International Journal of Advanced Research in
Management and Social Sciences
ISSN: 2278-6236

SOCIO-ECONOMIC SIGNIFICANCE OF COMMERCIAL BANKS IN INDIA: WITH SPECIAL EMPHASIS ON PUBLIC SECTOR BANKS

Dr. Shradha Malhotra Banga*

Abstract: *The study brings forward the significance of Public Sector Banks (PSBs) in developing economy of India, amidst the present liberal and dynamic financial and banking environment. The study begins with a general review of Indian Banking background. Further, the research is segregated into three parts: First part deals with the study of growth trends in various commercial banking related variables. Part two studies the impact of aggregate deposits, demand deposits and time deposits triggered by commercial banks on socio economic variables through regression analysis. Finally, importance of Public Sector Banks is analyzed on the basis of associated facts and figures.*

Findings– Compounded growth rate of deposits and investments in government securities are noteworthy for socio economic development. The PSBs have a major role to play in improving the socio-economic performance of a developing economy.

Keywords: *Commercial banks, public sector banks, trend analysis, compounded annual growth rate, Welch and Brown-Forsythe statistics, log linear regression analysis.*

*Economics Faculty Member, ICFAI University, Jaipur, India

1. BACKGROUND: BANKING IN INDIA

Banks are the lifeline of an economy. The economic progress of an economy can be interpreted from the reforms in its banking activities. India has made significant leaps and strides in banking sector. We have witnessed all types of exchanges in our country: barter, indirect exchange through shells, hides etc and finally through money: coins and notes. The goldsmiths took over the work of mediators and later on a more systematic arrangement came into vogue. This was the beginning of banking sector, which introduced organized lending and borrowing operations. Later on, new techniques have been introduced and today banking in India is considered the most technically modernized sector.

Banks in India:

Banks have led a long journey full of twists and turns and in this journey they have proved their worthiness for the Indians. India adopted many foreign practices in banking sector, many experiments were conducted and Indian banking system had to pass several litmus tests. Following is a step by step development of banking sector in India. The banks have been divided in two groups before nationalization of RBI (pre 1949) and after nationalization of RBI (post 1949)

Banks in India have been classified as:

<u>Pre 1955:</u>

1. Presidency Banks
    a. Bank of Bengal
    b. Bank of Bombay
    c. Bank of Madras
2. European Exchange banks: which had Head Office outside India
    a. Which conduct a larger proportion of their business in India
    b. Banks that are only agencies of large banking corporations
3. India Joint Stock Banks: registered under the Indian Companies Act. Which have head offices located in India
4. Private and unincorporated bankers or money lenders(systematic data not available)

In 1913, following was the position of capital reserve, deposits and cash balances of above three categories of banks.

Table 1 depicts that amongst the three categories of banks the deposits and cash balances were huge with Presidency banks, however the exchange banks had high corpus of capital and reserves.

Table 1	Total amount of Capital, Reserve, Deposits and Cash Balance of different classes of Banks Dec, 1913.								
Type of Banks	capital and reserve			Deposits			cash balances		
	1914 (Rs. Lakhs)	1913 (Rs. Lakhs)	Increase (%)	1914 (Rs. Lakhs)	1913 (Rs. Lakhs)	Increase (%)	1914 (Rs. Lakhs)	1913 (Rs. Lakhs)	Increase (%)
presidency banks	610	748	22.6	2515	4237	68.5	1022	1538	50.5
exchange banks	3204	5674	77.1	1632	3103	90.1	494	588	19
Indian joint stocks banks above Rs. 5 lakhs	145	364	151	1151	2259	96.3	144	400	177.8
Total	3959	6786	71.4	5298	9599	81.2	1660	2526	52.2
Source: Statisical tables relating to Banks in India, 2008-09, Introductory Memorandum: Glimpses into the history pp 7.									

The growth rate of joint stock banks in terms of all three variables was the highest and it was in this period these banks increased enormously.

Bank Failures: This period saw the highest number of bank failures. Only in 1913 (7 banks failures) and 1914 (8 bank failures) 15 banks failures were reported. 57 banks having authorized capital of Rs. 99200000 failed to perform their functions judiciously.

