

## **A Study Of Banking Sector And Performance Of Commercial Banks In India**

**Krishan Kumar Yadav**  
**Research Scholar**  
**Department of Economics**  
**Email.Id: yadavkrishan787@gmail.com**

### **ABSTRACT:**

Banks play momentous role in the economic growth of a nation as they, to a huge degree, exert manage over the money supply in flow and are the major stimulus of economic development. Economic expansion is a vibrant and unremitting process which is extremely dependent on the mobilization of funds, venture and the operational effectiveness of the variety of segment of the economy. Hence, a powerful banking sector is necessary for development, employment, generating prosperity, poverty reduction, and capitalist activity and rising GDP augmentation. The main objective of this study is to analyze the banking sector and performance of commercial banks in India in recent time period. The term bank performance means the adoption of a set of indicators which are indicative of the bank's current status and the extent of its ability to achieve the desired objectives. The study is descriptive in nature with secondary data through the RBI report and related articles. The development of the Indian financial system is predictable to increase from 6.68 per cent in financial year 2017 to 7.23 per cent in financial year 2018. The banking sector reforms and worldwide developments have exaggerated the banking sector recital in India which in turn affects the economic growth of India.

**Keywords:** Banking Sector, Performance, Economic Development.

### **INTRODUCTION:**

Banking sector is the spine of contemporary business. Development of any country for the most part depends upon the strong financial system. A bank is a institution which deals with Deposits and credits and other related services. Bank receives money and as well as lend money to the people and other institutions. Banking plays an important role in person life. In India, a nationalized bank dominates the financial system. The banking system has undergone important alteration after the economic reforms in 1991. In earlier time period banking activities were controlled by money lenders. At that time the interest

rate were very high and no security of public deposits and no uniformity regarding loans was there. The main objective of banking sector accept deposits, granting loans or making investments is to earn profit and provide other services to their customers. If any profit/income is not earned on any advances it is treated as a non performing asset. Increasing NPA has a direct impact on the banks profitability. At the same time banks are mandatory to make stipulation on such assets as per the RBI guidelines on performing assets.

**REVIEW OF LITERATURE:**

- **Prasad K and Ravinder. G (2012)** explored a study on performance evaluation of 20 nationalized banks with the help of CAMEL model. The study was mainly based on second- ary data covered the period of five year (2005-2010).Results showed that Andhra bank was at the top most position followed by bank of lowedbybankofBaroda and Punjab & Sind Bank.
- **Jeevan Jayant Nagarkar(2015)**in his piece of writing stated that industry cycles are not new to the Indian financial system. Banking industry which was rising at a high development of positive 30 per cent now is under pressure to achieve 19 per centdevelopment. This study attempt to evaluate performance of five most importantprivate, public and overseas banks with standardelement analysis on the economic parameters.
- **Shalini Shukla (2016)**in her paper “Performance of the Indian Banking Industry: A Comparison of Public and Private Sector Banks” sought to examine the performance of the banking industry in India on the basis of recognized financial parameters. The result highlighted that public and private sector banks were not extraordinarily dissimilar in terms of volume and increase parameters.

**Objective of the Study:**

- To study the banking sector in India.
- To analyze the performance of commercial banks in India.
- To analyze the recent problems faced by commercial banks.

**Research Methodology:**

This study used descriptive research design because it will make sure the minimization of and maximization of dependability of data collection. The paper based on secondary data gathered from Report on Trend and Progress of Banking in India 2017-18 of RBI. Explanatory study is based on earlier considerate of the subject.

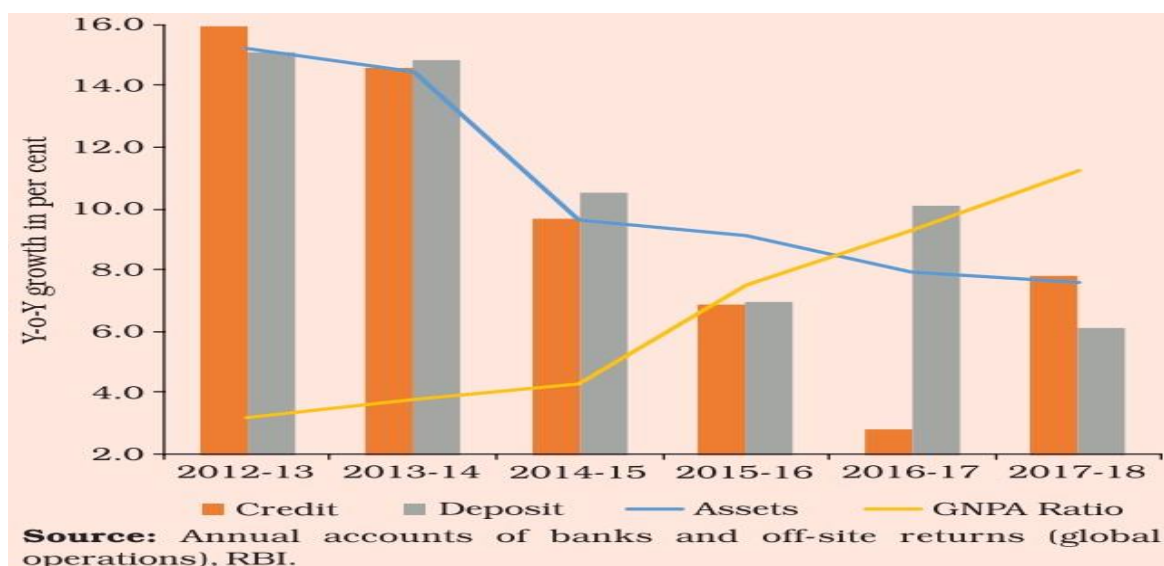
**Early History of Indian Banking Sector:**

