Course Name:-B.A.LLB-IVth Sem

Subject:-Economics-IV

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Topic: - Nationalization of Banks

History of Indian banks

There are three phenomena in which banking in India can be divided. The pre-Independence phase which is before 1947. The second phase – 1947 to 1991. And the third phase from 1991 and beyond. In the first phase, the banking system in India was established. Thus, it began with the foundation of the Bank of Hindustan in 1770.It operated till 1832. There were many banks which were a success and still continue to lead. These were Allahabad bank, Bank of India, Punjab national bank, etc. Thus, the main event during this time was the merger of banks.

Bank of Madras, Bank of Bombay, and Bank of Bengal merged and formed an imperial bank of India. Later it named as the reserve bank of India.

The second phase is broadly known as the nationalization of banks in India. Thus, considering the economic planning, this phase was the foundation for today's economic condition.

The third phase was marked by the development of banks. This was due to the liberalization of economic policies. Many large and private banks came into the picture during this time.

The Nationalization of Banks

The first bank in India to be nationalized was the Reserve Bank of India which happened in January 1949. Further, 14 other banks were nationalized in July 1969.

Bank of India, PNB, and many others were part of this nationalization. While the next phase of nationalization saw 6 other commercial banks were nationalized in 1980. These included Vijaya bank, a new bank of India, Corporation Bank, and others.

The needs for nationalization of banks arose due to many reasons. These were catering to the needs of big business houses and large industries.

Further, sectors such as exports, agriculture, and the small-scale industries were lagging behind. The moneylenders used to export the poor masses in India. These all were taken into consideration during the nationalization of banks.

Also, for a rural section of India, the regional rural banks (RRBs) were formed. The objective was to serve large masses of the unreserved rural population. Further, the specific requirements of sectors like foreign trade, housing, and agriculture were met. This was met by establishing NABARD, NHB, SIDBI, and EXIM.

Impacts

Due to the nationalization of banks, the efficiency of the banking system in India improved. This also boosted the confidence of the public in banks.The sectors that were lagging behind like small-scale industries and agriculture got a boost. This led to an increase in funds and thus increase in the economic growth of India.

The nationalization of banks also increased the penetration of banks. This was mainly seen in the rural areas of India

Nationalization of Commercial Banks: Objectives and Performance

1. To mobilise savings of the people to the maximum possible extent and utilise them for productive purposes;

2. To ensure prompt operations of the banking system for a larger social purpose and subject it to close public regulation;

3. To meet the legitimate credit needs of private sector industry and trade (big or small);

4. To ensure that the needs of the productive sectors of the economy and, in particular, those of farmers, small scale industrialists and self-employed professional groups are met in an increasing manner.

5. To instruct the banks to provide banking facilities to the hitherto neglected and backward areas in different parts of the country; and

6. To check (stop) the use of the bank credit for speculative and other unproductive purposes.

Performance

The philosophy of bank nationalisation was that those financial institutions which mobilised saving of the public should broadly function as an instrument for promoting economic and social development in more purposive manner. In the post-nationalisation period, there has been a rapid growth of India's banking system.

1. Deposit Mobilisation

There has occurred a significant increase in deposits of scheduled commercial banks in the post-nationalisation period. At the end of June 1969, deposits of these banks were Rs. 4,564 crores. By March 2001, total deposits increased to Rs. 983,268 crores.

It may be noted that deposits mobilised by banks are utilised for two purposes

(i) investments on Government securities and other approved securities in order to fulfill the statutory liquidity requirement (which is 25% at present) and

(ii) loans and advances to borrowers.

2. Branch Expansion

As against 8,262 branches at the end of June 1969, the total number of commercial bank branches at the end of March 2001 was 63,380. As a result of this, banking coverage in the country as a whole has been improved from one office for 65,000 persons to 15,000 persons during the same period.

3. Coverage of Rural Areas

In the post-nationalisation period, the thrust of the branch expansion policy of commercial banks has been on improving the availability of banking facilities in rural areas. The number of rural branches increased from 1,860 in 1969 to 32,890 in 1997.

4. Credit Deployment

Advances in whatever form constitute the end objective or purpose of banking. From a modest Rs. 3,599 crores in June 1969, total advances' by public sector banks increased to Rs. 265,554 crores in March 1999.

5. Sectoral Allocation

More significant than the increase in bank credit are the changes in sectoral development. In the pre-nationalisation period, large and medium industries as also wholesale trade accounted for more than 79% of total commercial bank credit.

By March 1999, the share of these sectors (including credit for public food procurement) had declined to about 21%; correspondingly, the share of priority sectors and food procurement agencies had shown a significant increase. In recent year's food credit by commercial bank increased substantially because of large volumes of procurement and stock of food-grains. Non-food credit fell reflecting a slowdown in industrial activity.

6. Advances to Priority Sectors

The expansion of credit to small borrowers in the hitherto neglected sectors of the economy has been one of the major tasks of public sector banks in the post- nationalisation period. To achieve this objective, banks have drawn up schemes to extend credit to small borrower in sectors like agriculture, small scale industry, road and water transport operators, retail trade and small business, which traditionally had very little share in credit extended by banks.

Taking into account the need to meet resource requirements of weaker sections, for specific purposes, consumption credit (with certain limits) had been incorporated in priority sector advances. Similarly, small housing loans (not exceeding Rs. 5,000) to the weaker section of society (such as SCs and STs) are also classified as priority sector advances.

Total outstanding credit by banks to small scale industries increased from Rs. 810 crores in June 1969 Rs. 42,591 crores in March 1999. Outstanding to road and water transport operators stood at Rs. 3,620 crores in March 1999.

7. Credit to Weaker Sections of Society:

To increase the flow of bank credit to poorer sections comprising small and marginal farmers, landless labourers, tenant farmers and share-croppers, artisans, village and cottage industries and small transport operators, several new credit schemes have been evolved. This section received very little bank credit before nationalisation. In March 1999 the out-standings to small businesses were Rs. 4,231 crores, professional and self-employed person 2,630 crores, housing Rs. 5,366 crores, and consumers and others Rs. 1,108 crores.

8. Direct Finance to Agriculture

Public sector banks were initially given a target of extending 15% of total advances as direct finance to agriculture, to be achieved by March 1985. As against this, advances by public sector banks to priority sectors rose to 16.8% of their total advances by March 1988. Direct finance to agriculture (outstanding) increased from Rs. 310 crores in

June 1969 to Rs. 31,167 crores in March 1999. Indirect finance (outstanding) stood at Rs. 6,464 crores.