50 Years of Banks Nationalization the Shorcomings and Challenges

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ABSTRACT

This paper is aimed at an overview In India, Nationalization of banks was done in 2 phases. The initial phase of nationalization commenced in the year 1955 when the former Imperial Bank of India became the State Bank of India with the Act of parliament. During the year 1959, 7 subsidiaries were nationalized, the second phase of nationalization started in the year 1969 with the nationalization of 14 main commercial banks in India. In the year 1980, six more commercial banks were nationalized & became public sector banks and recent the 50 years of nationalization of banks. The paper discuss and concludes rationale for nationalization, the current challenges and the way forward.

Keywords: Commercial Banks, Nationalization, Current Challenges

I. INTRODUCTION

During the colonial era several Indian banks have been instituted both via rich men and women and through the Presley States. The major intention of most of the banks was once to accommodate economic wants of industry and exchange in that locality. During this time, the banking services grew to become the opportunity of big commercial enterprise firms & wealthy individuals. Masses were denied banking offerings and easy credit.

In India, Nationalization of banks by using then Indian Prime Minister, Indira Gandhi wrote a new chapter in the history of Indian Banking. In India, the nationalized banks have been obligated to focus on agricultural and rural sectors as a section of their social responsibility. Their assets have been used to authorize farmers & agricultural laborers so as to free them from the clutches of money lenders. In India, Nationalization of banks was finished in two phases. The initial segment of nationalization commenced in the year 1955 when the former Imperial Bank of India became the State Bank of India with the Act of parliament. During the year 1959, 7 subsidiaries had been nationalized & linked with SBI one through one. This heralded a new opening in the banking device of India.

The second section of nationalization commenced in the year 1969 with the nationalization of 14 essential commercial banks in India. In the year 1980, six greater commercial banks have been nationalized & became public sector banks. Subsequently, the Public Sector Undertaking banks prolonged their attain & grew in leaps & bounds. In India, the nationalized banks increased their branches & stretched their activities across the nation. The Public Sector banks launched new applications and schemes to cater all sections of the society. Therefore, nationalization of Banks in India helped the rural masses to avail banking services at minimal cost.

Nationalization All about

State Bank of India was the only public sector undertaking that was nationalized (in 1955) before 1969. The SBI nationalization had happened in the backdrop of private banks going bankrupt at an alarming rate. In 1969, Indira Gandhi government carried out bank nationalization through the Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1969. Fourteen big private banks were nationalized, to be taken control of by the government. These lenders held over 80% bank deposits in the country.

- The banks that were nationalized were:

1. Allahabad Bank
2. Bank of Baroda
3. Bank of India
4. Bank of Maharashtra
5. Central Bank of India
6. Canara Bank
7. Dena Bank
8. Indian Bank
9. Indian Overseas Bank
10. Punjab National Bank
11. Syndicate Bank
12. UCO Bank
13. Union Bank
14. United Bank of India

In 1980, the government took control of another 6 banks. These included Punjab and Sind Bank, Vijaya Bank, Oriental Bank of India, Corporate Bank, Andhra Bank and New Bank of India.

Rationale for Nationalization

There had been issues related to the reach and flow of credit score to essential sectors, and these had been dealt with thru a number of ad-hoc measures in 1960s. E.g., the fragmentation was addressed via consolidation of banks. The quantity of banks used to be added down from 566 in 1951 to 91 in 1967. Before nationalization in 1969, the government tried addressing some of the troubles through “social control”. The idea was once to attain a wider spread of credit and make bigger the flow to priority sectors. However, overall, banks had been failing mostly due to speculative financial activities. After 1967, when Ms. Indira Gandhi became the PM, banks were not giving deposit to agriculture and now not ample deposit to industry. The banks had been greater interested in extending credit for trade. The collapse of banks was once causing distress amongst people. People had been losing their hard-earned money in the absence of a strong authorities help and legislative safety to their money. Given this, nationalization of banks was once a extra populist and rational preference for the government.

Given these, the key objectives of nationalization of banks were to -

- address the rising economic difficulties in the 1960s
- remove control of the few on banking system
- provide adequate credit for agriculture, small industry and exports
- professionalize bank management
- encourage a new class of entrepreneurs

Implications of Nationalization

The nationalization is one of the most significant financial activities after India's independence. Bank nationalization resulted in a extensive make bigger in financial institution deposits and financial savings. In this backdrop, the rising fiscal deficit made the banking area a captive source of financing. With continued political intervention, the profitability of the banks suffered. Over the years, this affected financial institution operations. In all, the authorities succeeded partially in assembly its aim of implementing its improvement agenda thru the banking system. However, many in India lacked access to formal finance and a massive part of the population remained outside the banking net.

Current Challenges

Today, most public area banks (PSBs) are no longer in the favored position.

- The government has pumped in over Rs 2.5 trillion in the last few years (including Rs 70,000 crore in 2019) and it still may also now not be enough.
- PSBs continue to conflict with a greater level of non-performing assets.
- Recapitalization - The government does no longer have the fiscal space to continually pump capital into PSBs.
- The idea of the usage of recapitalization bonds too has its limits as it is increasing the government's liability.
- Technology - The role of technological know-how in banking and finance is rising rapidly.
- PSBs, with their weak balance sheets, are not in the best position to adapt and compete on this front.
- Naturally, the commercial enterprise will increasingly more shift towards private sector banks.
- Reforms - It would be tough to put into effect the required reforms in PSBs in the current set-up.
- PSBs, which account for 66% of amazing credit score and 65.7% of deposits, need functional and operational independence.
- With the authorities being the majority shareholder, this will be tough to attain.

II. Conclusion

The 50th anniversary of banks nationalization is a right opportunity to objectively overview the overall performance of PSBs and take corrective measures. The government can possibly revisit the suggestion of the Narasimhaman Committee on banking zone reforms in this context. Bringing down authorities fairness to 33% will provide banks the much-needed functional autonomy. It will also enable them to enhance capital and compete in the market.

III. REFERENCES

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