Repercussions: The Presidency and the public was losing confidence in the banking system, the grim situation was calling for a change. A statutory body which could bind the banks and guide them towards common functions was required. The Reserve Bank of India is the central bank of the country. The Reserve Bank of India was set up on the basis of the recommendations of the Hilton Young Commission. The Reserve Bank of India Act, 1934 (II of 1934) provides the statutory basis of the functioning of the Bank, which commenced operations on April 1, 1935.

Post 1955:

1. Nationalization of Public Sector Banks: In 1955 Imperial bank of India was nationalized and formed as State Bank of India and was bestowed with the responsibility of agricultural, industrial and social and rural development through its banking efforts.

2. In 1969: Despite passing of RBI Act, 1949 which instilled control and authority with RBI, many banks were still being owned and controlled by private persons. This changed with nationalization of 14 banks in 1969 and another 6 in 1980. Nationalization gave GOI control over 91% of banking in India, especially on the credit delivery which was highly advocated for economic and social development of the nation.
3. Indian Banking sector was opened for Private Sector banks in 1991: This move ushered in efficiency in the whole banking system of India. It boosted competitiveness and harnessed the energy of employees and capital both, by introducing far reaching changes in the traditional system of banking in India. IndusInd Bank was the first private bank to come up in 1945-95.
4. Foreign Sector Banks: In 2003, foreign banks were allowed to increase their stake from 49% to 74% in Indian Banks, thus foreign banks were allowed to set up their subsidiaries and not just branches.

The present banking structure of India is a mixture of Public, Private and Foreign Sector Banks. Thus the importance of all the categories persists, however as India is still a developing economy with high unemployment rate and high proportion of population still living below poverty line and high percentage of population residing in rural areas where any profit seeking bank would not be interested in entering it is the Public Sector banks which become important here.

II. REVIEW OF LITERATURE

Many studies have been conducted to test if the growth of macro socio-economic variables depends on monetary or banking data in an economy. Ramachandran (2004) studied the relationship between money, output and prices and found evidence that growth in money is an indicator of future movement in prices and output. He further concludes that an economy like India must have moderate monetary policy rather then aggressive one as it may amplify price fluctuations in the long run.

Commercial Banking Report (2008), states that India's high savings rate and RBI's regulatory norms have brought stability in banking system however it also mentions that politics has complicated policy making and that about half of government's revenues are spent on interest, salaries and pension of public sector employees. Burgess, Pande and Wong (2005), stating importance of public sector banks mention that expansion of nationalized banks into rural unbanked areas have lead to reduction in poverty by increasing lending amongst low caste and tribal groups. Acharya et al. (2009) investigated the relationship between financial development: credit growth and economic growth: per capita income growth in 14 Indian states, using panel cointegration and modified ordinary regression analysis. The panel co integration results confirmed existence of relationship between the two variables under study. An article in Emerging Markets Monitor (2010), reveals the fact that commercial credit growth will increase with increase in growth in infrastructure, capital expenditure loans and consumer lending. It goes on to say that job security offered by urban regions and enhanced rural purchasing power will also contribute in this growth. However, it cites the risk in terms increasing non- performing assets is a cause of concern.

Issues related to banking development in India have been discussed thoroughly in Indian defence (Economist, 2005). The article discusses the viewpoints of RBI for keeping away competition from private and foreign sector banks and slowly opening the banking sector. It mentions that 20 public sector banks control three quarters of banking assets and have more than 51% government ownership, thus these banks can be forced to offer credit at subvention rates: a cause for poor society like India. However, the banking sector was opened in 1991 for private banks which have proved their mettle yet the social cause still rests with the public sector banks. The entry of foreign sector banks have induced competition in the Indian banking sector and has made its mark in technology up gradation and swiftness of transactions, thus bridging gap between the credit seeker and credit giver. However, the significance of public sector banks still cannot be refuted by any factor. The article clearly mentions "For a country as big as India, and as much in need of basic development finance, financial-sector liberalization presents a dilemma." Since the 26% poor, more than 70% of country living in villages needs to be cared and supported: a venture which rational business men may not find worthy and safe.

