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COMMERCIAL BANKS REFORMS : A COMPARATIVE STUDY OF URBAN AND RURAL PUNJAB

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ABSTRACT:

KEYWORDS:

INTRODUCTION

For the overall development of the state in terms of income, employment generation and poverty alleviation both urban and rural area plays an imperative role. Therefore, development of appropriate institution and mechanism plays crucial role for catering fiscal requirement of these areas. Despite of enormous network of branches in rural area in India, there is more dependence on informal sources of credit such as money lenders, landlords, traders, etc. to meet their financial needs which exploits them in various ways. Banking sector focuses to achieve balanced regional development with larger social purpose to serve national priorities and objectives for the well being of people. With the help of banking sector various government interventions were made to ensure credit flows to deprived section of the society since independence. By the 1960's, the Indian banking industry had become an important tool to facilitate the development of Indian economy. In 1969, 14 larger commercial were nationalized in the country which had 85% of bank deposits in the country and again in 1980 six (6) more commercial banks were nationalized. This was done to achieve social objectives with allowing the state to target financial backwardness. In 1977, government came out with a policy which focuses to open 1 branch in banked area and then the particular bank had to open 4 branches in non-banked locations. This policy was operational till 1990 and this phase was considered ass consolidation phase. The period of financial liberalization begins in the early 1990's. However, banks became more exclusive in post reform era.

Despite of escalating development in access of financial services, significant proportion of the population belonging to the poor and deprived sections of the society are still excluded from the formal financial institution in India. The migration of rural and semi urban saving to urban and metropolitan area, lead to banking divide between rural and urban area.

REVIEW OF LITERATURE

N.J. KAURIAN (2000) Regional disparities in India are bound to be emphasized. It is crucial that the present trend re detained and pre-arranged for overall development and it can be achieved with both the effort of state and central government.

B.B. BHATACHARYA and S.SATHIVEL (2004) in regional growth and disparity in India: Comparison of pre and post reform decade explored by analyzing growth rate of aggregate and sectoral domestic product of major state in pre (1980) and post reformed (1990) decade. The results focused that while the growth rate of GDP has improved hardly in the post reformed decade, the regional disparity in state domestic product has expanded much more significantly. He also focused that industrial state are growing faster than the non-industrial states.

MOHAPATRA, M.K. (2006) in his study "Performance of scheduled commercial banks in India during pre-reformed and reformed period" analyzed that improvement in mobilization of deposits and allocation of credit is restricted till urban area.

DR. BARIK PRASAMA (2010) in the study Banking and Development : observation in reform era using simple descriptive statistic method, observed that inspite of increasing credit distribution to all area, regional disparity in term of per capita net district domestic product exists.

This paper focuses to study the trend and growth performance of scheduled commercial banks in the rural banking in the state of Punjab during the period of 1983-2018.

OBJECTIVES OF THE STUDY

1. To study the Commercial Banking development in

Punjab from 1983-2018.

2. To study the extent of disparities in Commercial Banking growth in rural, semi-urban and urban area of Punjab.
3. To compare the growth trend in rural, semi-urban area from 1983-2018.

SCOPE AND PERIOD OF THE STUDY

The present study measures the extent of regional disparities in the banking service in various districts of Punjab at aggregate level. The study is done by dividing it into 3 Phases.

1. Pre-reform Phase - It is 1st Phase which covers the period 1983-1991.
2. Reform Phase – It is 2nd Phase which covers the period of 1992-2000.
3. Post Reform – It is 3rd Phase which covers the period of 2001-2018.

UNIT OF STUDY

The study is confined to Scheduled Commercial Banks as it is considered to be fairly representative sample and its study can determine the emerging trend in the whole Banking sector. Therefore Scheduled Commercial Bank consists of Nationalized Banks, SBI and its associate private banks (old & new), Regional Rural Banks and Foreign bank.

