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GLOBAL BANKING DEVELOPMENTS & GROWTH DIMENSIONS OF BANKS IN INDIA

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ABSTRACT:

Banking sector in India is one of the booming sectors of the economy and is growing at a very speedy rate. This sectors in India was liberalized in 1992. The opening up of the Banking for private players has led to rapid growth of the sector.This paper analysis past and present status of the Banking sector in particular. The paper also discusses about the performance of global banking sector.The present descriptive and analytical secondary based study was conducted with an objective to analyze the condition of banking industry and to study the worldwide economic crisis on banking industry in India, also an attempts to study the opportunities and challenges for banking in post liberalization area. The paper is completely a conceptual one whose basic foundation comes from various secondary sources like research articles in Journals, published and unpublished scholarly paper, and books, various international and local journal, speeches, newspapers and websit. The analysis part of the paper is based on the statistical data provide by RBI. In the post liberalization period, the banking industry of India witnessed a marvelous growth but this growth remains significant after economic crisis and at par with global banks are some of the major findings of study.

Keywords: Indian Banking, Economic crisis, Growth dimensions, Global Banks

1. INTRODUCTION:

Existence of an efficient banking system is paramount for achieving economic growth as banks are the mechanisms that channel the savings to investments. The Indian banking industry has largely remained insulated from the global financial turbulences. The global crisis brought to the fore the flaws in the Basel II prudential regulatory frameworks, micro-supervisory approach and its procyclical natures. Though the need for reorienting prudential policies to have a macro dimension was recognized the world over after the crisis of 2008, India was well aheads in adopting macro prudential policies even before the crisis. Nonetheless, in the lights of Bank has been constantly reviewing and refining its regulatory and supervisory policies to ensure a strong capitals base, effective risk management and best corporate governance standards in the banking Sector. In recent year, the focus has also been on improving credit delivery, customer service and promoting financials inclusion.

One of the major objectives of Indian banking sector reforms was to encourage operational self-sufficiency, flexibility and competitions in the system and to increase the banking standards in India to the international best practices. Although the Indian banks have contributed much in the Indian economy, certain weaknesses, i.e.

lessons from the global financials crisis, the Reserve

turns down in efficiency and erosion in profitability had developed in the system, observance in view these conditions, the Committee on Financial System (CFS) was lay down. The Reserve Bank continued to undertake several policy initiatives during the year to make the Indian banking system sounds, resilient and inclusive, consistent with the developments in global regulatory reforms.

2. REVIEW OF LITERATURE:

The great significance of banking sector to India and to the world has drawn many scholars and academicians to write on the subject. Banking has been addressed from different angles by various scholars and hence it is rather difficult to classify the literature on banking reforms and global economic crisis and its impact on Indian banking.

- Ballabh (2001) analyzed challenges in the post-banking sector reforms. With globalization and changes in technology, for the survival of the bank, they should adopt new policies/strategies according to the changing environment.
- Petya Koeva (July 2003), in his study on "The Performance of Indian Banks during Financial Liberalization" states that new empirical evidence on the impact of financial liberalization on the performance of Indian commercial banks.
- Vradi, Vijay, Mauluri, Nagarjuna (2006), in his study on ´Measurement of efficiency of bank in India concluded that in modern world performance of banking is more important to stable the economy.
- The objective of Sheeba Kapil‟s(2007) paper is to review and analyze the current financial health of the Indian Public Sector Commercial Banks in the light of banking reforms and predict the future and scope of the same.
- Uppal and Kaur (2007), in their paper titled, post banking sector reforms era". The paper concludes that the efficiency of all the bank groups has increased in the second post banking sector reforms period but these banking sector reforms are more beneficial for new private sector banks and foreign banks.
- Laxman, Deen and Badiger (2008) examined that banking industry is undergoing a paradigm shift in scope, content, structure, function and governance. Their very characters, 57 compositions, contour and chemistry is changing.

A lot of studies were made on the performance of banking sector in the country but there are dearth of literature on the critical issues and challenges of banking companies in the Country. Hence, this study differs from the earlier as the major thrust of the paper is upon the ***performance of Indian and global banks.***

3. SIGNIFICANCE OF THE STUDY:

The Indian banking industry has achieved only a little because of the lack of quality strategies adopted by the banks in India, lack of standard education and awareness about savings, low capital per incomes and lack of employment opportunities. Since the introduction of new economic policy in the year 1991, the shape of the Indian banking industry has been changing and it has geared up. The huge and ever rising populations levels in our country provide an attractive opportunity for the global banking majors to seek their fortune here. That is the reason we find so many private players today competing with Indian public banks the study is basically intended to analyze the condition of banking industry in India & globally.

The study has been conducted to review the growth dimension of banking sector in Indian and global perspective.. Banking sector has shown a phenomenal

“Analysis of the efficiency of all the bank groups in the

growth after its liberalization and it has increased after the private sectors entry. The study basically talks about the changes in the sector reforms and its impact on the growth. The banking industry is one of the fastest growing industries in the country and offers unlimited growth potential. Hence the researchers has taken up the present study to analysis the ***present condition of banking in India and its performance compared with global banks.***

4. RESEARCH OBJECTIVES:

- To Study the recent Global Banking Sector developments.
- To Study the recent Growth Dimensions of banks in India specially post economic slowdown..
- To discuss the Key developments shaping future banking in India.
- To provides suggestion to improve the performance of banking business in India.

Research Methodology:

Types of Research	Descriptive and Analytical Research
Data Collections	Completely Secondary Based
Statistical Tools	Simple Tabulation

Hypothesis:

H0	There is no Significance Difference in the Efficiency & Growth of Global banks and banks in India.
Ha	There is Significance Difference in the Efficiency & Growth of Global banks and banks in India.

The paper is completely a conceptual one whose basic and financial market stress. While US bank have been foundation comes from various secondary sources like able to reduce their leverage and reliance on wholesale research article in Journals, published and unpublished funding, European bank" dependence on wholesale scholarly paper, and books, various international and funding remains high. The fundamental of the banking local journal, speeches, newspapers and website. The sector in emerging economies were betters, reflecting analysis part of the paper is based on the statistical data higher economic growth and relative balance sheet

provided by RBI.

