WORKING PAPER NO: 530

An Essay on Banking and Macroeconomics: Role of Public Sector Banks in India

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Year of Publication – December 2016

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Abstract

In India, banks have played an important role in economic growth and development. Since the 1970s, public sector banks (PSBs) have been in the forefront of mobilizing resources from far flung rural areas as well as extending banking services in the remotest parts of the country. The burden of social agenda has largely been shouldered by PSBs without any compensation. Therefore, in the interest of maintaining credibility of PSBs which account for nearly 70 percent of banking activity in the country, the government is justified in recapitalizing the PSBs regularly. However, there is need to undertake research on evolving appropriate norms, granular, for evaluating performance of different banks operating in India without stifling flow of credit to productive sectors.

Keywords: public sector banks, non-performing assets, stressed assets, priority sector lending

The objective of macro policy in a country is to achieve steady rate of growth. To ensure steady growth, Government needs to institute mechanism to stabilize the economy from shocks emerging from internal and external factors. Further, to have a focused approach towards stabilizing policies, government delegates the monetary policy to the central bank of a country, while keeping the portfolio of fiscal policy within itself. The objective of monetary policy is to stabilise the financial system including inflation and financial institutions while that of the fiscal policy is to provide conducive environment for growth through managing taxes and expenditure.

The history of central banks, assigned with the task of monetary policy, is short. In 1900, there were only a handful of central banks, mainly in Europe, and in Japan. Incidentally, the Fed Reserve was established in 1914 and the Reserve Bank of India in 1935. The functions of a central bank are fundamentally the same, though evolving over a period of time, which is to maintain the internal and external value of the currency and ensure conducive environment for steady growth. As the globally accepted definition of the money supply included time and demand deposits as well as credit extended by the commercial banks, the regulation and supervision of all banks is also generally delegated to the central bank of the country. Commercial banks have a significant role in creating money supply in the country.

Banking defined

The banking activity means accepting of deposits of money from public, for the purpose of lending or investment. Banks contribute to economic development by mobilizing small and scattered savings of the community and disbursing those as loans among enterprises. Thus, banks perform the task of credit intermediation, and netting and settlement of payments. As money deposited may generally be for short-term while the loans may generally require long-term commitments, banks also perform the role of maturity transformation. The task of managing and monitoring risks associated with lending is also crucial to banking.

Origin of Banking

The word, Bank can be traced to ancient Roman Empire where money lenders would set up their stalls on a bench called *Bancu*. Some economists trace the origin of the word to the French word, *Banque* as it is believed that earlier bankers transacted their business on benches placed in a market place. Still, others believe that the word Bank has originated from the German word Banc or the Italian word *Banco*. In any case, the first public Bank was Bank of Venice, founded in Italy in 1157 A.D. However, the first modern bank, named Banco Di San Giorgio, was established in Genova, Italy in 1406.

Banking functions

The financial system, especially banking, facilitates efficient allocation of resources from savers to investors and plays an important role in economic growth. The banks are conduits in channelling resources to borrowers with productive investment opportunity. The banking system provides financial intermediation and also creates money supply. The process of bank credit is an important channel of monetary policy transmission. Banks accept and deploy large amounts of public funds as well as leverage such funds through credit creation.

The main functions of the banking system are to mobilize resources from the public and channel them into growth oriented activities. The more developed the banking system is, better would be financial intermediation. The banking system with its widespread network is most effective in collecting savings from the public and allocating it to productive activity.

The following key functions are performed by banks/financial institutions:

1. Mobilizing and pooling savings: Financial systems mobilize savings from many diverse individuals, overcoming transaction costs and information asymmetry, and invest in projects that elicit high returns, thereby enabling economic growth.
2. Producing Information ex-ante about possible investments and allocating capital: Individuals face a high cost of acquiring information on firms, managers, market conditions and related issues where investment opportunities exist. Financial intermediaries reduce such information costs through specialization and economies of scale and thus improve resource allocation.
3. Monitoring Investments and exerting corporate governance: As a provider of capital, financial intermediaries can effectively monitor and influence how firms use capital and utilize resources more effectively.
4. Facilitating Trading, Diversification and Management of Risks: Financial systems help mitigate risks associated with individual firms, industries, countries etc. by investing in a diversified portfolio of innovative projects. Financial systems also facilitate inter-temporal risk sharing and smoothing over generations.
5. Facilitating Exchange of Goods and Services: A financial system facilitates transactions in the economy, by providing the mechanism to make and receive payments.