Saez, Lawrence (2001), analyzed the process of financial reforms in India and China and concluded that new banks entry (followed in China) into banking system rather than the rehabilitation approach (followed in India) was more efficient in reducing the NPAs. However they explain the approach of both the countries in following their paths to reduce NPAs.

 ISSN: 2278-6236

Berger *et al.* (2008) have conducted research on role of bank ownership type in banking relationship with the customer. They have concluded that the companies which have targets to diversify and have multiple banking relationships tend to become foreign banking customers and customers of state owned banks are usually unlikely to diversify and have multiple banking relationships. Regarding entry of foreign banks in India Alvares, Clifford (2009), states that many European and U.S. banks have made India their beehive and are spreading their retail operations in the country.

Indian Banking sector was opened for Private Sector banks in 1991 and for Foreign Sector Banks in feb 2003. Foreign banks were allowed to increase their stake from 49% to 74% in Indian Banks, thus foreign banks were allowed to set up their subsidiaries and not just branches. The article outlines the following shares of different types of banks in Inidan market:

State of the market Share of Indian banks' total assets March 31st 2002, %

State banks	75.3
Foreign banks	7.2
Indian private banks	17.5

A study performed by Business Today and KPMG (2008), on Banks in India outlined that the PSU banks have performed and managed to be competitive in terms of information, technology, customer service and adding new customers to their kitty after opening up of the banking sector.

The news of takeover of private banks by foreign banks issued through circular of RBI drew up the private and public sector banks portfolios in terms of value gain. However, the gains were more for private banks rather than PSB and the relation between potential of takeover by foreign sector bank and value gains have been found to be positive. Sensarma, Rudra (2008) found that the efficiency of banks had declined after deregulation of the sector. The findings are contrary to the views held by many economists that efficiency and productivity had actually improved following deregulation: Mahesh, H. P and Rajeev, Meenakshi (2007)[1]. The conference proceedings on the theme 'Challenges and opportunities faced by the Indian banking sector in the liberalized environment', published in Vikalpa, outlined that the

[1] Mahesh, H., & Rajeev, M. (2007). Productivity of Indian Commercial Banks in the Pre- and Post-Liberalization Periods. *ICFAI Journal of Bank Management*, *6*(4), 17-30.

banking sector has undergone changes due to many reasons especially technology and customer behavior and the experts unanimously agreed that competitive advantage can be reaped by harnessing hidden potential in employees.

However, the GOI had clipped the wings of foreign sector banks after allowing them to fly in 2003, by asking them to take over only the weak banks identified by it and not any bank they were interested in. This move alienated the FSB to some extent. However the government has its own reasons of preferring public sector banks over private and foreign sector banks. Table 1 proves this point amidst the prevalent situation in Indian Economy

Out of the total deposits made in India rural population has a share of 9% each in 2008 and 2009, however their share in credit off take has subsided from 8% to 7%. **Error! Not a valid link.**

Table 2				
POPULATION GROUP-WISE DISTRIBUTION OF DEPOSITS AND CREDIT OF SCHEDULED COMMERCIAL BANKS - 2008 TO 2009				
			(Amount in Rs.Crs.)	
Population	March 2008		**March 2009**	
Group	Deposits	Credit	Deposits	**Credit**
	(7)	(8)	(9)	**(10)**
Rural	303025	183097	365491	**208694**
	(9)	(8)	(9)	**(7)**
Semi-Urban	429377	230629	531944	**266736**
	(13)	(10)	(14)	**(9)**
Urban	657624	383576	824463	**461870**
	(20)	(16)	(21)	**(16)**
Metropolitan	1838792	1597263	2215437	**1920225**
	(57)	(67)	(56)	**(67)**
All India	3228818	2394565	3937335	**2857525**
	(100)	(100)	(100)	**(100)**
Note : Figures in bracket indicate percent share in All-India total.				
***Source* : Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks, March 2008 & 2009, RBI.**				

This reveals the importance of PSBs, which have been bestowed the responsibility to make available the credit to rural and priority sector. The other banks take this task as waste of resources and time as it is not profit bearing, however the PSBs have to fulfill their social and economic responsibility of bringing equilibrium across the unequal regional sects mentioned above. However, the importance of private and foreign sector banks cannot be denied.

