

AN INTERNATIONAL MULTIDISCIPLINARY
QUARTERLY RESEARCH JOURNAL

AJANTA

ISSN - 2277 - 5730

Volume - X, Issue - IV, October - December - 2021

Impact Factor 2019 - 6.399 (www.sjifactor.com)



ISO 9001:2015 QMS
ISBN / ISSN

Peer Reviewed Refereed
Research Journal



Is Hereby Awarding This Certificate To

Dr. Gajanan Kadam

In Recognition of the Publication of the Paper Titled
**Nationalization and Privatization Impact in the
Context of Indian Banking Industry**

Ajanta Prakashan

Jaisingpure, Near University Gate, Aurangabad. (M.S.) 431 004
Mob. No. 9579260877, 9822620877 Tel. No.: (0240) 2400877,
ajanta6060@gmail.com, www.ajantaprakashan.com

Editor : Vinay S. Hatole

8. Nationalization and Privatization Impact in the Context of Indian Banking Industry

Dr. Gajanan Kadam

Assistant Professor, Department of Economics, Arts, Science and Commerce College,
Indapur Dist. Pune.

Abstract

The facilitation of economic transactions and friendly investor environment is undertaken through effective performance of financial systems. Mobilization of savings and funding the profitable business opportunities are essential in improving the efficiency of intermediation. The study aims to evaluate the effects of nationalization and privatization on Indian banks. Various factors have been considered to examine the effects of privatization and nationalization, including sources of public sector inefficiency, measures of firm performance, econometric issues, and the mode of privatization. The data was collected for the period of 2015 to 2020 from Indian banks. Data Envelopment Analysis (DEA) was used to evaluate the financial reports of the banks selected to evaluate the efficiency of input and output variables. Positive results were observed, concerning the efficiency and profitability of banking industry after banks privatization. Performance of private banks has been observed effective and efficient as compared to the public sector banks. Privatization of banks must be increased and maintained to sustain the efficiency of the banks and implement strategies to maintain the assets. Future studies may recruit more appropriate sample size to evaluate the privatization and nationalization effects of Indian banking industry. Greater number of banks will provide more precise results, using data envelopment analysis.

Keywords: Banks, Data Envelopment Analysis, Efficiency, Indian banking industry, Privatization, Nationalization

Introduction

The performance of financial system is a fundamental angle in the improvement of economy for any country. The presence of set up monetary framework can be utilized to advance the monetary dependability of a country. Actually, twisting can be capable by a temperamental financial framework among loan costs, monetary movement, and expansion. In this way,

privatization and nationalization of banks are under taken to support the monetary presentation of banks. Privatization of the banks possessed by government and different measures presented were the vitally monetary changes, started in the early years to fortify the country's monetary framework. Because of proficiency of privatization, there is an impact on adjusting the spending plans in the capital business sectors of non-industrial nations, particularly. The impact of nationalization and privatization of banks has been engaged to decide the monetary effectiveness of Indian financial framework.

Privatization is considered as one of the significant issues experienced by the legislatures across the globe. Governments are concerned to examine the impact of nationalization and privatization on performance of banking industry. Administration of India chose to nationalize their banks to screen and exercise command over the banks. Both economic and political components are utilized to spur government for nationalizing the financial area. The public authority of India had explicitly nationalized Reserve Bank of India to possess the Indian financial industry; therefore the study will analyze the impact of privatization and nationalization on the Indian banking industry.

The impact of privatization and nationalization is observationally proven on financial area execution. Different variables have been considered to analyze the impact of privatization and nationalization including wellsprings of public area shortcoming, proportions of firm execution, econometric issues, and the method of privatization. In actuality, blended proof has shown the uncertainty of privatization and nationalization impact on the exhibition of banking industry. As per Kausar et al., execution improvement of Indian financial area is accounted for to be 28% after privatization.