Before independence, three presidencies banks were opened in “Bengal (1806), Bombay (1840) and Madras (1843) with power to issue notes. Due to banking crises during First World War, the three presidency banks to form Imperial Bank of India in 1921”. The “Reserve Bank of India (RBI) was established in 1935 and nationalized on 1st January 1949”. For the development in the rural areas the “Imperial Bank was nationalized on 1st July 1955 and renamed as State Bank of India. In order to have more control over the banks, 14 large commercial banks whose reserves were more than rupee 50 crore each were nationalized on 19th July 1969. After one decade, on 15 April 1980, 6 private sector banks whose reserves were more than rupees 200 crore each were nationalized”.

**Performance of Commercial Banks in India:**

Bank performance refers to the mirror image of the way in which funds of a bank are used in a form which enables it to accomplish its objective.

The study includes Foreign Banks, Public Sector Banks and Private Sector Banks. The performance of the banking sector is intimately related to the financial system than perhaps that of any other sector. The development of the Indian financial system is predictable to increase 6.68 per cent in monetary year 2017 to 7.23 per cent in financial year 2018. The banking sector reforms and worldwide developments have exaggerated the banking sector performance in India which in turn affects the economic growth of India.



Deposit: “In 2017-18 SCBs deposit growth slackened from the high base of the preceding year when it had expanded by 10.1 per cent highest in three years- after the demonetization in Nov. 2016. In 2018-19 the growth in deposits of SCBs experienced an uptick on a year on year basis, reflecting the adjustment to demonetization getting to completion”<sup>1</sup>.

Borrowings: “Demonetization resulted in a deceleration in deposits and consequently, borrowings by banks shot up by 31.4 per cent during 2017-18 from a significant decline (11.6 per cent) in the previous year”<sup>2</sup>.

Credit: “During 2017-18, credit growth revived from anemic conditions prevailing in the previous year’s”<sup>3</sup>.

Investments: “Investments – the second largest component in the assets side of banks’ balance sheets after loans and advances- picked up, mostly driven by Government securities. In 2018-19, however, investments slackened largely due to deceleration in investments of PSBs in SLR/other approved securities”<sup>4</sup>.

### Trends in income and expenditure of Scheduled Commercial Banks

(Amount in ₹ billion)

<sup>1</sup> Annual accounts of banks and off- site return (global operations), RBI.

<sup>2</sup> Annual accounts of banks and off- site return (global operations), RBI.

<sup>3</sup> Annual accounts of banks and off- site return (global operations), RBI.

<sup>4</sup> Annual accounts of banks and off- site return (global operations), RBI.

Item	2016-17		2017-18	
	Amount	Percent variation	Amount	Percent variation
Income	12,053	6.2	12,176	1.0
Interest income	10,120	2.1	10,220	1.0
Other income	1,933	34.2	1,956	1.2
Expenditure	11,614	5.5	12,500	7.6
Interest expended	6,692	0.5	6,535	-2.3
Operating expenses of which: wage bill	2,484	10.2	2,716	9.3
Provisions and contingencies	1,276	6.8	1,326	3.9
	2,438	16.4	3,249	33.3
Operating profit	2,877	18.1	2,925	1.7
Net profit	439	28.6	-324	-
Net interest income(1a-2a)	3,428	5.5	3,685	7.5
Net interest margin	2.5	-	2.5	-

Source: Annual Account of Banks.

**Income:**“While interest income remained subdued during 2017-18, non-interest income was pulled down by higher provisioning requirements for mark-to-market losses in G-

sacs portfolios due to hardening of yields on the one hand, and by a decline in income from off-balance sheet operations, on the other”<sup>5</sup>.

