



PRIVATIZATION OF PUBLIC SECTOR BANKS IN INDIA- REASON, GOVERNMENT STAND AND SOLUTIONS

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ABSTRACT

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Sustainable economy is a need of hour in the present situation, for which contributions of banking sector is very high especially the public sector banks in India. In the amidst of covid-19 pandemic when the whole world including India suffering economic crunch, the public sector banks stood as back bone to the country economic development. But these banks are now facing the fear of privatization. This research paper study about the privatization of PSU banks and finding out the reason, government stand and solutions the evil of privatization.

KEYWORDS: Economy, Public sector bank, Privatization, Economic development

INTRODUCTION

The Central Government entered the banking business with a nationalization of the imperial bank of india in 1955. A 60% Stake was taken by the RBI and the new bank was named state bank of india. The next major government intervention in india banking took place on 19th July 1969 when Indira government nationalized an additional 14 major banks. The total deposits in the banks nationalized in 1969 amounted to 50 crores. This move increased the presence of Nationalised banks in india with 84% of the total branches among under government control.

Before the economic liberalization

The share of the banking sector held by the public banks continued to grow through the 1980's and by 1991 public sector banks accounted for 90% of the banking sector. A Year later in march 1992, the combined total of branches held by public sector banks was 60646 across india and deposits accounted for 110000 crore. The majority of these banks were

profitable with only one out of the 21 public sector banks reporting a loss.

Liberalisation in the 2000's

The nationalized banks reported a combined loss of Rs.1160 crore. However the early 2000's saw a reversal of this trend, such that in 2002-03 a profit of Rs.7780 crores by the public sector banks, a trend continued throughout the decade with a Rs.16856 crore profit in 2008-2009.

REVIEW OF LITERATURE

Arora and Verma (2005), evaluated performance of public sector banks on the basis of financial parameters, Operational parameters, Profitability parameters and Productivity parameters. The authors concluded that in order to remove subjectivity in banking sector major steps like prudential norms, income recognition provisioning should have © 2019 IJRAR March 2019, Volume 6, Issue 1 www.ijrar.org (E-ISSN 2348-1269, P- ISSN 2349-5138) IJRAR19H1137 International Journal of

Research and Analytical Reviews (IJRAR) www.ijrar.org 920 been taken. The researcher suggested that to correct the impact of directed investments on profitability reserve requirements should be reduced.

Arora and Kaur (2006), analyzed financial performance of banks on the basis of Return on assets, Capital assets risk weighted, Non- performing assets to Net advances, Business per employee, Net profitability ratio, Non performing assets level and off balance sheet operation. The researcher suggested that for enhancing financial viability of public sector banks efforts should be made to reduce the non-performing assets and upgrade the technology.

Gopal and Dev (2006), empirically analyzed the productivity and profitability of selected public and private sector banks in India. They evaluated the effect of globalization and liberalization on the productivity and profitability of Indian banks during the period 1996-97 to 2003-04. Interest spread was found to be the only strong factor influencing the profitability. A high degree of positive association between productivity and profitability during the study period was witnessed which shows efficiency of the banks in utilizing their resources.

Jha and Sarangi (2011), evaluated seven public sector and private banks for the year 2009-10 and their performance. They used various ratios like financial ratios, efficiency ratios, operating performance ratios etc. The study found that Axis Bank is the best performer followed by HDFC Bank, PNB, IDBI, BOI, SBI and ICICI bank. In a paper entitled “A comparative study of profitability of different groups of schedule commercial banks in India”,

Kheechee (2011) tried to find out the causes for differences in profitability of different sectors of commercial banks. He discovered that the return on fund is very less for the private sector banks as compared to public and foreign sector banks due to inefficient management of portfolio of securities. The public sector banks are inefficient in managing their loan portfolio resulting less return on advances. Overall in managing banking business, foreign banks and private banks are more superior

MEANING OF PRIVATIZATION

Privatization is the transfer of publically owned or publically operated means of production to private ownership or operation.

OBJECTIVES

1. To study the public sector banks growth since banking sector reform
2. To analyse the public sector banks profitability and NPA.
3. To study the government stand about the privatization of Public sector bank.
4. To study the reason for privatization and suggest the solutions.

METHODOLOGY

The research methodology adopted in this study is descriptive in nature. This research is based on the secondary data. The secondary data is gathered from various RBI Website, Bank websites, Various journals, Books, Internet etc.