The banks undertake asset transformation whereby a depositor can place resources in a bank and the bank in turn can lend to the market. Banks also perform asset liability management focusing on gap between amount of assets subject to interest rate risk and the quantity of liabilities subject to such risk. The banks have also to manage risk especially with new instruments like derivatives.

The growing international dimension of banking has also brought in a variety of risks like portfolio risk, credit risk, country risk, interest rate risk and foreign exchange risk. Management of risk has become an increasing challenge for commercial banks across the world and hence the need for uniform rules and regulations in form of Basel norms.

Commercial Banking and Role of Central Bank

The central bank forms the backbone of the banking system. As a banker to the banks, in addition to being a central clearing house, the central bank ensures financial stability by acting in interest of depositors to prevent failure of banks, which helps maintain investor confidence in the economy. Apart from acting as a lender of last resort in times of crisis, the central bank also acts as a financial regulator and supervisor of financial institutions in the country. The monetary policy functions involve maintaining appropriate interest rates and adequate credit supply which help facilitate a growth inducing atmosphere. The central bank also strives to maintain a balance between growth and inflation.

Banking and growth

Theoretically, financial intermediaries help in mobilization of savings, project evaluation, risk diversification, monitoring management of firms in debt, facilitating transactions through technological innovation, and creating an environment for higher economic growth. Bank credit acts as money-capital and thus, is necessary for realization of innovative processes planned by entrepreneurs. The commercial banks and financial intermediaries loan out money to producers in order to help them invest in capital goods and sustain a steady rate of growth. Banks also are not passive intermediaries and help in transferring resources to new entrepreneurs. Banks also interact with intermediaries to decide the volume of credit based on their profit expectations of the project and the entrepreneur's ability to pay back the loans. Thus, banks play a crucial role in economic activity, innovation and entrepreneurship.

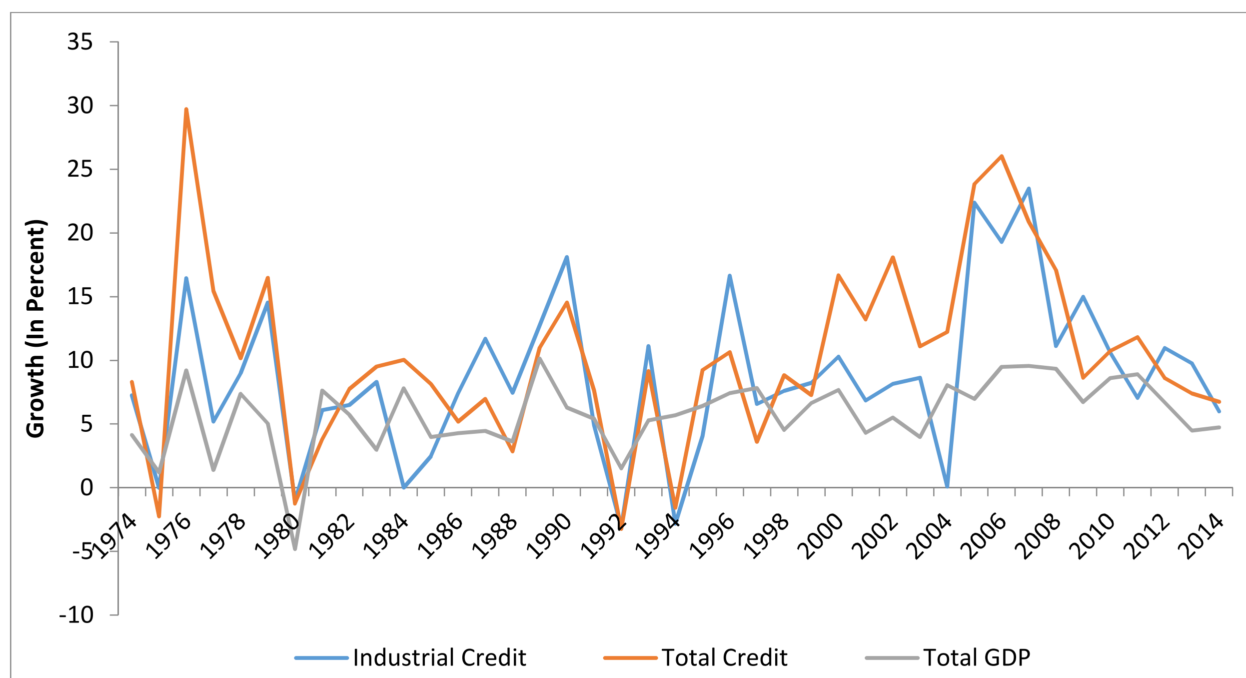
The banking institutions play an important role in credit markets and serve as a center of social accounts. This function of a "social accountant", stressing the role of banking as a social institution needed for the constrained realization of individual choices and to make those choices mutually compatible, has a critical impact on the economy. The commercial banks are also repositories of unique information about their borrowers, an important segment of the credit market.

