© 2022 IJRTI | Volume 7, Issue 8 | ISSN: 2456-3315

INDIAN BANKING REFORMS TWORDS $5 TRILLION ECONOMY

Dr. Udhister Nagar

Research scholar
University of Rajasthan, Jaipur

***Abstract*: Indian banking sector is treated as the backbone of economy. In another round of boosters for the Indian economy amalgamated ten public sector banks into four public sector banks. After this, the total number of public sector banks (PSBs) in India comes down to 12 banks in July 2022. Apart from this the central government announced Rs 55,250 crores upfront capital infusion in the public sector banks. And now 8 public sector banks (PSBs) have launched repo-rate linked loans in India. New special agencies formed by central government to monitor loans above Rs 250 crores to avoid fraud. This comes a series of measures to boost the Indian economy. In big banks merger, Punjab National Bank, Oriental Bank of Commerce and United Bank merged, Punjab National Bank (PNB) will be the anchor Bank. Canara Bank and Syndicate Bank merged, Canara Bank will be the anchor Bank, Union Bank of India, Andhra Bank and Corporation Bank merged, Union Bank of India (UBI) will be the anchor Bank, Indian Bank and Allahabad Bank merged, Indian Bank will be the anchor Bank. The new merged Punjab national bank will be the second largest Public Sector Bank (PSB) in the country with Rs 18 lakh crores business and second largest branch network in India. The new merged Canara Bank will also to become the fourth largest PSB with Rs 15.2 lakh crores business and third largest branch network in India. The new merged Union Bank of India will create India's fifth largest Public sector bank with Rs 14.6 lakh crores business and fourth largest branch network. The new merged Indian Bank will be seventh largest with Rs 8.08 lakh crores business. Big banks enhanced capacity to increase credit and bigger risk appetite with national presence and global reach and to create big next generation bank. The paper focuses on the banking reforms and analysis in banking system for Indian economy.**

Keywords: Public Sector Bank (PSB), Banking Reforms, Indian Economy, NBFC, MSMEs, merger.

Introduction

The financial sector reforms are an ongoing process and few recent events as part of banking sector reforms like deregulation of interest rates, payment bank, increased autonomy to banks, Basel III compatibility of banks, Regulation of Non Banking Finance Companies (NBFCs) etc. New Economic reforms in India refer to the Neo liberal polices introduced by the government of India in the year 2019. The main point of the reforms was liberalization of the economy, simplifying regulations, giving more role to the private sectors and opening up of the economy to competition. It is the reforms of the banking sector under the objectives of solving the chronic nonprofit earning problems and strengthening of the overall health of the public sector banks (PSBs) to face international competitions. It was done in line with the recommendations of the Narasimham Committee formed in this purpose.

To handle all these banking sector reforms in India, various committees take care of all the banking sector reforms. Some of the key components of India's fiscal sector reforms include expenditure reforms, tax reform measures, public sector restructuring and systematic reforms in the government's borrowing process. Government announced rollback of 'super-rich tax' on foreign and domestic equity investors, exemption of startups from 'angel tax', and a package to address distress in the auto sector and upfront infusion of Rs 70,000 crores into public sector banks (PSBs), in an effort to boost growth of economy. The main aspects of the economic and banking reforms in India, the government changed several economic policies to create an environment of freedom for economic decision-making.

The main thrust of reforms in the financial sector was the creation of efficient and stable financial institution and markets. Reforms in the banking and nonbanking sectors focused on creating a deregulated environment, strengthening ensuring the prudential norms and the supervisory system, changing the ownership pattern and increasing competition.

Objective of the Research Paper

- To perceive the several initiatives taken by the central government for $5 trillion economy in India.
- To study the Banking Reforms in current scenario.
- To study the enhanced capacity to increase credit and bigger risk appetite, with national presence and global reach and to create big next generation banks.
- To elucidate the role of Banks towards Indian economy.
- To study the objective of setting such norms was to ensure financial safety, soundness and solvency of banks. These norms are directed towards ensuring that banks carry on their operations as prudent entities, are free from undue risk-taking, and do not violate banking regulations in pursuit of profit.
- To analyze the impact of Banking Reforms on the financial presentation of the public sector banks.

