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**FINANCIAL LIBERALIZATION AND BANKING
PERFORMANCE OF PRIVATE SECTOR BANKS
IN INDIA**

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Financial Liberalization and Banking Performance of Private Sector Banks in India

Irfan Ul Hasan

Research Scholar, Sai Nath University, Ranchi, Jharkhand

Abstract – Banking industry is considered as the backbone of Indian economy. After liberalization of the policies by the government, the banks have to be more competitive and performance-oriented in the new environment. In this paper we analyzed financial liberalization and banking performance of private sector banks in India.

Keywords: Financial Liberalization, Banks, Government

INTRODUCTION

The regulations in India are commonly characterized as "financial repression". The financial liberalization literature assumes that the removal of repression policies will allow the banking sector to better perform its functions of mobilizing savings and allocating capital what ultimately results in higher growth rates. If India wants to achieve its ambitious growth targets of 7-8% per year as lined out in the Common Minimum Programme of the current government, a successful management of the systemic changes in the banking sector is a necessary precondition.

While the transition process in the banking sector has certainly not yet come to an end, sufficient time has passed for an interim review. The objective of this paper therefore is to evaluate the progress made in liberalizing the banking sector so far and to test if the reforms have allowed the banking sector to better perform its functions.

REVIEW OF LITERATURE:

The Imperial Bank of India was nationalized and its undertaking was taken over by the State Bank of India (SBI) in 1955. It was done for the purpose of imposing social control with a view to remedy the basic weaknesses of the Indian banking system and to ensure that banks would cater to the needs of the hitherto neglect and weaker sections of community instead of big business and those connected with them. On July 19, 1969, 14 major banks and on April 15, 1980, six banks were nationalized. The object other nationalization was to render the largest good to the largest number of people.

IMPACT OF LIBERALIZATION ON THE PERFORMANCE OF INDIAN BANKING SECTOR:

The reforms in the banking industry started in the early 1990s have been continued till now (Bansal, 2004). The Narasimham Committee, 1991 had recommended several reforms in banking sector with the change wind of financial sector reforms (Sekhar, 2007) the winds of change gained momentum in the last few years, such as globalization of Indian economy and opening up of financial services under WTO. It is expected that the banking sector will undergo mergers and acquisitions (M&A), consolidation, globalization of operations, development of new technology, best corporate governance practices and universalization (Sekhar, 2007), the impact of economic liberalization on the performance of Indian banking sector in the last decade and also the impact of banking sector reforms on the Indian banking sector.

Roma Mitra, Shankar Ravi (2008), A stable and efficient banking sector is an essential precondition to increase the economic level of a country. This paper tries to model and evaluate the efficiency of 50 Indian banks. The inefficiency can be analyzed and quantified for every evaluated unit. The aim of this paper is to estimate and compare efficiency of the banking sector in India. The analysis is supposed to verify or reject the hypothesis whether the banking sector fulfils its intermediation function sufficiently to compete with the global players. The results are insightful to the financial policy planner as it identifies priority areas for different banks, which can improve the performance. This paper evaluates the performance of Banking Sectors in India.

A comparative analysis of various bank groups with respect to different variables has been taken.

Important indicators of scheduled commercial banks (SCBs) are analyzed from 1969 to 2008.

Table 1.1
Structure of Indian Commercial Banks (2003)

(Rs. In crore)

S. No.	Bank Group	No. of Banks	Deposits	Capital	Reserves	Total Assets	Borrowings	Investments	Loan and Advances
1.	Public Sector Banks Market Share	27 9.34	1079393.81 76.87	14175.39 59.30	51407.16 65.37	128235.70 72.92	22431.04 25.60	545668.10 77.26	549351.18 72.07
2.	Indian Private Sector Banks Market Share	30 10.38	207173.57 14.75	2921.06 12.22	15974.40 20.31	297279.31 16.87	42139.95 48.10	107327.94 15.20	138951.10 18.23
3.	Foreign Banks in Indian Market Share	36 12.46	69312.82 4.94	4497.79 18.82	8906.28 11.32	116401.08 6.60	22904.42 26.14	40795.49 5.78	52170.87 6.84
4.	Total Private Sector Banks Market Share	66 22.84	276486.39 19.69	7418.85 31.04	24880.68 31.64	413680.39 23.47	65044.37 74.25	148123.53 20.97	191121.97 25.07
5.	Total Commercial Banks Market Share	93 32.18	1335880.20 96.56	21594.24 90.34	76287.84 97.00	1698916.09 96.39	87475.41 99.85	693791.53 98.23	740473.15 97.14
6.	Regional Rural Banks Market Share	196 67.82	48338.00 3.44	2308.59 9.66	2357.41 3.00	63614.00 3.61	131.00 0.15	12524.00 1.77	21773.00 2.86
7.	Total of All Banks Total Market Share	289 100.00	1404218.20 100.00	23902.83 100.00	78645.25 100.00	1762530.09 100.00	87606.41 100.00	706315.53 100.00	762246.15 100.00

Source: RBI's Report on Trend and Progress of Banking in India (2002-03)

B.Satish Kumar (2008), in his article on an evaluation of the financial performance of Indian private sector banks wrote Private sector banks play an important role in development of Indian economy. After liberalization the banking industry underwent major changes. The economic reforms totally have changed the banking sector. RBI permitted new banks to be started in the private sector as per the recommendation of Narashiman committee. The Indian banking industry was dominated by public sector banks. But now the situations have changed new generation banks with used of technology and professional management has gained a reasonable position in the banking industry.

In recent years the frontier analysis method has been quite popular. Several studies have been carried out to measure the banking sector performance (efficiency) using the frontier analysis method (Abbasoglu et. al, 2007; Carbo et. al, 2002). The frontier analysis separates the institutions those perform better relative to a particular standard from the institutions those performances are poor. Such separations can be done by using a parametric or non-parametric frontier analysis.

CONCLUSION:

In this paper we found that the ability of banks to face competition will depend on their determined efforts at logical up gradation and improvement in operational and managerial efficiency, improvement in customer service, internal control, house- keeping and augmenting productivity and profitability. Extensive liberalization, determined stabilization and grow there vital for improving the financial sector. There is a close link between liberalization and growth.

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- According to Carbo et. al (2002), "Since the FF is a combination of polynomial and trigonometric expansions, the order of approximation can increase with the size of the sample size".
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