There are two views on the relationship between finance and growth. According to one view prevalent in 19th century, enterprise leads and finance follows implying that banks do not have a leading role in growth. The other view stresses complementarity between development and

capital accumulation. So banks could finance investment in physical capital and growth in a proactive manner.

Whatever is the direction of causality between financial sector and economic growth, the importance of banking sector in economic growth cannot be ignored. Consider the impact of banking credit in real terms across different sectors of the Indian economy. Empirically, the relationship between credit and GDP growth is very strong (Graph 1). In fact, in times of high credit growth, in exuberance, quality standards could get compromised which are seeds to a crisis that follow thereafter. Long periods of prosperity and increasing value of investments lead to risky speculation using borrowed money. This culminates in a “Minsky Point” or a “Minsky Moment”, which is the starting phase of a financial crisis where the supply of credit dries up, causing a panic in the financial system.

Graph 1: Relationship of Credit Growth with GDP Growth Rate



Source: Basic Statistical Returns of Scheduled Commercial Banks in India, Various Issues; Economic Survey 2015-16

To finance growth there are two alternatives – domestic financing and external sector financing. The implications of external sector financing are serious because of exchange rate risk as well as political ramifications. Therefore, countries generally follow a conservative approach in restricting current account deficit to less than 2 per cent of GDP. Consequently, the burden of financing growth is largely borne by domestic financing. The overall health of the economy is reflected in the health of the banking system. The slowdown of the economy immediately gets reflected in the increase of non-performing assets of the banking system.

Banks have a major role to play in meeting the resources required of a growing economy. The major challenge in a growing economy is to convert unproductive physical savings into financial savings. Banks in India have traditionally being the main source of credit for various sectors of the economy and their lending operations have evolved in response to the needs of the economy.

Banks can also help reduce poverty in an economy. There are two main channels through which financial sector development can impact poverty reduction – indirect channel which acts through economic growth, explained in famous trickle-down theory, and the direct channel by providing poor people access to financial services through financial inclusion. The impact of growth on poverty broadly works through the following channels:

1. Economic growth helps generate jobs for the poor
2. Higher rate of growth could reduce wage differentials between skilled and unskilled labor
3. High growth could lead to increased tax revenues, enabling the government to spend more effectively on social benefits for the poor
4. As capital accumulation increases with economic growth, more funds would become available to the poor for investment purposes

Financial sector development can directly contribute to poverty reduction by broadening the poor's access to financial services. Informational asymmetries produce credit constraints that are particularly binding on the poor. These constraints restrict the poor from exploiting investment opportunities and thus constrain growth. An ineffective financial system also exacerbates income inequality among the poor as it keeps capital from flowing to wealth-deficient entrepreneurs.

Limits to Banking

In sharp contrast to general belief, excessive financialisation is not good for the country because it means excessive leverage or excessive expansion of credit. Excessive expansion of credit to the household sector can be captured by excessive demand for houses or cars, which are further dependent on credit conditions. Similarly, financialisation of corporate sector is reflected in significant income derived from treasury operation often unrelated to the main business activity of the corporate. These operations are multi country and cross border in many cases and can be a threat to stability of not only domestic economy but also global economy.

Banking in India

In India, banking has been prevalent in some or the other form since long and is reflected in the works of Kautilya's Arthashastra. In India, in modern sense, Allahabad Bank was established in 1865, Alliance Bank of Shimla in 1875, Oudh Commercial Bank in 1881 and Punjab National Bank in 1894. Earlier there had been repeated attempts and discussions on having a commercial

bank since 1683. Historically, the Government Bank of Bombay was set up in December 1720 and closed in 1770. The Bank of Bengal was set up in 1809, Bank of Bombay in 1840, the Bank of Madras was incorporated in 1843. The Imperial Bank of India was established in 1921 through the amalgamation of three presidency banks of Madras, Bombay and Bengal. Over the years, banking industry flourished and many banks, commercial and co-operatives, became operational in India.

To finance specialized activities, sectorally, Industrial Development Bank was set up in 1964, though Industrial Finance Corporation and Industrial Credit and Industrial Corporation had been set up earlier in 1948 and 1955, respectively. Export Import bank of India and National Bank for Agriculture and Rural Development were set up in 1982.

