ratio was very low in less developed state compared to other states which were developed in banking facilities. The rural and urban C-D Ratio in different states also indicated an uneven trend. The performance of the private sector banks was much better than that of public sector at that time. An analysis from frequency distribution of districts based on credit deposit ratio also
revealed unequal and unbalanced growth. The regional flow of credit has a natural bias towards advanced states. Moreover, the C-D Ratio also pointed to the outflow of mobilized recourses from certain less developed states to other favorably placed or developed regions.

Dr. Shiv Kumar classified the all India districts into broad homogeneous groups according to the levels of banking development by applying the technique of cluster analysis. The chosen variables were:

1. Rural population served per bank,
2. Urban population served per bank,
3. Per capita deposits for rural population, and
4. Per capita deposits for urban population

The basic limitation of the study was that a major variable of commercial banking viz., credit, has not been included. It did not consider the various aspects of banking development also. It was also static, since it was related to one point of time i.e. 1976.

In his second study, Dr. M.L. Chippa found some very crucial facts. According to him, the growing evidences related to the banking development in India showed that regional disparities in economic development have not diminished even after more than three decades of economic planning. However, no comprehensive analysis has been made so far to measure the regional disparities in commercial banking development in the country. According to him, banking development is a multidimensional phenomenon measured by means of branch expansion, deposit mobilization and deployment of credit and advances and these three aspects are highly correlated in such a way that analysis of any one aspect should provide an insight into the problem of regional disparities in banking sector.

In order to capture all these aspects of banking sector and to make a comprehensive analysis, composite indices of banking development taking the various indicators of the three aspects into account, have been constructed. Similarly, composite indices of economic development with its three constituents
like agriculture, industrial and infrastructural development have also been measured to find out its relationship with commercial banking development.

Dr. Hem Lata Rao computed composite index of banking development to measure the level of economic development for the year 1956, 1961 and 1965. On the basis of six indicators, she concluded that industrially developed States of Maharashtra, West Bengal, Madras and Gujarat shared the top four places among themselves while the industrially backward states recorded low index of banking development.

Dr. P.K. Mitra (1987) has studied that the main objective behind the nationalization of 14 major commercial banks on 19th July, 1969 was to provide them a strong socio-economic role to reduce regional/socio disparities. Before the nationalization, the banking system in the country was predominantly urban oriented and mainly catered to the needs of big industry and whole sale trade. To rejuvenate the economy of the rural and semi urban areas, the branch expansion was stepped forward in these areas in a big way. The commercial banks started financing the hitherto neglected sectors of the economy, which gradually came to be known as the “priority sector”. New schemes were formulated for financing against agriculture and allied activities, cottage, village and small scale industries; self employment schemes for undertaking any productive or service activity etc.

Commercial banks were also assigned various targets in terms of numbers of accounts, amount to be disbursed, goals and sub goals of priority sector lending etc., but study reveals that only with the help of the commercial banking development in priority sector alone cannot bring about growth in production productivity and income. Findings of the studies are as follows:-

1. Credit is one of the inputs, simultaneous availability of other inputs like certified seeds, irrigation facilities, extension services, fertilizers, marketing support are crucial in the matter of productivity of rural lending.

2. Sometimes the increase in production is not commensurate with the increase in bank credit on account of natural calamities like drought and flood, etc.
3. Absence of required backward, forward linkages and other infrastructural support could even produce negative result in the form financing rural indebtedness.

4. For ensuring the quality of lending, selection of beneficiaries and activities undertaken has to be carefully done.

5. The absence of village/block level development plan is a great handicap in the working the commercial banks. Little or no support has come from the state Government in formulating the credit plans based on development plans.

Scholars like K. Munirathaa Naidu in one of his studies has also concluded that in India there is a large dimension of the regional and state wise disparities and after nationalization, regional disparities were quite apparent, as the highly developed states –Punjab, Gujarat, Maharashtra, Tamil Nadu, Bengal had a relatively well developed banking system, both rural and urban, compared to less developed states with a strong base and well establishment, had better leverage and gravitational advantages, even though the growth of banking in less developed states was quite phenomenal.