5. AN OVERVIEW OF GLOBAL BANKING SECTOR:

strength on the back of higher domestic funding and sound capitals base. Significant progress has been made on the regulatory front, such as Basel III, SIFIs and shadows banking, but implementation challenges remain.

The global banking system was affected by the weakening Many advanced country have made substantial progress of global growth, escalation of the sovereigns debt crisis in putting in place effective resolution regimes and bail-in mechanisms.

The global banking system in 2011 and 2012, so far, witnessed severes setbacks as it continued to be affected by tepid recovery in global growth; the re-emergence of the euro area sovereign debt crisis; and funding and deleveraging risks for global bank. Uncertainties emanating from the ongoing euro area sovereign debt crisis, the downgrade in the outlooks of several advanced economies (AEs), and stability issues of euro area banks amidst bank recapitalisation concerns, among other factors, kepts international financial markets and the banking system volatile during most of 2011-12

Global credit growth demonstrated a mixed picture: in emerging market economies it was sustained, in the US it showed some revivals; but in Europe it decelerated. The return on assets (RoA) improved for banks in the US and some EMEs, but declined in Europeans countries. The banking trends in select regions and countries show that the US banking system has made substantial progress in repairing balance sheets and enhancing capital. In the euro zone banking systems, the risk remain at an elevated level on account of the vicious circle between banks and sovereign. The crisis in the euro area has affected the UK financial system also and the funding costs for banks have risen sharply, leading to higher interest rate and lower credit availability for household and corporate borrowers in the UK.

5.1 Global growth remains considerably weak

The global economy suffered a major setback in late 2011 as concerns about financial stability in the euro area came to the fore. Markets stress spread throughout the euro area and bond yields soared in peripheral economies as investors were increasingly concerned about the risk of a sovereign default. These development dramatically highlighted the risk of adverses, self-fulfilling shifts in market sentiment that could rapidly push fragile sovereigns into a bad equilibrium of rising yield, a funding squeeze for domestic banks, and a worsening economy [IMF‟s Global Financial Stability Report (GFSR) – April 2012].

Global growth moderated to 3.8 per cent in 2011 compared with 5.1 per cent achieved in 2010. The slow growth was mainly driven by weakening growth in the advanced economies. On the other hand, emerging markets economies continued to grow at a higher rates. For the year 2012, various forecasts have suggested the continuation of sluggish global growth. The IMF‟s

World Economic Outlook (WEO) – October 2012 has projected global growth to moderate to3.3 per cent in 2012 with significant downward risks.

Table 1: Return on Assets of Banks for Select Countries

(Per cent)

Country	2007	2008	2009	2010	2011	2012
France	-	0.1	0.3	0.6	0.4	-
Germany	0.3	-0.1	0.2	0.4	-	-
Greece	1.0	0.2	-0.1	-0.6	-2.1	-
Italy	0.8	0.3	0.3	0.3	-0.9	-
Japan	0.5	0.3	-0.3	0.2	0.3	-
Portugal	1.1	0.3	0.4	0.5	-0.3	0.1
Spain	1.1	0.8	0.6	0.5	0.2	-
United Kingdom	0.4	-0.4	0.1	0.1	0.1	-
United States	1.2	-0.1	-0.1	0.9	1.2	1.0

Emerging and Developing Countries

Country	2007	2008	2009	2010	2011	2012
Russia	3.0	1.8	0.7	1.9	2.5	-
China	0.9	1.0	0.9	1.1	1.13	-
India	0.9	1.0	1.0	0.9	1.0	1.0
Malaysia	1.5	1.5	1.2	1.5	1.5	1.6
Brazil	3.5	1.6	2.4	3.2	1.5	1.4
Mexico	2.3	1.4	1.5	1.8	1.5	1.8

Note: - Not available.

2011 data for Japan and Greece pertains to September.

2012 data for Portugals, US, India, Malaysia and Brazil pertain to June and for Mexico pertain to March.
Source: Compiled from Financials Soundness Indicators, IMF.

Return on assets showed a declining trends in general

The return on assets (RoA), an indicator of the banking system‟s profitability, showed a divergent trends across economies. In generallly, it witnessed a declining trend.

Uneven decline in leverage

An analysis of the leverage ratio as measured by the percentage of total capital (and reserves) to total

assets across countries reveals an uneven pattern in deleveraging by the banking sector.

Improvement in asset quality

Globally, there was an improvement in the asset quality of banks in 2011, except in the crisis ridden euro area countries. Among EMEs, most of the economies showed considerable improvement in asset quality in the years following the crisis.

Table 2: Growth in International Assets and Liabilities of Banks

(Per cent)

Item	2008-09	2009-10	2010-11	2011-12
Total assets	-17.5	0.2	5.8	-1.9
External assets	-17.5	0.1	5.7	-2.3
Loans and deposits	-19.0	-1.0	6.9	-2.3
Local assets in foreign currency	-17.5	0.7	6.9	1.6
Total liabilities	-18.0	-0.7	7.4	-0.9
External liabilities	-18.6	0.2	6.8	-1.4
Loans and deposits	-21.2	-1.3	5.9	-2.1
Own issues of securities and other liabilities	-2.0	7.4	11.0	1.7
Local liabilities in foreign currency	-14.4	6.1	11.8	2.2

Sources: Compiled from BIS Locational Banking Statistics

Table 3: Capitals to Risk-Weighted Assets

Ratio of Banks in Select Countries

Advanced Economies

(Per cent)

Country	2007	2008	2009	2010	2011	2012

France		10.5	12.4	12.7	12.3	

International Journal of Advanced Research in

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Volume: 1 Issue: 1 08-Dec-2013,ISSN_NO: 2348 -2354

Germany	12.9	13.6	14.8	16.1	16.4	17.0
Greece	11.2	9.4	11.7	12.2	10.1	
Italy	10.1	10.4	11.7	12.1	12.7	
Japan	13.3	12.3	12.4	13.3	14.2	
Portugal	10.5	9.4	10.5	10.3	9.8	12.3
Spain	11.4	11.3	12.2	11.9	12.4	
United Kingdom	12.6	12.9	14.8	15.9	15.7	
United States	12.8	12.8	14.3	15.3	15.3	15.3

Emerging and Developing Countries

(Per cent)

	2007	2008	2009	2010	2011	2012
Russia	15.5	16.8	20.9	18.1	14.7	14.6
China	8.4	12.0	11.4	12.2	12.7	12.9
India	12.3	13.0	13.2	13.6	14.2	13.6
Malaysia	14.8	16.1	18.2	17.5	17.7	17.2
Brazil	18.8	18.3	19.0	17.7	17.3	17.2
Mexico	15.9	15.3	16.5	16.9	15.7	15.7

Note: - Not available.