Nationalization of Banks: At independence there were two major issues – first, nexus between bank and industry; and second, neglect of agriculture. There was also a concern about bank failures, soundness of banking and stability of banking sector in India. The State Bank of India came to function from July 1, 1955 with the State Bank of India Act, 1955. The key objective of the new bank was to ensure the extension of banking facilities on a much grander scale than before, particularly in the much neglected rural and semi-urban areas.

There was also an apprehension that a few business houses might acquire control over the country's banking assets through banks. To address these concerns, social control over banking was introduced in December 1967 through an Act which came into force on February 1, 1969. The key objective of social control was to achieve the widest spread of banking credit, prevent misuse of banking assets, and direct larger volume of credit to priority sector to achieve economic development.

To achieve economic growth with social justice, the Government nationalized 14 banks in 1969, and later 6 banks in 1980. The Indian banking system has undergone a structural transformation since then (Table 1 and Graph 2). The emphasis has been on making banking facilities available in unbanked areas. Also, there was considerable reorientation of bank lending to accelerate the process of development, especially of the priority sector of the economy which had not previously received sufficient attention. The government has been successful in directing credit to agricultural sector, micro, small and medium enterprises and industry.

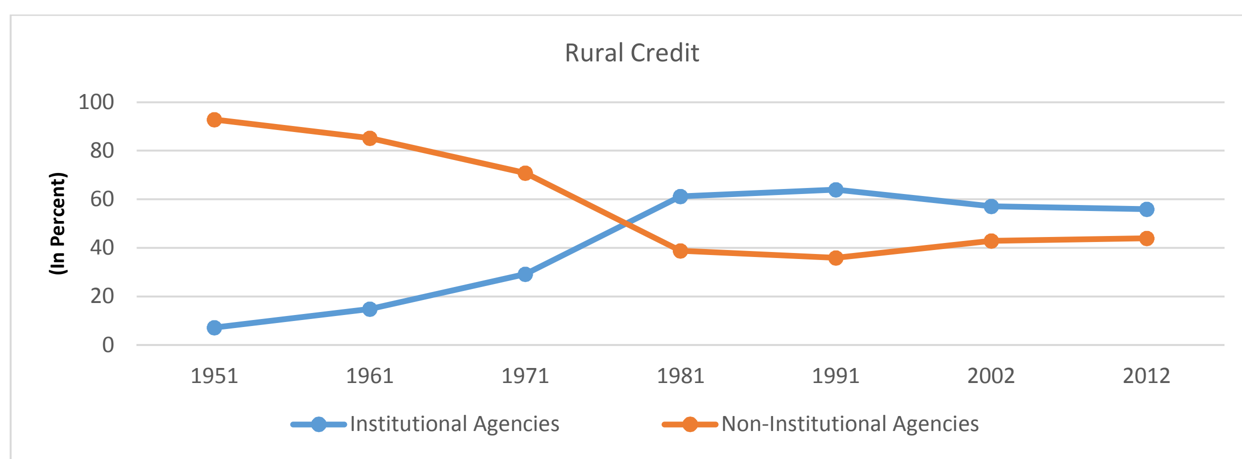
Table 1: Break-up of Institutional and Non-Institutional Rural Credit

(Percent)

	1951	1961	1971	1981	1991	2002	2012
Institutional Agencies	7.2	14.8	29.2	61.2	64.0	57.1	56.0
Government	3.3	5.3	6.7	4.0	5.7	2.3	1.2
Co-op. Society/bank	3.1	9.1	20.1	28.6	18.6	27.3	24.8
Commercial bank incl. RRBs	0.8	0.4	2.2	28.0	29.0	24.5	25.1
Insurance	--	--	0.1	0.3	0.5	0.3	0.2
Provident Fund	--	--	0.1	0.3	0.9	0.3	0.1
Others institutional agencies*	--	--	--	--	9.3	2.4	4.6
Non-Institutional Agencies	92.8	85.2	70.8	38.8	36.0	42.9	44.0
Landlord	1.5	0.9	8.6	4.0	4.0	1.0	0.7
Agricultural Moneylender	24.9	45.9	23.1	8.6	6.3	10.0	5.0
Professional Moneylender	44.8	14.9	13.8	8.3	9.4	19.6	28.2
Traders and Commission Agents	5.5	7.7	8.7	3.4	7.1	2.6	0.1
Relatives and Friends	14.2	6.8	13.8	9.0	6.7	7.1	8.0
Others	1.9	8.9	2.8	4.9	2.5	2.6	1.9
Total	100	100	100	100	100	100	100

Source: Persistence of Informal Credit in Rural India: Evidence from 'All-India Debt and Investment Survey' and Beyond (RBI Working Paper Series, 2013); All India Debt and Investment Survey, Various Issues.