III. RESEARCH METHODOLOGY

A study of banking sector, its' impact on the Indian economy and the way the banking sector reforms have taken place in India will enrich the knowledge about banking sector in systematic manner.

This paper is divided into three parts:

1. Study of growth trends in: deposits, borrowings, other demand and time liabilities, investment in government securities, investments in other approved securities.

-This will include study of respective rate of growth of every variable

-Test for equality of growth

2. Study of impact of aggregate deposits, demand deposits and time deposits triggered by banks in Indian Economy on investments (capital formation), food credit, and non food credit in India.

3. Importance of Public Sector Banks (SBI and Associates+ Nationalized Banks) in India: Analysis of importance of presence and strong hold of public sector banks in India.

Part I

Study of growth trends in: deposits, borrowings, other demand and time liabilities, investment in government securities, investments in other approved securities.

This will include study of respective rate of growth of every variable using semi log model in econometrics. The data has been taken from RBI website for the period of 1971-2009. This study is based on secondary data.

And finally an in-depth analysis of the same will be conducted.

The growth rates of these variables are calculated using semi log model in econometrics. Log- Lin Model: a form of semi log model to calculate growth rate is used.

$$LnY_t=\beta_1+\beta_2t+u_1 \qquad ... (1)$$

Where, LnY_t is Log of a single variable, β1 is intercept, β2 is slope coefficient, t is time and u_1 depicts disturbance error.

The slope coefficient measures the constant relative change in Y for a given change in the value of regressor (time variable here) denoted by β_2 in the model.

β= Relative change in regressand

Absolute change in regressor …(2)

The instantaneous growth rate can be derived by multiplying the relative change (β2) by 100, however it only denotes rate of growth at a point of time. To calculate compounded rate of growth we take antilog of β_2 after subtracting 1 from it and multiplying the difference with 100 thus,

Compounded annual growth rate= (Antilog β_2 -1) x100

Table 2

Taxes	Instantaneous Growth	Compounded Growth	Growth Rate
Demand Deposits	.14	.15	15%
Time Deposits	.176	.192	19.2%
Total Deposits	.167	.181	18.1%
Demand and Time liabilities	.194	.214	21.4%
Investment in government securities	.18	.197	19.7%
Investments in other approved securities	.098	.103	10.3%

Test of Welch and Brown-Forsythe statistics was conducted, to test the hypothesis if the rate of growth of the above figures is same: it was rejected at .05 level of significance. Significance level of this test reveals the significance level of F test. As the significance level is .00 we conclude that the growth rates of the above figures are different.

Part II

Study of impact of aggregate deposits, demand deposits and time deposits on investments (capital formation), food credit, non food credit in India.

To conduct this analysis following hypothesis need to be tested using regression analysis:

Hypothesis 1

Hi= Investments in India are not dependent on demand deposits and time deposits (or β2 and $\beta 3 \leq 0$)

Ho= Investments in India are dependent on demand deposits and time deposits.(or β2 and $\beta 3 > 0$)

Hypothesis 2

Hi= Investments in India are not dependent on total deposits (or $\beta2 \leq 0$)

Ho= Investments in India are dependent on total deposits (or $\beta2 \leq 0$)

Hypothesis 3

Hi= Food Credit in India is not dependent on demand deposits and time deposits (or $\beta2$ and $\beta3 \leq 0$)

Ho= Food Credit in India is dependent on demand deposits and time deposits (or $\beta2$ and $\beta3 \leq 0$)

Hypothesis 4

Hi = Food Credit in India is not dependent on total deposits (or $\beta2 \leq 0$)

Ho= Food Credit in India is dependent on total deposits (or $\beta2 \leq 0$)

Hypothesis 5

Hi= Non food credit in India is not dependent on demand deposits and time deposits (or $\beta2$ and $\beta3 \leq 0$)

Ho= Non food credit in India is dependent on demand deposits and time deposits.(or $\beta2$ and $\beta3 > 0$)

Hypothesis 6

Hi = Non Food Credit in India is not dependent on total deposits (or $\beta2 \leq 0$)

Ho= Non Food Credit in India is dependent on total deposits (or $\beta2 \leq 0$)

This analysis has been done using log linear regression analysis. For this analysis we make 2 models each for investments, food credit and non food credit.