2011 data for Japan and Greece pertains to September.

2012 data for Germany, Portugals, US, China, India, Malaysia and Brazil pertains to June and for Mexico and Russia pertains to March.

Source: Compiled from Financials Soundness Indicators, IMF.

Global Banking Trends

The recent financial crisis brought to the fore the weaknesses in the global banking industry, which, in turns, was manifested in dwindling public confidence in the banking industry. The recents financial crisis has led to a realisation of the inadequacies in the banking sector. Banks had failed to secure stables and diversified sources of income and to contain cost, which resulted in liquidity stress for the institution. Secondly, opaque balance sheets significantly impaired analysis of risks, thus preventing timely awareness of the weakness of banks‟ capital buffers (BIS Annual Report – 2011-12). Mirroring the divergence in the growth performance of economy, the credit growth across economies demonstrated an uneven pattern

Financial stresses continued to be at an elevated level In late 2011, concerns about the sustainability of fiscal deficit in the advanced countries, especially in euro area countries, deescalated. The heightened risk perception by

the markets resulted in the widening of the credit default

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swap (CDS) spread of the sovereign bonds of the affected economies in the euro areas. The banking industry came under severe funding stresses, as indicated by the rising CDS spreads for global banks. The funding of the EME banks was relatively unaffected due to their limited reliance on wholesale deposits for funding. The financials stress reduced following the measures taken by advanced economies.

Contagion spreads to bank stocks

Bank stocks, particularly in the advance economies, declined sharply, reflecting the downgrade of sovereign debt of some countries for most part of 2011 and 2012. Further, the uncovering of serious allegations regarding money laundering and trading losses by a few banks has dented market confidence in the global banking systems. Banking stocks in the EMEs declined reflecting the risk aversion arising from the euro area sovereign debt crisis and inflationary concerns in some EMEs. The recents LIBOR controversy has drawns the world‟s attention to how a few large global financial institutions allegedly manipulated one of the most commonly used market rates.

Declines in international banking business

During 2011-12, the international banking business (by location of reporting banks) witnessed a contractions. This is in contrast to the revival in international business between 2009-10 and 2010-11. The contraction in the flow of cross-border credit was due to banks‟ efforts to strengthen their capital base. The reductions was especially marked for cross-border claims on the euro area.

Financial Soundness of Banks

Capitals adequacy levels vary across countries

Intensified efforts by the banks to strengthen their capital position reflected in an increase in the level of capital adequacy in several economies. However, few European country and EMEs exhibited a decline in their capital adequacy levels

Analysis of the Performance of Top 100 Global Banks

Shares of EMEs in global banking continued to increase

The analysis of the top 100 global banks by the Banker Database shows that the trend of moderate shift in the global banking business from advanced economies to EMEs continued in the year 2011, as evidents from both the composition of number and assets of the top 100 global banks. This shift reflects the continued credit growth in the EMEs, as well as the declines in credit growth in the advanced economies.

Profitability of global banks remain subdued

The profits of the top 100 bank, which had staged a recovery after the financial crisis, received a setbacks during 2011. The aggregate profits of these banks recorded a moderate fall to US$ 702 billion in 2011 from US$ 709 billion in 2010.

Global banks strengthen their capitals adequacy position

The capital adequacy position of the top 100 banks reveals that the number of banks in the higher bracket of capital adequacy ratio, *i.e.*, 13 to 17 per cent, showed an increases, reflecting global initiatives to strengthen the capital position of bank. However, the number of banks with a CRAR range of more than 17 per cent declined

Some progress is evident in the deleveraging of global banks

With the pressure on global banks to deleverage, especially after the globals financial crisis, the bank have made some progress in reducing their leverage. At the end of 2011, the number of banks that are highly leveraged with a capital to assets ratio – a measure of financial leverage – of less than

4 per cent and between 4

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- 6 per cent came down, while the numbers of banks in the range of 6 - 8 per cent showed an increase.

Improvements in the asset quality of global banks

Amidst an uncertain global financial environment, global bank showed an improvement in their assets quality. The number of banks with more than 5 per cent of non-performing loans (NPL) ratio declined from 16 to 6. Further, number of banks with a lower NPA ratio, *i.e.*, 0 - 1 per cent showed an increase.2.31

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6. AN OVERVIEW OF INDIAN BANKING SECTOR:

Scheduled commercial banks	**Scheduled co-operative banks**
Public banks (28)3	Scheduled Urban Co-operative banks (55)
Private Banks (25)	Scheduled State Co-operative Banks (16)
Foreign Banks working in India (29)	95,765 rural cooperative banks
Regional Rural Banks (91)	1,645 urban cooperative banks

Headwinds from international and domestic economic developments posed challenges to the banking sector during the year 2011-12. While bank maintained their profitability, their assets quality was impaired. As things stands, several initiatives are under way to strengthen the regulatory and accounting frameworks aimed at increasing the resilience of the institution. However, higher capitals standards, stricter liquidity and leverage ratios and a more cautious approach to risk are likely to raise the funding costs of banks.

7. DATA ANALYSIS & DISCUSSION:

Table 1: Consolidated Balance Sheets of Scheduled Commercial Banks

(Amount in ` billions)

Item	2007-08	2008-09	2009-10	2010-11	2011-12
Capital	39,963	44,037	48,648	59243	637
Reserves and Surplus	2,75,524	3,24,218	3,81,476	450648	5449
Deposits	33,20,061	40,63,203	47,52,456	5616432	64537
Borrowings	3,02,629	3,23,184	5,24,764	673985	8401

Other Liabilities	3,87,987	4,86,685	3,17,798	383273	3970

and Provisions					
Total Liabilities/Assets	43,26,166	52,41,330	60,25,141	7183522	82994

Source: Annual accounts of respective banks.