The existing literature has shown that privatization of nationalized banks is anticipated across five years toward the finish of banking emergency. It shows a tremendous consideration of policymakers toward the private own reship of banks. Besides, the meaning of this review lies in accentuating the monetary area steadiness issues, strength of the administrative instrument, and the sufficiency of banks as far as development and financial issues. Additionally, the pertinence of this review comprises in the accentuation towards the effect of privatization with the thought of the bookkeeping markers.

1. Review of Literature

A. Performance of banks after privatization

The importance of privatization has been emerged among nationalized banks in Indian economy. The audit has researched huge level of banks, beforehand, then, at that point, sometime later privatization. The assumption for pre-privatization assurance inclination is seen for the since a surprisingly long time prior run influence. Mariappan et al. (2013) have set up that privatization solidly affected the financial show of nationalized banking industry in the pre-privatization stage. It was seen that there was a moderate impact of privatization and nationalization on the money related presentation of banks. This result might be shaped from the methodologies, executed in the monetary space of India.

Patel and Patel (2015) have examined that there is a strong and positive impact of possession structure on the financial performance of banks. The study has examined the performance of banks and their stocks after officially privatized from the State Bank of India. The study has certainly influenced the performance of ICICI Bank and HDFC Bank. The findings have certified that there was a significant effect of privatization of both banks on the number of trades and average share prices. On the contrary, there was no significant influence of privatization on stock returns. According to the financial statistics reports, operating profit margin, and return on equity, earnings per ratio share and net profit margin dignify the deterioration in the monetary performance of both banks. It is a fact that there is a certain influence of privatization on the pace of economic growth in every country. This pace is collaboratively contributed to the shared beliefs and opinions of customers that respond toward incentives. The accomplishment of privatization is possible from the incentives of economic growth.

B. Performance of banks after nationalization

It has been determined that the performance of banks after nationalization enabled to direct the credits to priority fields of small scale, exports and agriculture, which cannot be expanded in rural areas. By integrating such processes, public confidence can be improved on banks and ultimately the performance of banks can be increased. Ferrao and Ansari have witnessed that banks are enabled regulations are given to these banks by governments. Commercial banks are obliged to lend up at 40% of their total lending to priority sector as per the working group of lending recommendation and priority sector.

The productivity of banks is exceptionally controlled by the results of nationalization. Board information assessment has been utilized to fundamentally measure the exhibition of Indian financial industry over the time of six years. Productivity factor is viewed as the main factor that impacts the exhibition of Indian financial industry. Bank size and proprietorship are other critical factors that modestly affect the nationalization of banks. Gupta have analyzed the presentation of bank offices by considering their qualities and shortcomings alongside the productivity and creation angles.

Objective of the Study

This study aims to examine the privatization and nationalization effect on Indian banking industry using financial data of selected Indian banks from 2015 to 2020.

2.1 Research Questions

1. What is the impact of privatization on the performance of Indian banks?
2. What is the impact of nationalization on the performance of Indian banks?
3. What is the impact of nationalization and privatization on growth of Indian national banks?

3. Methods

2.2 Period of Study

The nationalization and privatization effect on Indian banking industry has been examined through Data Envelopment Analysis (DEA). Data was collected from the financial reports of selected nationalized and privatized banks. Return on assets, Return on equity, and debt to total assets, advances to deposits, and operating profit are the variables, which were used to measure the efficiency of selected banks since 2015–2020.

2.3 Source of Study

The secondary data of the selected banks was collected from the annual reports for the period of 2015–2020. Moreover, different financial web-sites were also used to collect data for the specified period. Furthermore, CMIE database and Indiatat.com were also used for the data collection. Return on Assets (ROA), Return on Equity (ROE), and debt to total assets, and advances to deposits were the input variables for the study. Output variables were significant factors that defined the acquired outcomes of input variables for the decision-making units. Operating profit was the output variable for all the selected banks. The banks selected for the study include HDFC Bank Ltd, ICICI Bank Ltd, Bank of Baroda, Punjab National Bank,

and Oriental Bank of Commerce, IDBI Ltd, Centurion Bank Ltd, Federal Bank Ltd, Indian Overseas Bank and Kotak Mahindra Bank.