Models:

1. Ln Investments=β_1+β2LnDD+ β3LnTD $_+$u $_1$
2. Ln Investments =β_1+β2LnAD $_+$u $_1$
3. Ln Food Credit= β_1+β2LnDD+ β3LnTD $_+$u $_1$
4. Ln Food Credit= β_1+β2LnTD $_+$u $_1$
5. Ln Non Food Credit= β_1+β2LnDD+ β3LnTD $_+$u $_1$
6. LnGTR= β_1+β2LnTD $_+$u $_1$

Data Analysis:

Using SPSS 13, following results have been drawn on the basis of data analysis of past 39 years. All 6 hypothesis have been rejected at 5% level of significance and the models have been found to be significant. The explanation of each model is as follows.

1. Ln Investments=β_1+β2LnDD+ β3LnTD $_{+}$u $_{1}$

The model explains 99.8% variation in investments (as R- square = .998) and the results are as follows.

LnI= -.509+ .139+ .855

S.E.=	.109	.055	.044
Sig.	.00	.017	.00

The model represents that the intercept is negative and both growth in DD and TD contribute to the growth in Investments. For 1% growth in DD, Investments grows by .139% and for 1% growth in TD the growth of investments is .855%.Thus, it can be seen that TD have higher contribution rather than DD.

2. Ln Investments =β_1+β2LnAD $_{+}$u $_{1}$

The variation in aggregate deposits explain 99.7% of variation in investments (R square= .997).

LnI= -1.284 + 1.022

S.E.	.102	.008
Sig	.00	.00

The model represents that the intercept is negative and Aggregate Deposits contribute to the growth in Investments. For 1% growth in AD, Investments grows by 1.022%.Thus, it can be seen that rate of AD have higher contribution in rate of growth of Investments.

3. Ln Food Credit= β1+β2LnDD+ β3LnTD +u 1

The independent variables: rate of growth in demand deposits and time deposits explain 88.6% of variation in dependent variable i.e. growth in food credit. Following is the model.

Ln Food Credit= -1.83+.025DD+ .726TD

SE	.661	.336	.268
Sig	.783	.941	.010

The model explains significantly that for 1 % change in TD growth in Food Credit changes by .76% in the same direction. However, the result of intercept and change in Food Credit with reference to DD is not significant thus cannot be stated with confidence.

4. Ln Food Credit= β1+β2LnAD +u 1

The variation in independent variable i.e. Log Aggregate deposits explain 88.5% of variation in Log Food Credit significantly. Following is the model:

Ln Food Credit= -.871+ .790AD

SE	.568	.047
Sig.	.134	.000

We can interpret the for a unit change in AD there is .790 times that unit change in Food Credit, thus the AD have significant and positive impact of change in Food credit.

5. Ln Non Food Credit= β1+β2LnDD+ β3LnTD +u 1

The variation in DD and TD explain 99.7% variation in Non Food Credit significantly according to R square and ANOVA analysis. The model is as follows:

Ln Non Food Credit= .097+ .499LnDD+ .527LnTD

SE	.128	.065	.052
Sig.	.456	.000	.000

It can be stated with 95% confidence limit that a % change in DD leads to .499% change in Non food credit in the same direction and 1% change in Time deposits lead to .527% change in non food credit in India.

6. LnNFC= β1+β2LnAD +u 1

The model is a good fit. 99.6% variation in dependent variable: Non Food Credit is explained by independent variable Aggregate Deposits. ANOVA reveals that indepent variable explains the dependent variable as per the model. The model is as follows:

LnNFC= -.234+ .976LnAD +u 1

SE	.121	.010
Sig.	.061	.000

The results show that a percent change in AD lead to .976% change in the same direction in the Non Food Credit market.

The above data states the importance of Demand Deposits, Time Deposits and Aggregate Deposits as a whole by explaining their impact on Investments, Food Credit and Non Food Credit market of India.