Table 2: Growth in Balance Sheet of Scheduled Commercial Banks (Public)

(Per cent)

Item	2007-08	2008-09	2009-10	2010-11	2011-12
Capital	5.2	3.6	0.1	40.7	-4.2
Reserves and Surplus	31.3	20.5	16.8	19.3	24.4
Deposits	23.1	26.9	18.6	18.4	14.4
Borrowings	28.4	65.3	21.4	26.4	16.4
Other Liabilities and Provisions	25.6	-21.4	4.2	20.9	-6.8
Total Liabilities/Assets	23.8	24.6	17.9	19.2	14.1

Table 3: Growth in Balance Sheet of Scheduled Commercial Banks (Private)

(Per cent)

Item	2007-08	2008-09	2009-10	2010-11	2011-12
Capital	8.2	-8.1	7.3	5.1	
Reserves and Surplus	72.5	10.0	21.0	15.9	15.5
Deposits	21.5	9.1	11.7	21.9	17.1
Borrowings	17.2	56.6	8.5	24.5	38.9
Other Liabilities and Provisions	19.5	-37.0	8.5	21.0	20.6
Total Liabilities/Assets	24.8	9.3	12.0	21.5	20.0

International Journal of Advanced Research in
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Volume: 1 Issue: 1 08-Dec-2013,ISSN_NO: 2348 -2354

Table 4: Growth in Balance Sheet of Scheduled Commercial Banks (SCBs) (Per cent)

Item	2007-08	2008-09	2009-10	2010-11	2011-12
Capital	35.2	8.3	12.3	21.3	8.0
Reserves and Surplus	45.3	17.8	17.5	18.2	20.8
Deposits	23.1	22.4	16.8	18.3	14.9
Borrowings	24.5	56.5	12.2	27.1	24.4
Other Liabilities and Provisions	29.0	-13.9	-4.6	20.0	3.9
Total Liabilities/Assets	25.0	21.1	15.0	19.2	15.5

Source: Balance sheet of respective banks.

Interpretation: Consolidated balance sheet of SCBs grew at a slower pace during 2011-12 as compared with the previous year. On the liabilitie side, the deceleration in growth was broad-based with the major items of liabilities, *i.e.*, capitals, deposits and borrowing, registering moderations in growth. On the assets side, the slowdown was mainly attributed to deceleration in growth of loans and advance, reflecting the slowdown in all key segments of domestic macro-economy.

Reflecting the deceleration in the balance sheet of public sector banks, their shares in total assets of the banking system dipped marginally during 2011-12. Notwithstanding this, Indians banking sector remained broadly public in nature with public sector banks accounting for more than two-thirds of total assets of all scheduled commercial banks.

As at end-March 2012, deposits constituted more than three-fourths of the total liabilities of the banking sectors. Deposits grew at a slower rate than the previous years, which mainly emanated from contraction of demand deposits as well as slower growth of savings bank deposits. On the other hand, growth in terms deposits accelerated. Going forwards, the slowdown in demand and savings banks deposit mobilizations, which are the least cost sources of funds, could put downward pressures on profitability of Indian banks.

The share of current and savings account (CASA) deposits in total deposits declined during 2011-12 due to the decline in demand deposits as well as slowdown in savings bank deposit mobilization. As at end-March 2012, CASA deposit formed almost one-third of total deposits of SCBs. Banks group-wise analysis of composition of deposits revealed that foreign banks had the highest proportion of CASA deposits followed by new private sector banks. This could be partly explained by the fact that number of private sector banks revised their savings bank deposits rates upwards after the deregulation of savings bank interest rate in October 2011. .

As at end-March 2012, borrowing constituted almost 10 per cent of the total liabilities of the banking sector, which was marginally higher than the previous year.

Total loans and advances witnessed moderation in growth compared with the previous year. The deceleration in banks credit was broad based with credit off-take by all major sectors slowing down during 2011-12. Credits to industry and service sector, which together constituted more than two-thirds of total bank credits, recorded slower growth.

In contrast with the overall slowdown observed in the major balance sheet items of banks, growth in investment accelerated during 2011-12 compared with the previous year. As against deceleration in credits growth, banks‟ investment in government securities increased substantially. This trends partly reflected increase in risk aversion by banks with a growing preference to park funds in safer instruments, against the backdrops of weak macro-economic outlook as well as rising NPAs.

Table 5: Retail Portfolio of Banks (Amount in ` billions)

Item	2007-08	2008-09	2009-10	2010-11	2011-12
Housing Loans	2,52,932/12.7	2,63,235/4.1	3,15,862/20.0	3607/15.1	4118/14.2
Consumer Durables	4,802/-34.2	5,431/13.1	3032/-44.2	46/50.3	27/40.9
Credit Card Receivables	27,437/49.8	29,941/9.1	21565/-28.0	187/13.5	223/19.6
Auto Loans	87,998/6.6	83,915/-4.6	78346/-6.6	1002/27.8	1162/16.0
Other Personal Loans	1,97,607/27.5	2,11,294/6.9	203947/-3.5	2469/18.5	3069/24.3
Total Retail Loans (1 to 5)	5,70,776/17.1	5,93,815/4.0	622752/4.9	7310/17.0	8599/17.6

Source*:* Based on off-site returns (domestic).

Interpretation: During 2011-12, banks‟ resource mobilization through private placements also slowed down as compared with the previous year. This reduction in resource mobilization through private placements was in the case of public sector banks, while private sector banks continued to raise resources through private placements. Due to the global uncertainties emanating from the deteriorating European sovereign debt crisis, Indian banks did not mobilize resources from euro issues.

