PRODUCTIVITY AND PROFITABILITY OF PUBLIC SECTOR BANKS IN INDIA: A REVIEW OF ECONOMIC REFORMS

by

Tuli Roy

Department of Humanities and Social Sciences

Submitted

In fulfilment of the requirement of the degree of

Doctor of Philosophy

to the

INDIAN INSTITUTE OF TECHNOLOGY, DELHI

HAUZ KHAS, NEW DELHI – 110 016

July 2002

CERTIFICATE

Certified that Mrs. Tuli Roy was permitted to work for her Ph.D Degree in Economics at I.I.T., Delhi on the problem entitled '"PRODUCTIVITY AND PROFITABILITY OF PUBLIC SECTOR BANKS IN INDIA: A REVIEW OF ECONOMIC REFORMS". She has faithfully carried out her study under my guidance and supervision and the accompanying thesis is her genuine and original work. The results contained in this thesis have not been submitted, in part or full, to any other university or institute for the award of any degree or diploma.

Mrs. Tuli Roy has completed necessary course work and put in the required attendance in this Department.

Vrajendra Upadhyay

(Dr. V.Upadhyay)
Associate Professor
Department of Humanities
& Social Sciences
I.I.T. Delhi, INDIA.

Date : July 22, 2002

ACKNOWLEDGEMENTS

I am deeply thankful to Dr. V.Upadhyay, my research supervisor, under whose able guidance, this work has been completed. His co-operation and encouragement has guided me through this long journey. He has given many valuable ideas and comments and gone through every chapter of my work. My sincere thanks to Dr. Amulya Khurana and Dr.S.K..Jain,, who have given valuable suggestions and encouragement.

The present work could be completed because of the study leave provided by RBI for a period of one and half years. I express my sincere thanks to the RBI authorities for offering such a facility.

My sincere thanks to Shri Harsh Chaturvedi and Shri. G.Ravindra, for helping me in collecting a major part of the necessary data for the study. I also express my thanks to the staff members of the Banking Division Library and NIPFP for allowing me access to their database. My sincere thanks to the Librarians of IIT, Delhi, JNU, Ratan Tata Library, and RBI, New Delhi libraries for all their help in finding the material for the study.

Quite a few of my friends and colleagues helped me at various stages of this study. I take this opportunity to thank all of them, particularly Shri Ajay Chaudhury and Shri Kaustuva Barik.

My sincere thanks to my mother Smt.Tapati Dutta, who inspired me take up this work and my father Dr. N. K. Dutta, for his key guidance during critical phase of my research work. My cousin Ms. Geeta Bose has sacrificed many weekends and has sat up late hours to edit my thesis.

I am extremely thankful to my husband for his patience, moral support and active assistance in putting together this piece of work. Last, but not the least, I thank my daughters Namrata and Nirmita, who have sacrificed a lot of quality time without understanding why.

(TULI ROY)

ABSTRACT

The banking industry in India has undergone structural change since 1991 with the liberalisation norms introduced by the government. The changes brought about in the Indian banking system were due to the introduction of prudential norms to align the banking system to internationally accepted standards. Indian public sector banks command over 80% of the total assets in the banking system and over 90% of the total branches spread all over the country.

The major objectives of the study were to explore the profitability and productivity of the public sector banks and compare their performance in the pre and post reform periods. An empirical analysis of various variables affecting the profitability of these banks was also carried out and a composite index of performance of banks was prepared to judge the best and worst performers over the period of study.

An important outcome of the study was that productivity measured in terms of business per employee has grown by almost four times. But labor productivity has not only remained low but has also declined during a major part of the reform period, although it is showing a rising trend in the last three years. However, the efficiency of the banks has improved. The public sector banks are showing improved profitability since reforms. The economic reforms have resulted in putting pressure on the weak banks and forced them to perform better resulting in increased convergence among banks in the post reform period. The composite index shows that Oriental Bank of Commerce is a consistently high performer in the pre and post reform period while the three weak banks have always been poor performers. However Corporation Bank has emerged as the new star performer. The public sector banks in general are displaying economies of scale, which is consistent with recent suggestions recommending merger of some banks to improve their functioning.

CONTENTS