Graph 2: Institutional and Non-Institutional rural credit

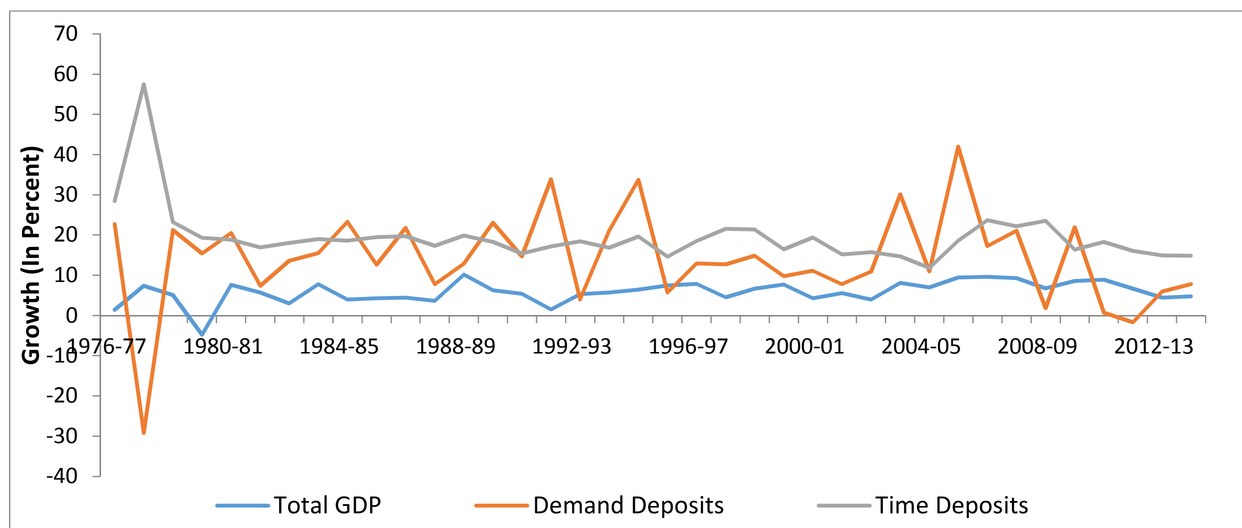


Source: As in Table 1.

In India, savings rate is in the range of 30-35 per cent and banks can mobilize such resources. The physical savings, which are sometimes unproductive, need to be minimized, while financial savings, which have the potential to enhance growth, need to be encouraged. In India, there is a large potential for tapping savings of rural and suburban areas as well as converting unproductive

physical savings into financial savings. The banking system is most appropriate for such activity. Financial savings made in the banking system also have a relationship with GDP growth (Graph 3). These deposits are an important source of funding tapped by banks to extend credit to the economy. Demand deposits however, have been more volatile in growth. This could be due to the transactional demand for money which increases during periods of high economic growth and decreases during periods of low economic growth.

Graph 3: Relationship of Growth in Deposits with GDP Growth Rate



Source: Handbook of Statistics, 2015. RBI

Evolution of Priority sector lending

In India, like any other emerging country, banking has played an important role in economic development and growth. Since 1967 there has been a debate on social banking and the concept of priority sector lending has emerged as a consequence. Since 1972 there have been a series of revisions in the scope and extent of priority sector lending. The objective of financial inclusion to extend financial services to a large portion of unserved or underserved population of the country is along similar lines. The extension of the branch network in unbanked areas also follows a similar philosophy. The number of banking offices in India on the eve of establishment of the RBI in 1935 was 946. In March 1969 when nationalization became effective, there were only 1,833 rural and 3,342 semi urban bank offices out of the total 8,262 offices. Of these there were 160 branches of Imperial Bank, 98 of exchange banks and 688 of Indian joint stock banks. This implied one bank branch for 3 lakhs of population. In such a situation money lender were doing substantial business and because agriculture was not covered by bank credit facility, money lenders played an important role in the rural sector. However, the spread of branch network is now extensive, (Tables 2 and 3) but as revealed earlier in Table 1, in recent years since 1991, role of professional moneylenders is increasing too.