SELECTION OF VARIABLE

To measure the development of commercial bank following variables are considered

- Bank Expansion
- Deposit Mobilization
- Credit Development
- Credit Development

COMMERCIAL BANKING DEVELOPMENT IN PUNJAB

To study the growth of commercial banking in Punjab we use different phases.

PRE NATIONALIZATION (PRIOR TO 1969)

The modern banking system came in 1894 in Punjab with its first bank (Punjab national bank) having head office in Lahore. Many new institutions were restarted in state with the beginning of Swadeshi movement in 1906, this leads to coming of large number of banks in market but they failed because of poor method of business. In 1913-1914 large number of banks in Punjab faced crisis and were shut down. After the First World War banks started expanding again but it did not improve the condition and the great depression of 1929 and unsound policy led by banking companies lead to closure of money branches from 1932 to 1935.

Before the beginning of Second World War, in 1939, there were 210 bank offices in 79 different places in the state. But, partition disrupted the economic and fiscal condition of state which leads to shifting of registered office from Punjab to place outside the state. With the emergence SBI in (1955) reversed the negative trend and gave significant impact to bank which lead to increase of bank offices from 166 to 310 in the state. In 1960, State Bank of Patiala become subsidiary of State bank Of India which had office in some districts of Punjab.

POST NATIONALIZATION PHASE (1969-1982)

After the nationalization of major 14 banks in 1969 there has been significant increase in number of banks in Punjab. These are reviewed with the help of given table.

TABLE 1

DISTRIBUTION OF COMMERCIAL BANK BRANCHES, DEPOSITS & CREDIT ACCORDING TO POPULATION (AMT IN LAKHS)

	BRANCHES		DEPOSITS		CREDIT		CREDIT-DEPOSITS	
POPULATION GROUP	1973	1982	1973	1982	1973	1982	1973	1982
RURAL	364 (47.15%)	921 (53.67%)	8613 (17.93%)	81002 (29.26%)	1875 (9.45%)	22650 (18.10%)	21.76%	27.96%
SEMI-URBAN	237 (30.72%)	457 (26.13%)	19473 (40.55%)	97428 (25.20%)	6780 (34.15%)	49305 (39.4%)	34.81%	50.65%
URBAN AND METROPOLITAN	171 (22.12%)	338 (19.69%)	19934 (41.51%)	98335 (33.53%)	17196 (56.4%)	53134 (72.5%)	56.16%	54.08%
TOTAL	772	1716	48020	276766	19851	125139	41.33%	45.21%

Source: Reserve bank of India, Quarterly Statistics

BRANCH EXPANSION

- Rural area- The share branch increased from (47.15%) in 1973 to 53.67% in 1982.
- Semi Urban – The share of branches filled from 30.72% in 1973 to 26.13% in 1982.
- Urban and Metropolitan-The share of branches decreased from22.12% in 197 to 19.69% in 1982.

DEPOSIT MOBILIZATION

Due to increase in the branches after nationalization the deposit also increased in rural areas.

- Rural area- The share of deposit in rural area increased from 17.93% in 1973 to 28.26% in 1982.
- Semi Urban- The share of deposit in semi urban area decreased from 40.55% in 1983 to 34.15% in 1982.
- Urban Area- The share of deposit in urban area also decreased from 41.51% in 193 to 35.53% in 1982.

CREDIT DEPLOYMENT

The increase deposit leads to increase in credit in rural and semi urban area.

- Rural Area- The share of total credit deployment increased from 9.45% in 1973 to 18.10% in 1982.
- Semi-Urban- The share of credit increased from 34.15% in 1973 to 39.40% in 1982.
- Urban area- The share of urban area total bank credit fell by 56.4% in `1973 to 42.5% in 1982 which was first time in history of Punjab since independence.

CREDIT DEPOSIT RATIO

- Rural area- The credit deposit ratio branches increased from 21.76%in 1973 to 27.96%in 1982.
- Semi Urban-The credit deposit ratio increased from 34.81% in 1973 to 50.6% in 1982.
- Urban area- The credit deposit ratio decreased in 56.16% in 1973 to 54.08 in 1982.