BANKING SECTOR REFORMS

The Banking sector reforms took place in india in two stage and which is continue in nature. During the Decades of the 1960's and 1970's india nationalized most of its banks. This culminated with the balance of payments crisis of the Indian economy where india had to air lift the gold to IMF to loan money to meet its financial obligation. This event called in to question the previous banking policies of india and triggered the era of economic liberalization in india in 1991.

Several rigidities and weaknesses had made serious in roads in to the Indian baking system by the late 1980's. The Government of india post crisis took several steps to remodel the countries financial system. He banking sector handling 80% of the flow of money in the economy, needed serious reforms to make internationally reputable, accelerate the pace of reforms and develop it in to a constructive usher of an efficient, vibrant and competitive economy by adequately supporting the countries financial needs.

The first stage of Reforms was shaped by the Recommendations of the committee on the financial system (Narasimham committee) which submitted its reports in banking, the government debt market, the stock markets and in insurance.

The second one Narasimham committee appointed in December 1997.

RECOMMENDATIONS OF THE COMMITTEE

The 1998 report of the Narasimham committee to the Government of india made the following recommendations

1. Autonomy Banking
2. Reform in the Role of RBI
3. Stronger Baking system
4. Non Performing assets
5. Capital adequacy and tightening of provisioning norms
6. Entry of Foreign Banks

REASON FOR PRIVATIZATION OF PUBLIC SECTOR BANKS

The following reasons are find out which makes the public sector banks to drive towards privatization.

1. Increasing Non performing assets:
A rapid increase in the NPA year on year has become a big trouble to banks and the shareholders and controlers. Various serious frauds happened in public sector banks leading to NPA Which caused a huge loss the bank for which banks are reporting a net loss in continuous

trend. Some the public sector banks are still under prompt corrective actions imposed by Reserve bank of india.

2. Unhealthy competition among the state lenders: There is huge competition among the state lenders in the country. Every bank offering same products with different name in different sector. In an unhealthy competition, there is gross violation of the terms and conditions which often leading to the default of the account due to improper assessment of the proposal.
3. Creation of big banks to compete globally: Indian public sector banks are small sized banks in india. Recently Finance minister Nirmala Sitharaman said india needs a lot more banks and lot more large sized ones to meet growing needs of the country needs.
4. Strengthening the banks: The government is trying to strengthen the strong banks and also minimize its numbers, through privatization to reduce government support and its burden. There by attracting the capital support from the private parties, allowing the FDI in banking sector in order to reduce the government ownership and to meet the International standard Viz Basel 3 norms.
5. Recommendations of some committees: Various committees recommended to reduce the government stake in public sector banks below

51%. The committee headed by P J Nayak committee recommended to reduce the government stake below 50%. The Narasimham committee proposed 33%.

With respect to above reason a fear of privatization of public sector bank creating chaos in public as well as among the bankers.

Table: 1 Profitability of Public sector banks

YEAR	Net profit
2012	34180.18
2013	32799.4
2014	23350.28
2015	21238.01
2016	-29582.37
2017	-10005.05
2018	-85370.00
2019	-66608
2020	-26015
2021	31817

Source:

<https://dbie.rbi.org.in/>

Chart -1



From the above chart it is clear that Public sector banks were in profit up to year 2015. Since year 2015 and 2020 banks reported a loss. Thereafter Public

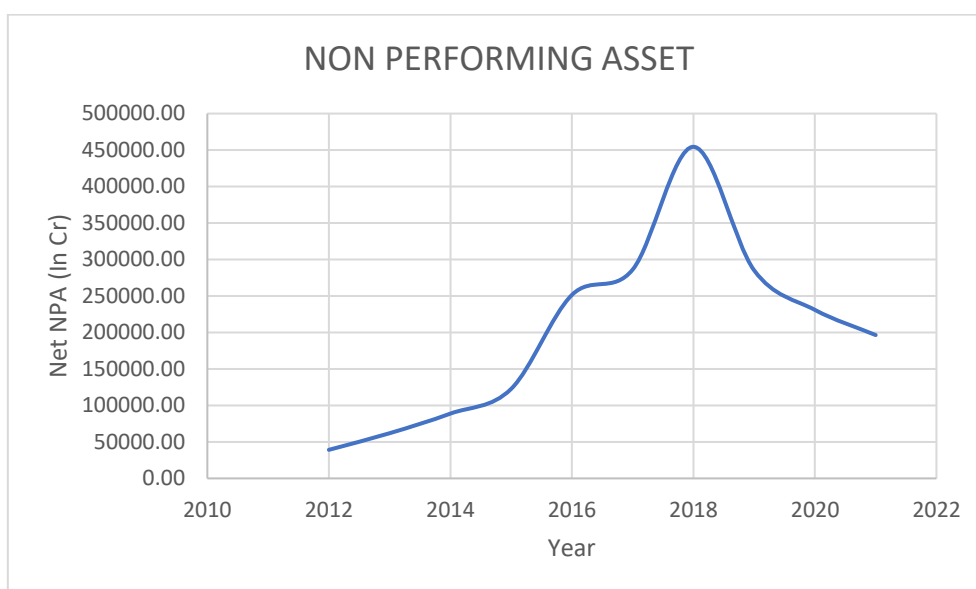
sector banks after the consolidation reported the Net profit in the year 2021 Rs.31817 crore