Based on a study by the National Commission on population (2001) on ranking of 569 districts by a composite index of their 12 socio-economic and demographic indicators, Kurien (2001) has attempted a classification of states into two groups, forward and backward states. He attempted this initial classification strictly in terms of per capita income, but found that “the two groups of states are two world apart socio-demographically” too. They have sought to juxtapose the socio-demographic profile of these eight forward and seven backward states by their performances in the banking field. In 1980s, the growth of bank deposits and credit in the backward states was impressive in comparison to the forward states. In the 1990s, forward states sustained their earlier performance in deposit growth and even in credit growth, but backward states suffered the steepest fall in bank credit growth. Slippage in their deposit growth formed an annual rate of 19% per annum in 1980s to 15% per annum in 1990s and the average annual slippage in credit growth from 18.7% to 11.0%.
A major achievement of the commercial banking industry in the 1970s and 1980s was a firm shift in credit deployment in favour of agricultural sector. At the time of nationalization, the credit share of the sector had moved to near 11% in mid 1970s to 16% in mid 1980s. But thereafter a steady deterioration had occurred in the sectoral distribution of bank credit. In 1993, the RBI had asked the banks to prepare special agricultural credit plans and increase their credit disbursals to agriculture by 20% annually, but the target remained unfulfilled. A similar reduction had occurred in the share of bank credit in favour of small scale industry and artisans and village industries.

The EPW Research Foundation (EPWRF) has undertaken the task of tabulating time series for all the 30 years from December 1972 onwards. It has covered all the aspects of scheduled commercial banks in India. In the segment of the persistence of the inter-regional disparities, the study reveals that apart from deteriorating rural-urban disparities, the post-reform period has been considerably widening inter states and inter-regional disparities in bank credit distribution in relation to deposit mobilized. The supply-leading role that the banking industry played in the initial decade of bank nationalization, particularly in expanding the credit base of underdeveloped regions and states, had been contracted in 1990s. The credit deposit ratio no doubt fluctuated rather vastly from year to year; they were also affected by the national level policies on the rising reserve ratios and the consequential contraction of commercial credit.

While bank ability of project in these underdeveloped region is indeed a question to be reckoned with, it is relevant only up to a point for, if the region could generate such sizeable amount of deposits, they could also have sizeable, lendable schemes if only bank managements could be dynamic enough to seek customers, particularly from informal sector which have suffered most from inadequacy of credit support in the post reform period.

Studies on the increasing concentration in the top centers done by EPW Research Foundation (2005) suggest that the bulk of the territorial spread of branch networks, particularly in rural areas and underdeveloped regions, took place prior to
the 1990s. Though the reform process of the 1990s did not prevent the banks from expanding rural branch network – and in fact, the Narasimham Committee did specifically emphasis the importance of rural institutions and branch banking, but in reality, quite contrary happened. Consequently, the spread of bank branches has tended to concentrate in urban and metropolitan centers. The number of rural branches has declined in absolute terms because of the policy of closures or mergers. This concentration of bank activities reflects another dimension in which banks lending activities have increasingly shifted in favour of retail activities in metropolitan and some important urban centers and it has brought out subsequent increase in the number of personal loan accounts for housing, consumer durables, and other retail loans during the past four decades.

Similarly, the second major lacuna, which the policy of bank nationalization sought to correct, was the acute and growing inter- states and inter- regional disparities in banking development. Some of the improvements are quite palpable. Central region, for instance, improved its region in both bank deposits and bank credits until the early 1990s, similarly in the north region also but these have been systematically reversed after the 1990s. What is more disquieting is the decline in the C-D ratios of rural and semi urban branches of banks. In case of eastern region, for instance, the rural C-D ratios of Bihar have slipped from 45.9% in March 1994 to 26.8% in March 2004 and those of West Bengal, from 43.2% to 28.4%. It must be admitted that the eastern region, covering also two big sized states of Bihar and West Bengal, became a special case in that it has failed to enjoy even the full benefits of nationalization; the share of banks deposits and credit has fallen; so have C-D ratios.