ANALYSIS

After the nationalization of commercial banks, there has been increased share of branches in rural area which is very much essential as larger population is living in rural area and more formal source of linkage should be linked with the fore there growths. Due to increases in branch in the deposit mobilization increased in rural and credit deployment increased in in rural area. But with expansion of banks lead to size in cost of operation which reduced profitability of banks .Therefore financial sector reform were initiated in 1991.

REFORM AND POST REFOEM PHASE

To tackle the financial sector crisis Narasimha committee 1 gave the recommendation in 1991. In 1996 Verma committee on Public sector banks and in 1997 Khan Committee on rural credit and microfinance and again in Narasimha committee 2 in 1998 gave recommendations to unleash the Potential in Indian banking.

BRANCH EXPANSION(1983-2018)

TABLE 2

DISTRIBUTION OF COMMERCIAL BANKS BRANCHES ACCORDING TO POPULATION GROUP

POPULATION GROUP	1983	1991	1992	2000	2001	2009	2018
RURAL	1012 (54.37%)	1178 (54.08%)	1177 (53.89%)	1177 (43.37%)	1115 (43.37%)	1117 (33.11%)	2530 (37.61%)
SEMI URBAN	475 (25.52%)	484 (26.23%)	486 (22.35%)	665 (26.28%)	677 (36.37%)	958 (38.33%)	2032 (30.2%)
URBAN AND METROPOLITAN	374 (20.09%)	516 (33.67%)	521 (29.88%)	76 (30.30%)	779 (30.30%)	1299 (38.5%)	2164 (32.52%)
TOTAL	1861 (100)	2178 (100)	2184 (100)	2548 (100)	2571 (100)	3374 (100)	6726 (100)

Source : RBI basic STATISTICAL Return of Scheduled Commercial Banks in India (Various issues)

- Rural Area- The share of branches in rural area decreases from 54.37% in 1983 to 53.89% in 1992 which further reduced to 43.37% in 2001 33.8% in 2009 but increased in 2018 (37.61%).
- Semi Urban Area- The share of branches increased from 28.39% in 2009 to 30.21% in 2018.
- Urban Area- The share of branches reduced from 38.5% in 2009 to 32.17% in 2018.

DEPOSIT MOBILIZATION

TABLE 3

POPULATION GROUP WISE DISTRIBUTION OF COMMERCIAL BANK DEPOSIT (AMT IN LAKHS)						
POPULATION GROUP	1983	1991	2000	2001	2009	2018
RURAL	99667 (30.33%)	284963 (28.5%)	909265 (23.48%)	1044537 (23.58%)	2424852 (20.15%)	7100849 (25.13%)
SEMI URBAN	11496 (35.02%)	325937 (32.59%)	1250807 (32.31%)	1427743 (32.23%)	3450619 (28.67%)	10850096 (38.48%)
URBAN AND METROPOLITAN	113878 (34.66%)	389098 (38.91%)	1711458 (44.21%)	1957561 (44.21%)	6157323 (51.17%)	10294286 (36.44%)
TOTAL (%)	328541 (100)	99998 (100)	3871531 (100)	4429841 (100)	12032792 (100)	28245231(100)

Source : RBI basic STATISTICAL Return of Scheduled Commercial Banks in India (Various issues)

- Rural area- The share of rural area in total bank deposit was 30.33% in 1983 decreased in 28.50% in 1991 further in 2009it fell to 20.15% and reversed trends were seen in 2018 with 25.13%.
- Semi urban Area- In semi urban area the total bank deposit was 35.02% in 1983 which fell to 32.59% in 1991 and further fell to 28.26% in 2009 but there is reversed in trend as in 2018 it increased to 38.41%.
- Urban and Metropolitan- The share of urban deposit in 1983 was 36.66% which increased in 1991to 38.11% then increased to 44.99% in 2001and 51.17% in 2001 but decreased to 36.44% in 2018.