Research Methodology

This is a conceptual research paper has been written on the basis of secondary data information which consisted of magazines, newspaper, internet and websites like- RBI etc. Figures are taken from online reports and are compiled, tabulated and analyzed.

The following are the new improvements implemented

- ✓ Non-official directors to perform role analogous to independent directors.
- ✓ Sanctioning and monitoring of loans are separated.
- ✓ The central government will also look at bankers for suggestions on allowing non banking finance companies (NBFC) with good pooled assets but poor institutional rating to become eligible under the Centre's one-time partial credit guarantee scheme.
- ✓ The banks have been asked to provide bill discounting facility to the MSMEs against these payments from big corporate.
- ✓ Those NBFCs having investment-grade ratings with AA-rated assets, be included in the partial credit guarantee scheme to provide them liquidity.
- ✓ The latest consolidation move will slash the number of state-owned lenders to 12 from 27 in 2017.
- ✓ Highlighting the banking reforms that have also included significant tidying-up of balance sheets.
- ✓ Eight public sector banks have launched repo-rate linked loans.

Growth of banking system in India

In order to understand present make up of banking sector in India and its past progress, it will be fitness of things to look at its development in a somewhat longer historical perspective. The past four decades and particularly the last two decades witnessed cataclysmic change in the face of commercial banking all over the world. Indian banking system has also followed the same trend. In over five decades since dependence, banking system in India has passed through five distinct phase, viz.

Rs 55,250 crore upfront capital for credit growth & regulatory compliance to support economy. PNB will get Rs 16,000 crore, Union Bank Rs 11,700 crore, Canara Bank Rs 6,500 crore, Indian Overseas Bank Rs 3,800 crore, Central Bank of India Rs 3,300 crore, Bank of Baroda Rs 7,000 crore, Indian Bank Rs 2,500 crore and UCO Bank Rs 2,100 crore.

Merged Banks are as follows:-

PNB + Oriental Bank of Commerce + United Bank

	PNB Bank	OBC	United Bank	Amalgamated Bank (Rs in Crore)
Total Business	1182224	404194	208106	1794526
Gross advances	506194	171549	73123	750867
Deposits	676030	232645	134983	1043659
CASA ratio	42.16%	29.40%	51.45%	40.52%
Domestic Branches	6992	2390	2055	11437
PCR	61.72%	56.53%	51.17%	59.59%
CET-1 ratio	6.21%	9.86%	10.14%	7.46%
CRAR ratio	9.73%	12.73%	13.00%	10.77%
Net NPA ratio	6.55%	5.93%	8.67%	6.61%
Employees	65116	21729	13804	100649

(Source: Data march 2019)

PNB, OBC and United Bank were merged. The new merged PNB bank will be the second largest Public Sector Bank (PSB) in the country with Rs 18 lakh crore business and second largest branch network in India.

Canara Bank + Syndicate Bank

	Canara Bank	Syndicate Bank	Amalgamated Bank (Rs in Crore)
Total Business	1043249	477046	1520295
Gross advances	444216	217149	661365
Deposits	599033	259897	858930
CASA ratio	29.18%	32.58%	30.21%
Domestic Branches	6310	4032	10342
PCR	41.48%	48.83%	44.32%
CET-1 ratio	8.31%	9.31%	8.62%
CRAR ratio	11.90%	14.23%	12.63%
Net NPA ratio	5.37%	6.16%	5.62%
Employees	58350	31535	89885

(Source: Data march 2019)

Canara and Syndicate Bank were merged to become the fourth largest Public Sector Bank (PSB) with Rs 15.2 lakh crore business and third largest branch network in India.