Part III

Importance of Public Sector Banks:

There are more than a 100 scheduled commercial banks in India, however the importance of PSBs cannot be denied. They work for social, economic and at times political cause also. They are bestowed with the burden of controlling and guiding the economy at the most critical times of inflation and deflation and cannot shy away from their duties which private and foreign sector banks may deem to be unprofitable.

Following are the reasons why PSBs are more important and their efficiency needs to be analyzed elaborately.

Table 4 (annexure) reveals the importance of PSBs in comparison to other commercial banks and foreign sector banks operating in India. The PSBs have the capacity to take high level of liability from banking system and other parties. The reason is the confidence that comes from GOI being the largest shareholder in such banks and the assurance to get back the money at the time of criticality. The table also reveals that the assets with the PSBs are less than FSBs however they are more than other scheduled commercial banks in India. This reveals the fact that despite having fewer assets the PSBs are able to maintain number one position in cash in hand, investments in India and Bank credit provided to needy.

2. Following is comparison of PSBs with Foreign Sector and other scheduled commercial banks: including Private sector and regional rural banks, in terms of 20 ratios. This gives a snapshot of how are they working and what are the priorities of PSBs.

Table 5 depicts that PSBs are more inclined towards priority sector lending, investment in safe havens, more inclined to pay better to employees: some people argue that the salaries are less in PSBs but the argument here is that the total wage bill that is total of number of employees and their salaries is far greater than other types of banks which employ less people and get more work done.

Table 5

BANK GROUP-WISE RATIOS OF SCHEDULED COMMERCIAL BANKS : 2008 AND 2009			
Ratios	Performance of Public Sector Banks in terms of ranking		positive/average/negative performance of PSBs vis-a-vis others
	2008	2009	
Ratio of priority sector advances to total advances	1	2	positive performance
Ratio of term loan to total advances	2	2	average performance
Ratio of secured advances to total advances	2	1	positive performance
Ratio of investments in non-approved securities to total investments	2	3	positive performance
Ratio of interest income to total assets	2	2	average performance
Ratio of wage bills to intermediation cost	1	1	negative performance
Ratio of wage bills to total expense	2	2	average performance
Ratio of wage bills to total income	1	1	negative performance
Ratio of burden to total assets	1	1	negative performance
Ratio of burden to interest income	1	1	negative performance
Ratio of operating profits to total assets	3	3	negative performance
Return on assets	3	3	negative performance
Return on equity	1	1	positive performance
Cost of deposits	2	2	average performance
Cost of borrowings	1	1	negative performance
Cost of funds	2	2	average performance
Return on advances	3	3	negative performance
Return on investments	2	2	negative performance
Return on advances adjusted to cost of funds	3	3	negative performance
Return on investments adjusted to cost of funds	3	3	negative performance
3 types of banks include: Public Sector Banks, Foreign sector banks and Other scheduled commercial banks			
Source : Annual accounts of banks of respective years			

Thus the PSBs also take care of their employees better than other categories of banks. They have given the best returns to shareholders: though the biggest shareholder in PSBs happens to be GOI itself. In terms of returns the performance of PSBs is not satisfactory one of the reasons is that they have to invest in safe investments thus due to taking less risk they fetch less returns.

3. Table 6 shows that PSBs have highest share in disbursing agricultural, industrial, trade and finance credit. These are highly risky assets for a bank however they are responsible for generation of employment and infrastructure.

These facts reveal the importance of PSBs in Indian Economy.

Table 6

BANK GROUP-WISE DISTRIBUTION OF OUTSTANDING CREDIT OF SCHEDULED COMMERCIAL BANKS ACCORDING TO OCCUPATION:2008 (in Rs. Crores)

		All Scheduled Commercial Banks			PSBs:State Bank of India & its Associates + Nationalised Banks			Contribution of PSBs in Percent		
	Occupation	No. of Accounts	Credit Limit	Amount Outstanding	No. of Accounts	Credit Limit	Amount Outstanding	No. of Accounts	Credit Limit	Amount Outstanding
I.	Agriculture	38205178	321418	274141	26314376	238071	205412	69	74	75
II.	Industry	4065753	1308392	928536	2213077	1001656	734544	54	77	79
III.	Transport Operators	734179	57078	44696	288614	30187	23552	39	53	53
IV.	Professional And Other Services	5764136	249071	187268	1363351	146569	114010	24	59	61
V.	Personal Loans	44024161	687741	485416	16654015	329380	267573	38	48	55
VI.	Trade	6455472	285896	212556	4357495	215927	161992	68	76	76
VII.	Finance	197730	228486	170554	98049	165370	142727	50	72	84
VIII.	All Others	7543571	146009	113840	3901448	90052	72258	52	62	63
Total		106990180	3284091	2417007	55190425	2217212	1722068	52	68	71

