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Impact of Privatisation on of Banks Efficiency and Profitability: Role of Privatisation

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ABSTRACT
There have previously been studies done on the effects of privatisation on bank profitability using data from the five to ten years prior to privatisation and the seven to seventeen years following privatisation. For the examination of the effect of privatisation on the profitability of banks, data from recent years (i.e., the last 4-5 years) have not been taken into account. Privatisation of banks eliminates irregularities, brings timeliness, and will result in service responsibility. After privatisation, the results improved, increasing their profitability.

JEL CLASSIFICATION: G21, G24, G33, G23, C23

KEY WORDS: Privatisation, Return on assests(ROA), Return on Equity(ROE),Investment

INTRODUCTION

The union government was obligated to own at least 51% of the shares under the 1970 Banking Act. It was not a political decision when Mrs. Indira Gandhi nationalised the banks over night in two phases, first in 1969 with fourteen banks and again in 1980 with six banks with various capital requirements. Millions of people, and more specifically the most vulnerable in rural regions, did not have access to banking as a public benefit back then.

Nationalised banks were deemed to have met expectations when the first wave of changes began in 1991, ushering in barefoot banking and dramatically expanding reach through the Lead Bank Scheme and Service Area strategy, all at the expense of efficiency. The reforms helped cleaning up the banks' balance sheets, introduced asset-liability management, prudential management, and better and responsible customer service. Within fourteen years, they became symbols of inefficiency reflected in large accumulation of non-performing assets (NPAs).

After 2005, the inclusive banking strategy gave rise to small finance banks, small payment banks, and banking correspondents (BCs). With the exception of regional rural banks and urban cooperative banks, there were 76 scheduled commercial banks in 1991. Today, there are 93 scheduled commercial banks.

The number of bank branches increased from 60,220 in 1991—35,206 in rural areas, 11,334 in semi-urban areas, 8,046 in urban areas, and 5,624 in metropolitan areas—to 158,373 in 2022 (rural branches had the least growth at 52,773; semi-urban areas saw growth at 43,683; urban areas saw growth at 30,638; and metropolitan areas saw growth at 31,279). A branch currently serves 9,500 people on average, compared to 14,000 in 1991.

In terms of business, the banks had a loan portfolio worth Rs1.32 lakh crore and deposits totaling Rs3.8 lakh crore. After three decades, the credit portfolio has grown to Rs108.8 lakh crore, while the deposit portfolio has surpassed Rs155.7 lakh crore. The credit-deposit ratio increased by more than twice, from 34.2 to 69.88 percent. In 1991, as opposed to 3% now, the cash reserve ratio, or the percentage of deposits held by commercial banks with the central bank, was 15%. The RBI made sure that banks had greater liquidity at their disposal to make responsible loans and meet societal demands.

Depending on how they perceive the risk, banks are able to set interest rates for various groups of borrowers. The banks' fundamental information altered. even when technology replaced. The decadal data from 2000 to 2020 shows an increase in both private and public sector banks' advances as well as their NPAs. But to demand that banks stop taking risks in order to lend in the absence of NPAs would be unreasonable. Additionally, the establishment of giant banks and Bad Bank would neither eliminate their toxic assets or lessen their losses. When the monolithic SBI was established and the main PSBs were consolidated to reduce the number of them from 28 in 1991 to only 10 today, the government disregarded the lessons of the 2008 crisis that warned "too big to fail" banks would require more resources from the exchequer than previously.

The regulator does not see private banks, foreign banks, and PSBs equally when it comes to fulfilling the commitments to the priority sector. Although the key sectors after nationalisation were agriculture, small companies, housing for the poor, education for the poor, and transportation, including boats and catamarans, their makeup and substance have drastically altered over the past thirty years. The banks' lobbying organisation, the Indian Banks Association, occasionally negotiated to change the priorities. The 40% of total financing set aside for this purpose is reduced for the underprivileged and needy, defeating the goal of privatisation.