Union Bank + Andhra Bank + Corporation Bank

	Union Bank	Andhra Bank	Corporation Bank	Amalgamated Bank (Rs in Crore)
Total Business	741307	398511	319616	1459434
Gross advances	325392	178690	135048	639130
Deposits	415915	219821	184568	820304
CASA ratio	36.10%	31.39%	31.59%	33.82%
Domestic Branches	4292	2885	2432	9609
PCR	58.27%	68.62%	66.60%	63.07%
CET-1 ratio	8.02%	8.43%	10.39%	8.63%
CRAR ratio	11.78%	13.69%	12.30%	12.39%
Net NPA ratio	6.85%	5.73%	5.71%	6.30%
Employees	37262	20346	17776	75384

(Source: Data march 2019)

Merger of Union Bank of India, Andhra Bank and Corporation Bank were create India's fifth largest Public Sector Bank (PSB) with Rs 14.6 lakh crore business and fourth largest branch network.

Indian Bank + Allahabad Bank

	Indian Bank	Allahabad Bank	Amalgamated Bank (Rs in Crore)
Total Business	429972	377887	807859
Gross advances	187896	163552	351448
Deposits	242076	214335	456411
CASA ratio	34.71%	49.49%	41.65%
Domestic Branches	2875	3229	6104
PCR	49.13%	74.15%	66.21%
CET-1 ratio	10.96%	9.65%	10.36%
CRAR ratio	13.21%	12.51%	12.89%
Net NPA ratio	3.75%	5.22%	4.39%
Employees	19604	23210	42814

(Source: Data march 2019)

Indian Bank and Allahabad Bank were merged. The new Indian bank will be seventh largest with Rs 8.08 lakh crore business.

New Order

Banks Ranked By Business Size

	Business (Rs in L Cr)	Market Share (%)
SBI	52.05	22.5
PNB + OBC + United Bank	17.94	7.7
HDFC Bank	17.50	7.6
Bank of Baroda	16.13	7.0
Canara Bank + Syndicate Bank	15.20	6.6
Union Bank + Andra Bank + Corporation Bank	14.59	6.3
ICICI Bank	12.72	5.5
Axis Bank	10.60	4.6
Bank of India	9.03	3.9
Indian Bank + Allahabad Bank	8.08	3.5

(Source: Data march 2019)

Conclusion

The basis of banking reforms liberalizing the banking system and encouraging competition among the three major participants' viz. Indian public sector banks, private sector banks, and foreign banks, applies equally. Financial sector is the backbone of any economy and it plays a vital role in the mobilization and allocation of resources. The Indian financial sector reforms are to allocate the resources efficiently, increasing the return on investment and accelerated growth of the real sectors in the economy. Bank Recapitalization: the government should permeate more money into public sector banks (PSB) in order to support credit growth. “Recapitalization has ensured that a number of public sector banks (PSBs) have the balance sheet strength to provide for reasonable haircuts on resolution of stressed assets” Further, incentivizing banks to buy good quality assets in non banking financial companies (NBFCs) could help the financial sector which is reeling under a double whammy-a stressed banking sector and shadow banking sector that has literally collapsed. Reviving NBFCs India’s shadow banking sector lends to several businesses, from micro and small entrepreneurs to real estate developers and car dealers. Loans from the sector expanded as the conventional banking sector battled the NPA crisis. NBFCs have accounted for nearly a third of all new credit over the past three years. The current size of the Indian economy is estimated at USD 2.7 trillion. States will have to become key agents of growth to help achieve India's target of becoming a USD 5 trillion economy.

References

1. http://www.rbi.org.in
2. http://www.indiatoday.in
3. http://www.research-finance.com
4. http://www.thehindubusinessline.com
5. http://www.encyclopedia.com
6. http://economictimes.indiatimes
7. http://www.google.com
8. http://www.icai.org
9. http://www.economicsdiscussion.net
10. http://www.civilserviceindia.com
11. http://pib.gov.in