4. Major Findings

DEA has been utilized to gauge the effectiveness and adequacy of the chosen banks. Information and yield factors have been leaned to assess the proficiency of banks subsequent to being privatized. The out-put factors, considered for the investigation, were advances to resources, obligation to add up to resources, ROA, and ROE. Information factors are thought as critical components that are used to add to the out-put factors of dynamic units. Working benefit of the chosen banks was the yield variable. The accessible changes in input variable allowed the alterations and upgrades in yield factors, which are at last ward on the presentation assessment. The meaning of yield factors characterized the results of information factors. The yield factors comprise of the board console data of dynamic unit. DEA model evaluations proficiency, contingent upon the degree of activities in dynamic units to offer administrations to the recipients during the estimation time frame. The outcomes have introduced the expanding designs for Centurion Bank Ltd, IDBI Bank Ltd, Indian Overseas Bank Ltd, and ICICI Bank Ltd. The review introduced Slack-based model and information target productivity. The effectiveness of Slack-based model has been distinguished for out-put focus through advances and speculations, concentrate on likewise addressed Slack report, showing input slacks, which fundamentally included advances to assets, debt to total assets, ROA, and ROE. The outcomes have assessed the productivity of HDFC Bank, which was noticed proficient when contrasted with different banks after privatization. Following the HDFC Bank Ltd, Bank of Baroda and Federal Bank were the productive banks in the wake of being privatized. HDFC Bank, Bank of Baroda, and Federal Bank were the most productive banks dependent on ideal multipliers model.

Conclusion

The study intends to examine the consequences of privatization and nationalization for Indian banking industry. The results obtained from DEA analysis have shown an increasing pattern for IDBI Bank Ltd, Centurion Bank Ltd, and Indian Overseas Bank. The efficiency of Indian banking industry after privatization and nationalization process is emerged from loans and investments. Similarly, the efficiency of HDFC Bank, Bank of Baroda, and Federal Bank was higher as compared to other selected banks after being privatized. Privatization can be considered as the crucial factor after technological forces, which expand the profitability and

productivity of banks, as observed through the analysis. Capital structure can be further improved after spending massive revenue in the domestic and international capital markets. Indian Overseas Bank, Punjab National Bank and Oriental Bank of Commerce have a broad perception towards their financial performance during 2015–2020. There is a positive influence of privatization on the profitability and efficiency of Indian private banks. Additionally, the study revealed that the performance of private banks sustained to increase after acquiring targeted banks. The outcomes of the present study could further be examined by increasing the extent of input and output variables. Future studies may recruit greater sample size to evaluate the privatization and nationalization effects of Indian banking industry. Greater number of banks will provide more precise results, using data envelopment analysis. CAMEL approach can also be employed on greater sample size to evaluate the privatization and nationalization effects. Future studies may recruit national and private banks separately and compare their financial performance before and after privatization empirically.

References

1. Acharya, V., & Subramanian, K. V. (2016). State intervention in banking: the relative health of Indian public sector and private sector banks, in *Monetary Policy in India*, (pp. 195-230). Springer, India. <https://doi.org/10.1007/978-81-322-2840-07>
2. Ara, U. H. A., & Haque, E. (2015). Asset Liability Mismatch – An Empirical study on nationalized commercial banks in Bangladesh. *Asian Business Review*, 4(2), 11-19. <https://doi.org/10.18034/abr.v4i2.269>.
3. Chaudhary, G. M., & Arshad, A. (2016). Impact of Privatization upon Efficiency of Enterprises: Evidence from the Banking Sector of Pakistan. *Journal of Business Studies Quarterly*, 7(3), 47.
4. Paul, J., & Das, K. (2015). Efficiency of Commercial Banks in India: A Non-parametric study using Data Envelopment Analysis. *Asian Journal of Research in Banking and Finance*, 5(6), 37-48.
5. www.indiastat.com
6. www.cmie.com