DEPLOYMENT OF CREDIT

TABLE 4

POPULATION GROWTH WISE DISTRIBUTION OF COMMERCIAL BANK CREDIT (AMOUNT IN LAKH)						
POPULATION GROUP	1983	1991	2000	2001	2009	2018
RURAL	38861 (26.04%)	125373 (27.77%)	408163 (26.33%)	522236 (28.72%)	1257879 (15.91%)	46205409 (29.34%)
SEMI URBAN	53620 (35.93%)	132582 (29.39%)	367211 (24.29%)	403004 (22.16%)	1679918 (21.25%)	6038434 (38.35%)
URBAN AND METROPOLITAN	56336 (38.02%)	193044 (42.82%)	749008 (49.14%)	893340 (49.12%)	4965567 (62.82%)	5084619 (32.29%)
TOTAL	1492176 (100%)	450999 (100%)	1524386 (100%)	1818580 (100%)	7903364 (100%)	15743602 (100%)

Source : RBI basic STATISTICAL Return of Scheduled Commercial Banks in India (Various issues)

- Rural area- The share of rural area n total credit deployment was 26.04%in 1983 which increased to 27.79 % in 1991 which in 2000 reduced to 26.77% and further fell drastically to 15.91% in 2009 but again sized to 29.34% in 2018.
- Semi Urban area- The share of semi urban rural area was 35.79% in 1983 which further fell to 29.39% in 1991, 24.09% in 2000 and 21.25% in 2008 but the trend reversed and increased to 38.35% in 2018.
- Urban and metropolitan- The share of urban area in 1983 was 38.02% which raised in 2009 to 62.82% but fell in 2016 to 32.39%.

CREDIT DEPOSIT RATIO

TABLE 5

POPULATION GROWTH WISE CREDIT DEPOSIT RATIO OF COMMERCIAL BANK						
POPULATION GROWTH	1983	1991	2000	2001	2009	2018
RURAL	38.99%	40.79%	44.89%	50%	51.87%	65.07%
SEMI URBAN	46.62%	40.67%	29.36%	28.23%	48.68%	55.65%
URBAN AND METROPOLITAN	49.62%	49.61%	43.76%	45.63%	80.64%	49.39%
TOTAL	45.41%	45.090%	39.37%	41.05%	65.68%	55.73%

Source: Compute on the basis of figures of deposit mobilization and credit deployment given in basic statistical returns of RBI various issues.

- Rural area-The credit deposit ratio was 38.99% in 1983 which increased in 1991,2000,2001,2009 till 2018 to 65.07%.
- Semi urban-The credit deposit ratio was 48.62% in 1983 which fell in 1991, 2000 and in 2001 to 28.23% but the trend reversed to 48.68% in 2009and increased to 55.65% in 2018.
- Urban and metropolitan-The credit deposit ratio was 49.82% in 1983 and fell to 45.63% in 2001 but trend reversed increased steadily to 80.64% in 2009 but again falls to 49.39% in 2018.

CONCLUSION

The above discussion shows that in state of Punjab due to nationalization of banks, growth and deposit was maximum in rural and semi urban area in the pre reform period. But in post reform period the growth of bank deposits and credit trend was in urban and metropolitan area. This leads to rural urban divide in post reform era. In Punjab large number of population is living in the rural area which was (62.2%) census 2011 whereas in post reform era the growth of bank deposit and credit was maximum in urban and metropolitan areas which lead to increase in inequality of financial resources and hence results to wastage of resources, differences in standard of living of people and unequal economic growth. The increased access to financial services in rural area is crucial as large population is dependent on agriculture and they depend on more formal sources so to avoid it formal credit need to be emphasized. Also to reduce this disparity funds distribution with policy making requirement to tackle the problem of health, unemployment, migration and agricultural crisis should be followed which is increasing in state.

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