Table 2: Number of Bank Branches by Population Group

Year	Rural	Semi-Urban	Urban	Metropolitan	Total
1969	1833	3342	1584	1503	8262
1979	13337	7889	5037	3939	30202
1989	33014	11166	7524	5995	57699
1999	32857	14168	9898	8016	64939
2009	31395	19065	15273	14131	79864
2015	48557	33766	23036	20498	125857

Source: Handbook of Statistics, 2015. RBI

Table 3: Number of Bank Branches by Bank Group

Type of Banks	Year	Rural	Semi-urban	Urban	Metropolitan	Total
SBI & its Associates	2009	5560	4835	3043	2624	16062
	2015	7993	6875	5137	4215	24220
Nationalized Banks	2009	13381	8669	8951	8375	39376
	2015	21792	17668	14259	13257	66976
Regional Rural Banks	2009	11626	2746	667	88	15127
	2015	14756	4030	1353	270	20409
Other Scheduled Commercial Banks	2009	1113	2638	2715	2411	8877
	2015	4511	6992	4897	5234	21634
Foreign Banks	2009	4	4	52	233	293
	2015	8	12	59	257	336
All-INDIA	2009	31695	18912	15441	13731	79779
	2015	49089	35622	25729	23240	133680

Source: Database on Indian Economy, RBI

Banking since 1991

With a view to overcoming several weaknesses that had crept into the system over the years and with a view to creating a strong, competitive and vibrant banking system, several measures were initiated beginning in the early 1990s. Some of these were –

(i) The banking system was strengthened by introducing prudential norms, which were subsequently tightened in line with international best practices.

(ii) Competition in the banking sector was enhanced by allowing entry of new private sector banks and enhanced presence of foreign banks. Foreign direct investment in private sector banks was also allowed up to 74 per cent.

(iii) Public sector banks were allowed to access the capital market and also provided with operational flexibility and functional autonomy.
(iv) The system of administered interest rates was almost dismantled and pre-emptions in the form of reserve requirements were reduced.
(v) The supervisory system was revamped in view of its crucial role in the creation of a sound banking system.
(vi) Corporate governance practices and disclosure standards were strengthened.
(vii) Regional rural banks, urban co-operative banks and rural co-operatives were also strengthened.

Despite the reforms and positive impact in banking penetration, less than 60 percent of households had a bank account in 2011 (Table 4).

Table 4: Percentage of households availing banking services

House holds	**As per Census 2001**			**As per Census 2011**		
	Total number of households	**Number of households availing banking services**	**Percent**	**Total Number of households**	**Number of households availing banking services**	**Percent**
Rural	13,82,71,559	4,16,39,949	30.1	16,78,26,730	9,13,69,805	54.4
Urban	5,36,92,376	2,65,90,693	49.5	7,88,65,937	5,34,44,983	67.8
Total	**19,19,63,935**	**6,82,30,642**	**35.5**	**24,66,92,667**	**14,48,14,788**	**58.7**

Source: RBI

To ensure a banking account in every family, the Prime Minister, on assuming office, in the maiden speech on August 15, 2014 from the ramparts of Red Fort announced the need for concerted efforts. Pradhan Mantri Jan Dhan Yojana, which envisages universal access to banking facilities with at least one basic banking account for every household, consolidates the government's effort to increase the number of households availing banking services. As of May 11, 2016 a total of 21.81 crore accounts have been opened under this scheme. Considering that the total Bank Deposits Accounts with SCBs was around 123 crore as of March 31, 2014, and number of accounts in post offices is nearly 28 crore, the number of new accounts opened under the scheme is noteworthy.

The Role of Public Sector Banks

PSBs have been the backbone of Indian financial architecture since nationalization of State Bank of India in 1955, followed by more banks in 1969 and 1980. Despite critical global conditions

and turbulence in the Indian economy, PSBs have been successful in meeting their mandate with support from the Government and the RBI.

In recent years, though the credit offtake has been lower than expected, capital adequacy is appropriate and deposit growth has been following a steady pace. However, the NPAs of PSBs have increased significantly in the recent past though the uptrend had been brewing for some time (Tables 5 and 6). The general refrain of PSBs is that they operate under constraints, are not on equal footing with private financial institutions and have to lend to certain risky segments of the economy as part of priority sector lending, as well as directed lending, sometimes under political compulsions. However, NPAs in PSBs have been critical in the past also but staged a recovery. In view of the fact, that NPAs in present context are explainable in terms of global meltdown or because of beggar-thy-neighbor behavior of some neighboring countries of India, recovery should not be a problem, if concerted efforts are made.

PSBs account for a substantially large share of stressed assets in mining, iron and steel, textiles, infrastructure and aviation as compared to private sector banks (PVBs) because of substantially larger exposure to these sub-sectors. Illustratively, PSBs account for 17.6 percent of advances to infrastructure as compared with 8.4 percent of the PVBs, while stressed assets were 30.9 percent compared with 18.2 percent, respectively. Similar are the results when comparison is extended to other stressed sectors. Thus, when granularly analyzed, relatively, performance of PSBs is not inferior to that of PVBs. Table 5 report the incidence of NPAs and stressed assets in PSBs and PVBs respectively. Though the incidence of NPAs is higher in PSBs, it is important to understand the context behind such high incidence before any measures can be suggested.