Table-2
Composition of NPA's of Public sector banks

YEAR	NPA
2012	39154.62
2013	61936.20
2014	88819.73
2015	122673.35
2016	251480.76
2017	286156.54
2018	454472.66
2019	285122.17
2020	230917.59
2021	196450.81

Source: <https://dbie.rbi.org.in>

Chart-2



From the above Chart it is clear that non performing assets of the public sector bank increased from 39154.62 cr in 2012 to 454472.66cr in 2018. It started decreasing in the year 2019. In the year 2021 net npa of public sector banks reported as Rs.196450.81 cr. This reduction is due to consolidation announced by the Government.

GOVERNMENT STAND IN PRIVATISATION OF BANK

Indian banking sector is regulated by banking regulation act 1949. There are other regulative having control over the bank. A rapid increase in the banks Non performing assets many banks reported the loss since 2016 to 2018. Many banks have been imposed by Prompt corrective action by RBI. The government is continuously inducting the crores together capital to the public sector bank. But still many banks were not able to recover from the loss. Hence Recently in 2019 the government of india has announce the First phase

of Consolidation between bank of baroda, Dena bank and Vijaya bank and completed successfully.

Recently Niti ayoga has made Recommendation to consider two public sector banks are the candidates for privatisation exercise. Based on the recommendation of the Niti ayoga government also Shown keen interest in the privatisation of selected public sector banks. For which government needs cabinet approval and government prepared with the banking Law (amendment bill 2021) and decided to brought in winter session December 2021.

From the above details government stands clear that the Two Public sector bank must be privatised as per the Niti ayog recommendation and in near future some more banks may be privatised as a part of privatisation process and government in anticipation to withdraw its stake below 50%.

The Government has budgeted Rs.1.75 lakh crore from stakes sales in Public sector companies and financial institutions including two Public sector bans

and one insurance company during the current Financial year.

SUGGESTIONS

Public sector banks are the back bone of the Indian banking sector. Whenever the Private banks are failed in the country, the Public sector banks stood strong, safe guarded the failed banks customer interest, for which recent example is State bank of india. The public sector banks contributions to economy development is unexplained. Privatisation is not the solution to uplift the public sector bank. Our country majority are placed in Rural areas. Most of the public sector banks operating in the remote areas and serving rural people where private banks are hesitate to open their branch who only concentrate on cities or urban areas. So public sector bank must be protected for which measures must be taken to improve the banks performance . They are

- Strict/Stringent action against wilful defaulters.
- Suitable statutory framework must be developed
- Legal protection to protect the bank must be ensured and there should not be any Legal obstacle.
- Governance and management of Public sector banks has to be more active and vigilant.
- Strict vigil on its policy measures
- Government guarantee against the government sponsored scheme and defaulter must be bind by law.

CONCLUSION

The government may interest in the privatization of banks. The government is stand and supporting the privatization. The government had announced consolidation and successfully done but privatization is not necessary after consolidation. There are certain weakness in the nationalized sector, like deterioration in the quality of credit portfolio of banks, substantial amount of non-performing assets and inadequate recovery of claims. But this should not lead to a doubt the success of nationalization of banking structure in implementing the human rights values. It is true that only a portion of weaker section was able to reap the benefit of bank nationalization. All public sector banks are back to tract and started Reporting the profit but still the government on his way to presenting the amendment bill. There by government planned for a bare minimum presence in strategic sector of the Indian economy which in evitably includes banking amongst the most prominent ones.

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