1.3 Hypothesis:
The present study is based on the two hypotheses which are as follows:

- It is hypothesized that there are no regional differences in terms of the banking development in various states of the country, during pre-reform and post-reform time period.
Regional disparities in terms of banking development have not increased during the period of study.

There is no association between the economic development and the banking development.

1.4 Objectives of the Study:

The basic objective of the study is to identify the regional disparities in banking development with special reference to 18 major states of India and also to discern the causes which are responsible for these disparities. What are the government’s and policy makers’ efforts to reduce the gulf between different states? Thus, in order to examine the forgoing hypotheses, the main objectives of the study are as follows:

1. The first objective of the study is to examine the various reforms taken by the government in the banking sector during pre-reforms and post-reform period.
2. The next objective is to analyze the banking development in different regions of the country on the basis of different indicators, during pre-reform and post-reform period.
3. To investigate the extent of regional disparities in terms of banking development and to find out the different factors contributing to regional disparities in banking development.
4. To evaluate and interpret the association between economic development and banking development in the country.
5. Finally, to suggest some important and effective measures to minimize the disparities and improve banking sector in the country.

1.5 Data Sources and Methodology:

The present study is based on the secondary data collected and published by Government, Semi-Government and private agencies. For this purpose, various libraries, institutions and departments will be searched. Internet will also be used as a proper source of information.
The study covers the span of 31 years, which is divided into two sub-periods; the duration of first 10 years (1980-1991) is designated as pre-reform period while the time period 1991-2010 is referred to as post-reform period.

This study has covered major 18 states of the country while other states have been excluded from the present study, as some of them are recently formed like, (Jharkhand, Uttarakhand, Chhattisgarh) or some states are peculiar in terms of their critical conditions (Northern seven sisters). Inclusion of these states may distort the results of the study. Data for the proposed study has been collected and analyzed with the help of the various statistical tools like Mean, Standard Deviation, Coefficient of Variations, Correlation Techniques, and Regression Analysis. The main statistical tool which has been used to calculate disparities is Gini Coefficient. To confirm the variability in the result, Thiel and Hirschman Herfindahl indexes and Chow test have also been used in the study. Besides them, the researcher has also used some other different modes of the data presentation such as graphs, bar diagrams, figures and Tables etc.

1.6 Limitations:

In this complicated world, nothing can be achieved in an easy way. There are so many limitations which make it complicated. Likewise, in this study though the aspects are very small from world’s point of view but it has its own importance in relevant manners. The researcher has found out the limitations based on number of states, years span, source and type of data. These limitations are as follows:

1. To avoid complications in the study and to make it more effective, only 30 years span is taken by the researcher.

2. Due to same reasons i.e., lack of time, data and other sources, the researcher has only used the secondary data.

3. Due to time and data constraints, researcher has concentrated only on the 18 major states out of 28 Indian states, because some states are recently formed and some states have peculiar social and economic conditions and thus are not comparable with the other states.
1.7 Scope of the Study:

As far as the scope of the study is concerned, the study has a great scope in the Indian economy because it emphasizes on those issues of the banking development due to which economy is suffering with the problem of imbalance development. Demographically and geographically, India is a very vast economy and contains a wide potentiality in each and every segment of the economy. In the present study, researcher has tried to exemplify the lacunas of the economy which create severe disparities in the economy. If government takes serious initiatives in this direction then it will positively boom up the social and economic growth, maintain equilibrium in the economy and diminish the widened gap between the rich and the poor. To sum up, the scope of the study encompasses a deep insight on; various factors causing regional disparities, by applying various statistical tools calculate the regional disparities among all scheduled commercial banks in India, displays comparative analytical reviews based on results and last but not the least, suggests required measures and strategies for abating and reducing disparities.