Since the first nationalization of State Bank of India in 1955, followed by more in 1969 and 1980, PSBs were created to pursue social objectives and focus on banking the unbanked. Consequently, PSBs have been in the forefront in rural areas and relentlessly pursuing implementation of welfare schemes of the government in terms of priority sector lending, and pension and insurance schemes, including those recently announced. And, PSBs, admirably, despite pursuing social objectives are competing well on various financial parameters with PVBs. Therefore, there may be a need, in absence of level playing field, to evaluate PSBs and PVBs on different scale. Illustratively, to be fair to the PSBs, the owner and regulator should take cognizance of the fact that in opening 16.5 crore Jan Dhan accounts within first six months of launching the scheme, without seeking additional man-power, these PSBs would have deployed all their resources at the cost of other activities. In contrast, PVBs only opened 68 lakh Jan Dhan accounts. Additionally, as one can make out from Table 7, PSBs have been paying a steady stream of dividends year on year. The government being the largest shareholder in PSBs, is the biggest beneficiary of these dividends. This is over and above the corporate taxes and other taxes that all corporate entities including PSBs have to pay. Therefore, the norms and benchmarks for these unique PSBs typical to India have to be designed especially for PSBs, and comparison and contrasts of

Table 5: Incidence of stressed Assets in Commercial Banks

Gross and Net Non-performing Assets						
End-March	**Gross NPAs as percentage of Gross Advances**		**Net NPAs as percentage of Net Advances**		**Stressed Assets Ratio (GNPA + Restructured Advances)**	
	SCBs	**PSBs**	**SCBs**	**PSBs**	**SCBs**	**PSBs**
1993	-	23.2	-	-	-	-
1994	-	24.8	-	-	-	-
1995	-	19.5	-	10.7	-	-
1996	-	18.0	-	8.9	-	-
1997	15.7	17.8	8.1	9.2	-	-
1998	14.4	16.0	7.3	8.2	-	-
1999	14.7	15.9	7.6	8.1	-	-
2000	12.7	14.0	6.8	7.4	-	-
2001	11.4	12.4	6.2	6.7	-	-
2002	10.4	11.1	5.5	5.8	-	-
2003	8.8	9.4	4.0	4.5	-	-
2004	7.2	7.8	2.8	3.1	-	-
2005	5.2	5.5	2.2	2.1	-	-
2006	3.3	3.6	1.2	1.3	-	-
2007	2.5	2.7	1.0	1.1	-	-
2008	2.3	2.2	1.0	1.0	-	-
2009	2.3	2.0	1.1	0.9	-	-
2010	2.4	2.2	1.1	1.1	-	-
2011	2.5	2.4	1.1	1.2	3.7	7.34
2012	3.1	3.3	1.3	1.5	4.7	7.41
2013	3.2	3.6	1.7	2	9.2	9.58
2014	3.8	4.4	2.1	2.6	9.8	11.9
2015 Sep	5.1	6.2	2.8	3.6	11.3	14.1

Note: SCBs: Scheduled commercial Banks. PSBs: Public Sector Banks.
Source: RBI.

Table 6: Impaired assets among banks

	All Banks	**PSBs**	**PVBs**	**Foreign Banks**
March 2013	11.5	13.4	5.4	5.5
March 2015	13.6	16.1	6.7	6.5
September 2015	14.1	17.0	6.7	5.8

Source: RBI.

Performance, evaluated amongst themselves. Then only can PSBs be compared with other competitors performing on a level playing field. Such empirical analysis is lacking in Indian context.