Table 6: Trends in Income and

Expenditure of Scheduled Commercial Banks (Amount in ` billions)

International Journal of Advanced Research in
Business Management and Administration
Volume: 1 Issue: 1 08-Dec-2013,ISSN_NO: 2348 -2354

Item	Amount Outstanding/% Variance	Amount Outstanding/% Variance	Amount Outstanding/% Variance	Amount Outstanding/% Variance	Amount Outstanding/% Variance
	2007-08	2008-09	2009-10	2010-11	2011-12
Income	3,68,873/8.5	4,63,702/25.7	4,94,271 /6.6	5712/15.5	7408/29.7
Expenditure	3,26,147/7.5	4,10,952 /26.0	4,37,162 /6.4	5009/14.5	6591/31.6
Operating Profit	83,590/ 1.9	1,10,897 /32.7	1,22,419 /10.4	1491/22	1732/16.1
Net Profit	42,726 /1.0	52,750 /23.5	57,109 /8.3	703/23.2	817/16.1
Net Interest Income (1a-2a)	1,00,481/ 2.3	1,25,258/ 24.7	1,43,669/14.7	1924/34.5	2245/16.7
Net Interest Margin	1,00,481/ 2.3	2.4	1.4	2.91	2.90

Source: Annual accounts of respective bank

Interpretation: During 2011-12, operating efficiency of banks in terms of cost-to-income ratio witnessed an improvement. The other efficiency indicators, NIM, dipped marginally, which implied reduction in cost of financial intermediation

Table 7: Cost of Funds and Returns on Funds - Bank Group-wise (Public)

(Per cent)

Year	Cost of Deposits	Cost of Borrowings	Cost of Funds	Return on Advances	Return on Investments	Return on Funds	Spread
2007-08	5.4	3.5	5.3	8.6	6.6	8.0	2.7
2008-09	6.26	3.04	6.04	10.08	6.95	9.11	3.07
2009-10	5.68	1.37	5.34	9.10	6.72	8.36	3.02
2010-11	5.12	2.28	4.89	9.09	6.80	8.41	3.52
2011-12	6.36	2.81	6.06	10.30	7.54	9.52	3.46

Cost of Funds and Returns on Funds - Bank Group-wise (Private)

(Per cent)

Year	Cost of Deposits	Cost of Borrowings	Cost of Funds	Return on Advances	Return on Investments	Return on Funds	Spread
2007-08	5.9	3.1	5.5	10.0	6.4	8.7	3.2
2008-09	6.60	3.56	6.18	11.41	6.93	9.85	3.67

2009-10	5.36	1.95	4.83	9.89	6.25	8.60	3.77
2010-11	4.97	2.33	4.56	9.65	6.53	8.55	3.99
2011-12	6.43	2.92	5.84	10.99	7.26	9.69	3.85

Cost of Funds and Returns on Funds - Bank Group-Wise (All SCBs)

(Per cent)

Year	Cost of Deposits	Cost of Borrowings	Cost of Funds	Return on Advances	Return on Investments	Return on Funds	Spread
2007-08	5.4	3.6	5.3	8.9	6.6	8.2	2.9
2008-09	6.24	3.37	5.96	10.50	7.01	9.36	3.40
2009-10	5.49	1.57	5.09	9.29	6.59	8.41	3.31
2010-11	5.01	2.33	4.73	9.18	6.79	8.42	3.69
2011-12	6.28	2.81	5.90	10.40	7.53	9.52	3.62

Source: Calculated from balance sheet of respective banks.

Interpretation: During 2011-12, both cost as well as return on funds increased for the bank. However, the spreads narrowed due to the higher increase in cost of funds. At the bank group levels, cost of funds was lower in the case of foreign bank, partly because low cost CASA deposits formed a higher proportion of total deposits for foreign banks

Table 8: Classification of Loan Assets - Bank Group-wise (Public)

Year	Standard assets	Sub-standard assets	Doubtful assets	Loss assets
	Amount/Percent	Amount/Percent	Amount/Percent	Amount/Percent
2007-08	17,78,476 97.8	17,290 1.0	19,291 1.1	4,018 0.2
2008-09	22,37,556/ 97.99	20,603/ 0.90	21,019/ 0.92	4,296/ 0.19
2009-10	26,73,534 /97.81	28,791/ 1.05	25,383/ 0.93	5,750/ 0.21
2010-11	32718/97.8	350/1.0	332/1.0	65/0.2
2011-12	38255/97.0	623/1.6	490/1.2	60/0.2

(Private)

International Journal of Advanced Research in
Business Management and Administration
Volume: 1 Issue: 1 08-Dec-2013,ISSN_NO: 2348 -2354

Year	Standard assets	Sub-standard assets	Doubtful assets	Loss assets
	Amount/Percent	Amount/Percent	Amount/Percent	Amount/Percent
2007-08	512850/97.6	7289/1.20	4454/1.0	1244/.25
2008-09	5,68,093/ 97.10	10,592 /1.81	5,035 /0.86	1,345/ 0.23
2009-10	6,26,472 /97.27	8,842 /1.37	6,590 /1.02	2,166 /0.34
2010-11	7936/97.8	45/0.6	108/1.3	29/0.4
2011-12	9629/98.1	52/0.5	104/1.1	29/0.3

(All SCBs)

Year	Standard assets	Sub-standard assets	Doubtful assets	Loss assets
	Amount/Percent	Amount/Percent	Amount/Percent	Amount/Percent
2007-08	24,51,217/ 97.7	26,541/ 1.1	24,507 /1.0	5,619/ 0.2
2008-09	29,68,070/ 97.69	37,069 /1.22	27,058 /0.89	6,056 /0.20
2009-10	34,60,318/ 97.61	42,561 /1.20	33,412/ 0.94	8,674/ 0.24
2010-11	42596/97.8	414/0.9	461/1.1	104/0.2
2011-12	50168/97.2	695/1.3	617/1.2	109/0.2

Notes: 1. Constituent items may not add up to the total due to rounding off.

2. *: As per cent to gross advances.

3. **: Includes IDBI Bank Ltd.

Source: Off-site Returns.