Note : Data reported here cover Bank's branches in India and include bills rediscounted under the New Bill Market scheme as also dues from banks.

Source : Basic Statistical Returns of Scheduled Commercial Banks in India, Volume 37, March 2008.

5. The share of PSBs in number of accounts, credit limit and amount outstanding is more than 50% across the following ranges except Rs 25000-Rs 2 lakhs (49%) as revealed by Table 7.

Table 7

The share of PSBs in total number of accounts, credit limit and amount outstanding: 2008 (in %)			
Credit limit range	No. of Accounts	Credit Limit	Amount Outstanding
Rs. 25000 and less	52	52	59
Above Rs. 25000 and upto Rs.2 lakh	49	53	65
Above Rs. 2 lakh and upto Rs.5 lakh	62	63	67
Above Rs. 5 lakh and upto Rs.10 lakh	57	57	61
Above Rs. 10 lakh and upto Rs.25 lakh	52	53	53
Above Rs. 25 lakh and upto Rs.50 lakh	55	56	56
Above Rs. 50 lakh and upto Rs.1 crore	62	63	62
Above Rs. 1 crore and upto Rs.4 crore	67	68	66
Above Rs. 4 crore and upto Rs.6 crore	69	69	68
Above Rs. 6 crore and upto Rs.10 crore	71	70	71
Above Rs. 10 crore and upto Rs.25 crore	69	68	69
Above Rs. 25 crore	73	78	84
Total	52	68	71
Source : Basic Statistical Returns of Scheduled Commercial Banks in India, Volume 37, March 2008. RBI			

However, it has been noticed that when it comes to loans of more than 50 lakhs PSBs have shown their mettle and have come forward to assist the development efforts in the Indian economy.

5. It is witnessed from the data in Table 8 that the PSBs have accumulated huge NPAs over past years.

Table 8

Gross NPAs				
year	Public Sector Banks	Indian Private Banks	Foreign Banks	All Scheduled Commercial Banks
2004	7.8	5.8	4.8	7.2
2005	5.4	3.9	3	4.9
2006	3.9	2.6	2.1	3.5
2007	2.8	2.4	1.9	2.7
2008	2.3	2.7	1.9	2.4
2009	2.1	3.2	4.3	2.4
Source : Off-site returns (domestic & provisional) of banks, Department of Banking Supervision, RBI.				

From 2004 to 2007 the Gross NPAs of PSBs have been more than the average NPAs of all scheduled commercial banks, however in 2008 and 2009 they have shown significant decline. It is expected that the PSBs need to cut their NPAs if they have to progress in the new competitive era of open market banking.

6. Table 9 shows that SBI and its associate banks have maintained the lowest lending rate (lower than average of all banks). The nationalized banks are also the low interest chargers (after SBI).