**Expenditure:**“On the expenditure side, interest expended by SCBs declined marginally from a year ago, due to slowdown in deposit growth and a decline in Interest rates. This boosted net interest income (NII), although due to an uptick in average assets, the net income margin remains unaffected. Growth in operating expenses remained the same as in 2016-17, although the wage bill decelerated on account of nationalization of bank branches”<sup>6</sup>.

**Provisioning and Profitability:** “Loan loss provisioning rose sharply in 2017-18 due to elevated levels of GNPA’s and time-bound referrals of large delinquent accounts to the National Company Law Tribunals(NCLTs) under the IBC. The provision coverage ratio (PCR) accordingly showed improvement across bank groups and crossed 52 per cent for all SCBs in 2018-19. Nonetheless, the PCRs of PSBs were the lowest among the three bank groups. As a result of higher provisioning, PSBs incurred net losses to the tune of 854 billion, while PVBs and FBs continued to report net profits. Since 2015-16, provisioning by PSBs has consistently exceeded their operating profit of earnings before provisions and taxes (EBPT), resulting in net losses”<sup>7</sup>.

**The Return on Assets and the Return on Equity (Per cent):**

Bank group	Return on Assets		Return of Equity	
	2016-17	2017-18	2016-17	2017-18
Public Sector Banks	-0.1	-0.8	-2.0	-14.6
Private Sector Banks	1.3	1.1	11.9	10.1
Foreign	1.6	1.3	9.1	7.

<sup>5</sup>Annual Accounts of Banks  
<sup>6</sup>Annual Accounts of Banks  
<sup>7</sup>Annual Accounts of Banks

Banks				2
All SCBs	0.4	-0.2	4.2	- 2. 8

Source: Annual Accounts of Banks.

The return on equity and assets shows a negative trend during period 2017-18. These ratios turned negative for SCBs as a whole. Return on Assets and Return on Equity remained negative during 2018-19 as well.

**CONCLUSION:**

Today the banking sector in India is grown-up in performance and reach. But the reach of private sector banks and foreign banks in rural India at a halt leftovers a challenge. After analyzing the balance sheet of SCBs in India the study find that deposit and credit growth varied in the period 2012-13 to 2017-18. The deposit growth rate starts increasing after 2016, reflecting the adjustment to demonetization getting to completion. Borrowings increased by 31.4 per cent during 2017-18 from 11.6 per cent in the previous year. “Non-interest income of SCBs was pulled down by higher provision requirements for mark to market losses in G-sacs portfolios because of hardening of yields. Loan loss provisioning rose sharply in 2017-18 due to elevated levels of GNPA’s. The provision coverage ratio (PCR) showed improvements across bank groups and crossed 52 per cent of all SCBs in 2018-19. As a result of higher provisioning, PSBs incurred net losses ₹854 billion, while PVBs and FBs continued to report net profits. Since 2015-16, provisioning by PSBs has consistently exceeded their operating profit of earnings before provisions and taxes (EBPT), resulting in net losses. The return on assets and return on equity turned negative for SCBs as a whole”. We can say that the performance of Scheduled Commercial Banks in India is not satisfactory. Research works should enhanced by banks and government to improve the condition of banking sector. Government and central bank should take decisions and measures to resolves the problem of Scheduled Commercial Banks but with respect of their autonomy.

## REFERENCES:

- Report on Trend and Progress of Banking in India (2017-18), RBI.  
<https://www.rbi.org.in/>
- Singh, S. (2013), “Performance of Non-Performance Assets in Indian Commercial Banks”.
- International Journal of Marketing, Financial Services and Management Research, Vol.2, No.9.
- Chaudhary, K. and Sharma, M. (2011), “Performance of Indian Public Sector Banks: A Comparative Study”. International Journal of Innovation, Management and Technology, Vol. 2, No.7.
- Kumar, S & Gulati R. (2010). Assessing the Effect of Ownership on the Efficiency of Indian Domestic Banks. Article The IUP Journal of Bank Management. IUP Publications Volume: IX August. pp: 76-104.
- Islam, MdAminul. "An Analysis of the Financial Performance of National Bank Limited Using Financial Ratio." Journal of Behavioural Economics, Finance, Entrepreneurship, Accounting and Transport 2.5 (2014): 121-129.
- JeevanJayantNagarkar, “Analysis of Financial Performance of Banks in India”, Annual Research Journal of Symbiosis Centre for Management Studies, Pune Vol. 3, April 2015, pp.26–37
- ShaliniShukla, “ Performance of the Indian Banking Industry:A Comparison of Public and Private Sector Banks”, Indian Journal Of