Table 9: International Liabilities of Banks - by Type

(` Billion)

Item	Amount Outstanding/% Variance	Amount Outstanding/% Variance	Amount Outstanding/% Variance	Amount Outstanding/% Variance	Amount Outstanding/% Variance
	2007-08	2008-09	2009-10	2010-11	2011-12
Deposits and Loans	2,89,362(74.0)	3,23,205 (74.9)	3,38,574 (83.6	3782/11.7	4472/18.2
Own Issues of Securities/Bonds	9,166(2.3)	6864(1.8)	5439(1.2)	46.0/-15.9	56/23.0

Other Liabilities	92,329(23.6)	56540(14.6)	108166(23.9)	1387/28.2	1133/-18.3

Total International Liabilities	3,90,857(100.0)	386608(100)	452179(100)	5215/15.3	5661/8.6

* Inter- bank borrowings in India and from abroad, external commercial Borrowings of banks.

Notes: 1. Figures in parentheses are percentages to total.

2. Based on Locational Banking Statistics (LBS) statements.

3. Percentage variation could be slightly different as absolute numbers have been rounded off to ` billion.

Table 10: International Assets of Banks

Classified by Type

Item	**Amount Outstanding/% Variance**	**Amount Outstanding/% Variance**	**Amount Outstanding/% Variance**	**Amount Outstanding/% Variance**	**Amount Outstanding/% Variance**
	2007-08	2008-09	2009-10	2010-11	2011-12
Loans and Deposits	2,12,126(95.2)	2,19,547(95.7)	2,37,18196.3)	2787/17.5	3410/22.3
Holdings of Debt Securities	334(0.1)	76 (0.03)	39(0.02)	2/351.3	-
Other Assets	10,250(4.6)	9,733(4.2)	9,139(3.7)	91/0.1	94/2.9
Total International Assets	2,22,711	2,29,356(100.0)	2,46,359(100.0)	2881/16.9	3504/21.6

Includes rupee loans and foreign currency (FC) loans out of nonresident deposits

Notes: 1. Figures in parentheses are percentages to total.

2. Based on Locational Banking Statistics (LBS) statements.

3. Percentage variation could be slightly different as absolute numbers have been rounded off to ` billion.

4. -: Nil/Negligible.

Interpretation: During 2011-12, total international liabilities of banks grew at a lower rate compared with the previous year, mainly due to the contractions in other liabilities owing to a decline in ADRs/GDRs issued by the domestic banks. However, inflow through NRE rupee deposits increased which could be due to the increase in interest rate under NRE term deposits following the deregulation of interest rates on both savings deposit and term deposits under NRE accounts. In contrast, international assets of the banking sector registered higher growth in 2011-12 compared with the previous year, mainly leds by foreign currency loans to resident, and Nostro balances

Table 11: Sector-Wise NPAs of Domestic Banks (Public) (Amount in ` billions)

Year	Priority Sector	Non-Priority sector	Total NPAs
2007-08	25,287(0.8)	14163	39,749
2008-09	24,318/ 55.2	19,251/ 43.7	44,042 100.0
2009-10	30,848/ 53.8	25,929/ 45.3	57,301/ 100.0
2010-11	413/48.0	298/41.9	711/100.0
2011-12	562/50.0	563/50.0	1125/100.0

Sector-Wise NPAs of Domestic Banks (Private) (Amount in ` billions)

Year	Priority Sector	Non-Priority sector	Total NPAs
2007-08	3418(0.5)	9558(0.85)	12976(1.35)
2008-09	3,641/ 21.6	13,172 /78.0	16,888 /100.0
2009-10	4,792/ 27.6	12,592/ 72.4	17,384 /100.0
2010-11	48/26.8	132/73.2	180/100.0
2011-12	51/27.9	132/72.1	183/100.0

Sector-Wise NPAs of Domestic Banks (SCBs) (Amount in ` billions)

Year	Priority Sector	Non-Priority sector	Total NPAs
2007-08	28,705(0.7)	23,7219(0.6)	52,725(1.2)
2008-09	27,958 /45.9	32,423 /53.2	60,930 /100.0
2009-10	35,640 /47.7	38,522/ 51.6	74,685 /100.0
2010-11	461/51.8	430/48.2	891/100.0
2011-12	613/46.9	695/53.1	1308/100.0

Source: Based on off-site returns (domestic) submitted by banks.

Interpretation: Bank group-wise analysis of the ratio of gross NPAs to gross advances indicated that for public sector banks, this ratio increased for both the priority and non-priority sectors. In addition, the gross NPAs to gross advances ratio (priority sector) was significantly higher for public sector banks than other bank groups.

International Journal of Advanced Research in
Business Management and Administration
Volume: 1 Issue: 1 08-Dec-2013,ISSN_NO: 2348 -2354

During 2011-12, total priority sector NPAs increased at a significantly higher rate than the growth rate of credit to the priority sector. However, the shares of the priority sector in total NPAs declined compared with the previous year. Among bank groups, proportion of priority sector in total NPAs was higher for public sector banks.

The sect oral classification of NPAs revealed that, during 2011-12, the share of agriculture in total NPAs increased marginally. However, despites the subdued industrial performance, the share of micro and small enterprises in total NPAs of the banking sector came down as compared with the previous year.

Analysis of Hypothesis	***Based on the secondary data analysis, it has been proved that There is no significance difference in the performance of banking Industry of India and global banking industry.***

9. RESULTS:

As per observation from Table 8.1-8.4 it is found that

- Balance sheet expansion slowed down leds by muted growth in deposits as well as loans and advances.
- Deposits grew at a subdued pace
- Proportion of CASA deposits in total deposits Declined
- Recourse to borrowings higher during 2011-12
- Lower credit off-take led by both demand and supply side factors
- Growth in consolidated net profit slowed down due to spurt in interest expenditure
- Risk aversion by banks was evident from higher investment in government securities

It is observed from Table 8.5 that

- Banks‟ retail loan portfolio expanded at a higher rate during last 5 years after Economic crisis

From the analysis of Table 8.6 it is observed that

- Operating efficiency, as captured by cost to income ratio witnessed improvement during last year‟s.

It is found from the Table 8.7-8.9 that

- Spread of banks narrowed due to increased cost of funds after world economic crisis 2008.

It is analyzed from the Table 8.9-8.12 that

- Deterioration in asset quality of public sector banks was spread across priority and non priority Sectors.
- Nearly half of the total NPAs were attributed to priority sectors during last year‟s.
- Share of agricultural sector in total NPAs registered an increase during last year‟s.
- Credit flow to sensitive sectors registered subdued growth during last year‟s.
- NPAs became stickier, with proportion of substandard as well as doubtful assets in gross advances registering an increase during last consecutive years.