Table 7: Payment of Dividend and Tax by Public Sector Banks

In Cr. Rs.	2012			2013			2014			2015		
Bank	Dividend	Tax	Dividend + Tax	Dividend	Tax	Dividend + Tax	Dividend	Tax	Dividend + Tax	Dividend	Tax	Dividend + Tax
Allahabad bank	166	296	462	166	367	533	80	465	545	57	982	1,039
Andhra Bank	179	480	658	162	482	644	39	298	337	74	580	653
Bank of Baroda	380	1,019	1,398	502	351	852	519	956	1,476	407	2,022	2,429
Bank of India	252	900	1,152	382	258	640	214	816	1,030	214	86	300
Bank of Maharashtra	158	228	386	174	583	756	137	362	499	68	383	451
Canara Bank	330	800	1,130	390	800	1,190	350	625	975	349	795	1,144
Central Bank of India	245	226	471	373	284	657	-	268	268	68	284	351
Corporation Bank	178	401	579	174	251	425	72	(320)	(248)	74	(109)	(35)
Dena Bank	58	163	221	91	222	313	69	(294)	(225)	30	(198)	(168)
Indian Bank	298	521	819	263	254	518	194	317	510	166	463	629
Indian Overseas Bank	250	248	497	136	180	317	109	241	351	-	566	566
Oriental Bank of Commerce	134	284	418	156	208	364	135	441	576	59	138	196
Punjab & Sind Bank	419	163	582	552	147	700	213	(54)	159	366	27	393
Punjab National Bank	37	2,153	2,189	71	1,774	1,845	49	1,348	1,397	19	44	63
Syndicate Bank	151	114	265	267	(441)	(174)	232	(68)	163	215	473	688
UCO Bank	273	42	314	252	29	281	183	214	396	157	444	601
Union Bank of India	250	926	1,176	286	906	1,192	162	373	534	231	1,002	1,232
United Bank of India	147	224	370	133	(101)	31	-	(343)	(343)	-	198	198
Vijaya Bank	182	68	250	170	(9)	161	97	32	129	95	(40)	56
IDBI Bank	263	598	862	335	740	1,074	123	620	742	92	414	506
State Bank of India	1,446	8,640	10,086	1,769	7,559	9,328	1,312	6,836	8,148	1,566	8,337	9,903
Total	5,794	18,492	24,286	6,804	14,844	21,648	4,288	13,133	17,421	4,306	16,892	21,198

There are various alternatives to address the issue of rising NPAs. First, consider disinvestment in public sector banks to bring the ratio of capital to 51 percent as has been discussed in recent years. Second, to privatize the public sector banks and reverse the process of nationalization initiated just a few decades ago. The objective for which banks were nationalized have yet not been fulfilled and banking penetration continues to be low despite new accounts under Jan Dhan. Similarly, credit penetration through the banking system is also low as has been depicted in the data earlier in terms of share of non-institutional credit in the economy. Third, recapitalization of banks has been undertaken since 1999 but banks return to difficult times over and over again. This demonstrates that there is need for corrective and structural change in the management of public sector banking. Finally, and most importantly, it can be considered that when the government asks the public sector banks to fulfill its social agenda, the government may consider

covering cost of services, at market value, that the PSBs render. This measure would be more professional in approach and seem appropriate to scrutiny of commercial activity.

Corruption and Banking

Banks are vulnerable to corruption and malfeasance because they deal in most liquid of assets. The rise in instances of frauds leading to NPAs in banking sector also underpin a growing concern of rising corruption in banking sector. The emphasis on knowing the customer, employees and partners have been stressed upon time and again. Yet loopholes either in the credit disbursal or audit mechanism also allow for agents to indulge in corruption to make suitable gains through frauds. Corruption, in macro terms, has both direct and indirect costs. While the direct costs are well known in terms of scandals and loss of confidence in administration, the indirect costs are debilitating causing low growth and higher income in equality. It can also erode the ethical standard of citizens. Thus it has significant impact on macro-economic stability and sustainable economic growth. It also impedes conduct of budgetary and monetary policy, weakens financial oversight and hurts inclusive growth. Corruption weakens government capacity to raise revenue and perform its core functions by diluting culture of complaints and increasing tax evasion. Corruption also inflates costs in public procurement process and undermines the quality and even the quantity of public spending. The general costs also rise in the economy because citizens, manufacturers, industrialists factor corruption in the pricing model. The uncertainty for firms also hurts the growth of the economy. Social and environmental concerns are relegated and enforcement of environmental regulations suffer leading to more pollution, over extraction of natural resources and health decease. It can lead to political instability, conflict and policy paralysis as in the case of mining in India. To mitigate corruption transparency in decision making and enhancing the rule of law is important. However, over regulation can create problems and therefore deregulation and simplification need to be considered.

Conclusion

To conclude, banking plays an important role in economic growth and development. In India, PSBs have been in the forefront of mobilizing resources from far flung rural areas as well as extending banking services in the remotest parts of the country. The burden of social agenda has largely been shouldered by PSBs without any compensation. Therefore, in the interest of maintaining credibility of PSBs which account for nearly 70 percent of banking activity in the country, the government is justified in recapitalizing the PSBs regularly. However, there is need to undertake research on evolving appropriate norms, granular, for evaluating performance of different banks operating in India without stifling flow of credit to productive sectors.

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