Table 9										
BANK GROUP-WISE AND OCCUPATION-WISE WEIGHTED AVERAGE LENDING RATE AND DEPOSIT RATE: 2007 and 2008										
(in per cent)										
Occupation	State Bank of India		Nationalised		Foreign		Other Scheduled		All Scheduled	
	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008
Weighted Average Lending Rate										
I. Agriculture	11.5	11.4	11.6	11.6	13.5	12.7	12.01	12.45	11.7	11.8
II. Industry	12.1	12.1	12.4	12.6	12.8	12.3	12.37	12.71	12.4	12.4
III. Transport Operators	12.2	12.7	12.8	12.7	13.3	13.1	12.18	11.78	12.5	12.3
IV. Professional and Other Services	11.8	12	12.2	12.6	12.8	12.9	12.51	12.85	12.3	12.6
V. Personal Loans	10.5	11	10.4	11.1	13.5	14.2	11.05	12.75	10.9	12
VI. Trade	10.8	12	11.3	12.4	13.1	13.7	12.18	12.82	11.5	12.5
VII. Finance	13	12.3	12.3	12.8	13.2	13	12.92	12.78	12.6	12.7
VIII. All Others	11.7	12.1	11.7	12.5	13.8	13.4	12.03	12.66	11.9	12.6
Total Bank Credit	11.6	11.8	11.9	12.3	13	13.1	11.91	12.68	11.9	12.3
Weighted Average Deposit Rate of Term Deposits	7.74	8.49	8.02	8.56	9.03	8.03	8.98	9.31	8.22	8.71
Notes : 1. The data given here are based on the accounts with credit limit of over 2 lakhs.2. The data are exclusive of Inland & Foreign Bills purchased and discounted. 3. Amount outstanding figures are used as weights for calculating average lending rates. 4. The deposit data corresponds										

to only term deposits. 5. The data for 2008 on average deposit rate are based on 65027 reporting branches out of 70207 total branches having term deposits. 6. Mid-points of the interest rate range were taken as values and total deposit amount in the range as weights.
Source : Basic Statistical Returns I & II, Department of Statistics and Information Management, RBI.

However, as the PSBs are charging low rate of interest and are also responsible to provide loans to various lenders under social schemes, they are not in a position to pay high interest, in addition to this as the PSBs provide more security of deposits than private or foreign sector banks they pay lesser rate of interest.

7. The importance of PSBs can be analyzed from the spread of their branches across the country in various areas (Table 10).

Table 10						
BANK-WISE AND POPULATION GROUP-WISE NUMBER OF OFFICES 2008-09						
S .no	Category of Branch	SBI and Its Associates	Nationalized Banks	Public Sector banks	Foreign Banks	Other Scheduled Commercial Banks
1	Rural	5549	13376	18925	4	1110
2	Semi-Urban	4828	8662	13490	4	2625
3	Urban	3037	8949	11986	52	2715
4	Metropolitan	2623	8370	10993	233	2405
	Total Branches	16037	39357	55394	293	8855
Notes :						
1. Population group classification is based on 2001 census.						
2. No. of offices includes administrative offices.						
3. Data for 2008 have been revised since last publication.						
4. Data for 2009 are provisional.						
Source : Master Office File (latest updated version) on commercial banks, Department of Statistics and Information Management, RBI.						

They have highest number of branches in rural areas, then semi urban, then urban and lowest number of branches in metropolitan areas. Thus, keeping up with need based approach as the foreign and private sector banks are more attracted towards metropolitan and urban areas and have low interest in rural or semi urban areas. This data reveals the importance of PSBs for the whole country, especially the backward areas

8. The PSBs dominate in all the areas (Table 11), however they have comparatively more share in Northern, North Eastern, Eastern and central regions.

Table 11				
Region wise share of PSBs of total deposits and credit of scheduled commercial banks - 2008 and 2009 (in%)				
year	2008		2009	
Region	Deposits	Credit	Deposits	Credit
Northern Region	72	76	75	77
North Eastern Region	86	85	86	84
Eastern Region	81	82	82	83
Central Region	85	85	85	85
Western Region	61	63	67	68
Southern Region	70	71	71	73
All India	71	71	74	74
Note : Figures in bracket indicate per cent share in all India total.				
Source : Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks, March 2008 & 2009, RBI.				

One of the reasons is that the private and public sector banks have been more interested in western and southern areas deemed to be economically better off than the others. Except in NER the banks have more share in credit than deposits, thus signifying the social cause again.

IV. CONCLUSION AND FURTHER SCOPE OF RESEARCH:

From the above facts and figures it is concluded that the PSBs have an important role in our economy in terms of their presence, reach, number of accounts, credit disbursement, competitive lending rates and priority sector assistance. The opening of banking sector have made them more competitive and prepared to accept new technologies. However, there is ample place for betterment and scope for efficiency.

As PSBs are the most important categories amongst all types of banks further research can be conducted on study of their efficiency for past 15 years, since the opening of banking sector.

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