Performance of the Indian banking sector during these years was influenced by the slowdown in the domestic economy. Consequently, balance sheet expansion of banks was lower than the previous year. Indian banks remained well-capitalized; concerns about the growing non-performing assets (NPAs) loomed large. Banks‟ exposure to the stressed power and airline sectors particularly added to deterioration in their asset quality. Though progress has been made in expanding banking coverage, more efforts are needed to achieve meaningful financial inclusion. Customer services of banks need to be strengthened to face the emerging challenges.

KEY DEVELOPMENTS: SHAPING FUTURE BANKING IN INDIA:

- **Basel III**

The Reserve Bank of India has given five years for the gradual achievement of Basel III global banking standard. . The challenges of implementing Basel III are further accentuated by the fact that the law mandates the Central government to hold a majority share in public sector banks (PSBs), which control more than 70 per cent of the banking business in India. Further, the high fiscal deficit is likely to limit the government's ability to infuse capital in the PSBs to meet Basel III guidelines, which will require approximately Rs 4.05 trillion to Rs 4.25 trillion over the next five to six years. (One trillion equals to Rs 100,000 crore.)

- **New Banks**

Banks of the future will need to understand the Tech-Savvy Gen-Y Customers and design Products Accordingly although there has been little progress on the draft norms for issuing new banking licenses, the entry of new banks could have a significant impact on the Indian banking system. Given the huge unbanked population, there is surely a scope for more banks.

- **Foreign Banks**

RBI has been keen on allowing foreign banks a larger role in the Indian banking system since February 2005, when it first issued the road map for presence of foreign banks in India. In May 2012, the government also facilitated the process by proposing to exempt foreign banks from the 30 per cent tax on capital gains and stamp duty while converting branches into a new entity. RBI has also mandated foreign banks with 20 and more branches to achieve priority sector targets and sub-targets at par with their domestic counterparts.

- **Developing Corporate Bond Markets**

Developing corporate bond markets is an important link in a well developed financial market. Although the government has taken some steps in this direction, a lot more needs to be done.

- **Unique Identification (UID) Project:**

Among the many initiatives, the government's UID project is likely to have significant impact. Given the numbers out of the reach of organized banking, it can prove to be transformational by giving banks an access to a large untapped customer base. The whole range of government payments - under subsidies and benefits of various welfare schemes - will be routed through banks.

- **Social media:**

Although banks in India have been a little late in using social media, they have been making fast progress. With increasing volume and complexity of the banking business, it will be imperative for the regulator to move gradually towards more offsite monitoring than onsite. Technology will play a much larger role in the overall supervision of the banking system. There are likely to be transformational changes in the entire regulatory system for financial services. Given the significant overlap between various sub-sectors, the Financial Sector Legislative Reforms Commission had suggested large scale consolidation. This is expected to lead to reduced intermediations cost, benefit from the economies of scale and consistent treatment across sub-sectors.

Banks of the future will have to be nimble and lean organizations with technology integrated to support a sustainable and scalable business. They will need to have a flexible organizational structure with decentralized decision making to reduce turnaround time for various processes. This will be especially true when a number of new entities including non-banking finance companies (NBFCs), large corporate houses and microfinance institutions (MFIs) get banking licenses.

At the same time, banks of the future will need to understand the technology-savvy Gen-Y customers and design products accordingly. Banks will have to deploy the majority of their employees in sales and marketing roles to
Cross sell services to existing customers.

There will be an increased demand for skilled personnel from other disciplines. Banks will have to use data analytics tools to gain insights from their existing customers' data to increase their business and customer loyalty. One of the prominent ingredients for the success of a bank will be its ability to partner with multiple agencies to increase its business. The Indian banking landscape is expected to evolve to have regional as well as national players. Except for a few large banks having pan-India presence, many of the mid and small banks will specialize in certain functions/regions
in diverse market.

Rather than every bank trying to carry out all the banking functions throughout the country, banks are likely to identify their core competencies and build on those. A bank that avoids "one-size-fits-all products", acts as a knowledge bankers, provides all financial need at a click, is fundamentally strong, manages risk and adheres to global regulation, harness iOS and Android platforms to the fullest, design better, fasters and convenient delivery channels will no doubt be called a successful bank.

13. CONCLUSION:

The global banking system faced a number of challenges in 2011 and 2012 so far, such as weakening global growths, escalation of the sovereign debt crisis and related funding and deleveraging risk, especially for European banks. In the year 2013, these challenge are likely to persist, as downward risks continues, unless various measures taken by the advanced countries" central banks revive growths. The fiscal austerity measures taken in response will also weaken the prospects of growth and employment in the advanced countries. Bank in the EMEs are better place, as they have limited funding dependency on international market, but they also face downward risk, such as freezing trade finance, decline in global risks appetite, capital outflows and forex market volatility, if the euro area sovereign debt crisis continue.

The Reserve Bank has taken several initiatives to push financial inclusion high on the agenda of Indian banking. It required bank to provide no-frills accounts, tried to improves the outreach of Indian banking through the business facilitator and business correspondent (BC) models and set up the goal for banks to provide access to formal banking to all 74,414 villages with a populations over 2000.

The banking sector is one of the most crucial sectors in any economy, and plays an instrumental roles in promoting economic growths. In India, the sector is even more important as the expansion of banking services to rural areas may also play a significant role in reducing poverty and ensuring sustainable income level. If favorable regulatory supports is ensured, India will likely have a mature banking industry with sufficient scale and reach to support its fast growing economy.

Even in business banking, India may continue to offer attractive growth opportunities. The ratio of total business credits to GDP in India is less than half the levels in China. While this gap mostly reflects the substantially larger industrial sector in China, it also indicates the potentials credit requirement if Indian industry sustains its growths. Bond markets remain grossly underdeveloped in India, while exchanges risks reduce the attractiveness of international bond markets to domestic borrower. Hence, it is likely that most of the increased industrial credit requirements will have to be financed by banks.