LITERATURE REVIEW

The financial history was seen as a series of nationalisations and privatisations, which were all jointly safeguarded in states of competence and comparable community. The theoretical representations of various ownership metrics seldom distinguish between competence and dominance (Vickers and Yarrow, 1988). According to Kay and Thompson (1986), "Privatisation is a term that is used to protect numerous different elements, and is probably another way to move the relations between the government and the private sector." Serious problems with the competency of service firms have been explored.

The output of the banks and the labour is the quantity of transactions, whereas the input of the banks is the quantity of credit applications and the quantity of accounts (Oral & Yolalan, 1990). The operating performance ratio's ordinary three-year and pre-privatization periods correspond to three years, 18 states, and 32 industries in the value for 61 enterprises. Economically and statistically, post-privatization output increases (Megginson, Nash, & Randenborgh, 1994). According to the study's findings, improved performance is reasonable (Verbrugge, Megginson, & Owens, 1999). The 21 developing states in the value of 79 enterprises have an average post-privatization financial performance ratio of three years and a pre-privatization operating performance ratio of three years (Abid, 2003). Operating competency performance was evaluated at 33 Taiwanese banks. It employed the DEA approach to gauge competence, which is influenced by portfolio investments, loan services, and interest and non-interest revenue. The financial ratio analysis was conducted using the proportionate positioning of various types of input and output methodologies (Chen & Yeh, 1998). Competency is the key concern of both the teachers and the bank executives in the banking industry. In order to attain the peer group of competency levels, the research must examine the competency of financial institutions, identify the elements that affect the financial system's competency, and make recommendations for how to do so (Hanif, 2002). A research looked at 68 Indian banks and examined the relationship between strategic groups and corporate competency performance. Both the input from the banks and the output of financial variables were employed (Mukherjee & Nath, 2002). Using the DEA approach, the research investigated 48 Croatian commercial banks to determine their competency.

It made use of three inputs, including the number of employees, fixed assets, and software, as well as deposits, and two outputs, including loans made and short-term securities (Jemric & Vujcic, 2002). The empirical findings point to a highly competitive financial market for seasoned market players that can advance performance and output while guiding organisational competency. These tests have occasionally validated the impacts of financial institution liberalisation and deregulation on the competence and effectiveness of the banking industry (Berger, Hunter, & Time, 1993). After the liberalisation of the 1970s in the United States, it was often necessary for banks to be effective (Elyasiani & Mehdian, 1990). Efficiencies in Turkey's banking system have reportedly declined after financial liberalisation. In comparison to private and international banks, state-owned banks are superior (Denizer, 2000). Hardy and Patti (2001) discovered some competence advancements in Pakistan. The role that financial markets play in the development and evolution of the economy is hotly contested in economic research (Gertler, 1988; Levine, 1997). Recent research (Levine & Zervos, 1998; Levine, Loayza, & Beck, 1999) has demonstrated that monetary systems, which are crucial to economic advancement, respond better to the results of empirical literature. The data was gathered in 92 states, and the findings indicated that, under the influence of government ownership, the output of the monetary system grows with growth rate and economic growth rate. Modern trade depends heavily on advanced banking, which is also necessary for financial advancement (Rajan & Zingales, 1998). In this literature, Kunt and Maksimovic (1998) have produced the majority of the most recent studies. The majority of this literature is presented in many publications by Porta and Silanes (1999).

CONCLUSION

Although there is a sizable and expanding body of research demonstrating that privatisation may enhance non-financial firms' performance, there is little proof about how it improves the performance of the banking industry. This essay summarises the findings from the publications in the special bank privatisation issue of the Journal of Banking and Finance. The study comes to the conclusion that while bank privatisation typically increases bank efficiency, gains are greater when the government fully cedes control, when banks are sold to strategic investors, when foreign banks are permitted to take part in the privatisation process, and when the government does not impose restrictions on competition..In terms of the economy, micro-level privatisation tends to boost productivity, quality of options, innovation, lower costs & prices, and eventually improve company profits. These may also be, high incentives, lesser political interference, healthy competition, and reinvestment.

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