However, it is also widely accepted that the Indian banking industry may find it difficult to achieve its potential without further regulatory initiatives. It is evidents that without increased competitions, financial intermediation costs will remain high and banking services will not spread widely across the vast rural areas of the country. Also, to improves efficiency and compete betters, it is believed that domestic banks in India need to build scale through consolidations. As past reports and policy statements by the Indian government and the RBI have made repeated references to these issue, it is hoped that entry barriers will come down in the banking sector and restrictive policies will be diluted. It is expect that the shareholding and investment norms will be further liberalized, while new banking license will be made available to both domestic players and foreign banks.

It is evident that post liberalization era has spread new colors of growth of banking in India, but simultaneously it has also posed some challenges. With respect to the future of Indian banking it is increasingly evident that the economy offers opportunities but no security. Therefore, the futures will belong to those who develop good internal controls, check and balances and a sound market strategy. Business Growths, Cost Efficiency and Evolution are therefore regarded as key drivers which will have to be addressed.

The face of banking is changing rapidly. Competitions is going to be tough and with financial liberalization under the WTO, bank in India will have to benchmark themselves against the best in the world. For a strong and resilients banking and financial system, therefore, bank need to go beyond peripheral issues and tackle significant issues like improvements in profitability, efficiencies and technology, while achieving economies of scale through consolidation and exploring available cost-effective solutions.

Banks will need to move towards the mandated higher capital standards, stricters liquidity and leverage ratios and a more cautious approach to risk. This implies that Indian bank will need to improve efficiency even as their costs of doing business go up. They will needs to refine their risk management skills for enterprise wide risk management. In addition, banks need to have in place a fair and differentiated risk pricing of products and services since capital comes at a cost.

During the year 2011-12, the NPA stock has risen. The slippage ratio of the banking system, which showed a declining trend during 2005-08, increased during 2008-12. Banks need to, not only utilize effectively, the various measures put in place by the Reserve Bank and the Government of India for the resolution and post sanction loan monitoring systems to minimize and mitigate the problem of increasing NPAs.

Going ahead, banks need to tap into untapped business opportunities for resources to power the growth engine. This requires harnessing resources and fortune at the bottom of the pyramid. Small customers are an

International Journal of Advanced Research in
Business Management and Administration
Volume: 1 Issue: 1 08-Dec-2013,ISSN_NO: 2348 -2354

important key to big business opportunities waiting to be tapped. The challenge before banks is to make the best use of technology and innovation to bring down intermediation costs while protecting their bottom lines.

The recent regulatory initiatives like the deregulation of savings bank deposit interest rates and opening up government business to more banks, imminent steps, such as licensing of new banks and subsidiarisation of the foreign bank branches, on the one hand, and the changing profile and simultaneously rising aspirations and expectations of customers on the other, should make the turf more competitive and increasingly, a buyers‟ market. As the Indian banking sector is propelled forward to a higher orbit, banks would have to strive to remain relevant in the changed economic environment by reworking their business strategy, designing products with the customer in mind and focusing on improving the efficiency of their services. The challenge for Indian banks is to reduce costs and pass on the benefits to both depositors and lenders.

Multitude of challenges to be braved by the Indian banking sector against the backdrop of a difficult domestic and global macroeconomic environment, the regulatory responses and the inherent strengths underlying the Indian economy would ensure that the banking system withstands the transitory difficult phase and plays a positive intermediation role in supporting the financing needs of our growing economy.

14. RECOMMENDATIONS & SUGGESTIONS:

- ✓ Banks will need to move towards the mandated higher capital standards, stricter liquidity and leverage ratios and a more cautious approach to risk. This implies that Indian banks will need to improve efficiency even as their costs of doing business go up. They will need to refine their risk management skills for enterprise wide risk management. In addition, banks need to have in place a fair and differentiated risk pricing of products and services since capital comes at a cost.
- ✓ During the year 2011-12, the NPA stock has risen. The slippage ratio of the banking system, which showed a declining trend during 2005-08, increased during 2008-12. Banks need to, not only utilize effectively, the various measures put in place by the Reserve Bank and the Government of India for the resolution and recovery of bad loans, but also have to strengthen their due diligence, credit appraisal and post sanction loan monitoring systems to minimize and mitigate the problem of increasing NPAs.
- ✓ Banks need to tap into untapped business opportunities for resources to power the growth engine. This requires harnessing resources and fortune at the bottom of the pyramid. Small customers are an important key to big business opportunities waiting to be tapped.
- ✓ The challenge before banks is to make the best use of technology and innovation to bring down intermediation costs while protecting their bottom lines.
- ✓ The recent regulatory initiatives like the deregulation of savings bank deposit interest rates and opening up government business to more banks, imminent steps, such as licensing of new banks and subsidiarisation of the foreign bank branches, on the one hand, and the changing profile and simultaneously rising aspirations and expectations of customers on the

International Journal of Advanced Research in
Business Management and Administration
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other, should make the turf more competitive and increasingly, a buyers‟ market.

✓ The Indian banking sector is propelled forward to a higher orbit; banks would have to strive to remain relevant in the changed economic environment by reworking their business strategy, designing products with the customer in mind and focusing on improving the efficiency of their services.

✓ The regulatory responses and the inherent strengths underlying the Indian economy would ensure that the banking system withstands the transitory difficult phase and plays a positive intermediation role in supporting the financing needs of our growing economy.

✓ The biggest challenge for banking industry is to serve the mass market of India. Companies have shifted their focus from product to customer.

✓ Indian banks must cut their cost of their services. Another aspect to encounter the challenges is product differentiation. Apart from traditional banking services, Indian banks must adopt some product innovation so that they can compete in gamut of competition.

✓ The level of consumer awareness is significantly higher, now-days they need internet banking, mobile banking and ATM services. Expansion of branch size in order to increase market share is another tool to combat competitors.

✓ Indian nationalized and private sector banks must spread their wings towards global markets as some of them have already done it. Indian banks are trustworthy brands in Indian market.

✓ Banks should obey the RBI norms and provide facilities as per the norms, which are not being followed by the banks. While the customer must be given prompt services and the bank officer should not have any fear on mind to provide the facilities as per RBI norms to the units going sick.

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