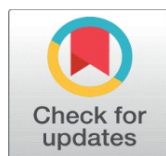
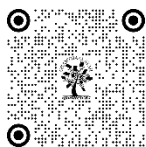


THE PERFORMANCE OF BANKS IN INDIA AFTER BANKING SECTOR REFORMS

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ABSTRACT

The banking sector in India has undergone significant transformations since the implementation of banking sector reforms, in the early 1990s. These reforms, aimed at improving the efficiency, competitiveness, and financial health of banks, have had a substantial impact on the performance of Indian banks. This paper reviews, the performance of banks in India post-reforms, with a focus on profitability, asset quality, capital adequacy, and operational efficiency. The review also explores the challenges faced by banks, particularly in the context of non-performing assets (NPAs), regulatory changes, and the increasing role of digital banking. The paper synthesizes relevant studies and, empirical evidences to provide a comprehensive overview of the effects of banking reforms on the Indian banking system.

Keywords:

1. INTRODUCTION

India's banking sector has evolved significantly over the past few decades, particularly after the liberalization of the economy in the 1990s. The reforms were initiated with the goal of addressing inefficiencies and enhancing the competitiveness, of Indian banks in a globalized economy. Key milestones in this process include the recommendations of the Narasimham Committee (1991 and 1998), which advocated, for measures such as the reduction of government ownership in banks, the introduction of prudential norms, and the development of a more robust regulatory framework (RBI, 1991). Subsequent reforms, such as the introduction of Basel norms, liberalization of interest rates, and the modernization of banking infrastructure, have shaped the current banking landscape. These reforms targeted the liberalization of the economy, strengthening governance, improving efficiency and fostering financial inclusion.

Empirical studies emphasize the sector's resilience post-reforms, with improvements in credit delivery, operational efficiency, and financial inclusion (Bhide et al., 2001; Kaur & Misra, 2020). Despite advancements, challenges such, as rising competition and managing non-performing assets persist (Rastogi, 2017). This paper explores these reforms' performance and implications on India's banking system.

2) Key Banking Sector Reforms in India: The major reforms in India's banking sector can be categorized into two broad phases:

- **Early Reforms (1991-2000)**

The first phase of reforms focused on improving the financial health of public sector banks (PSBs) and promoting competition. This included the reduction of the statutory liquidity ratio (SLR), the introduction of prudential norms for capital adequacy, the liberalization of interest rates, and the encouragement of private and, foreign banks (Mohan, 2006). The Narasimham Committee Report (1991) set the groundwork for these reforms, which laid emphasis on the need for better management, greater operational autonomy for banks, and stricter regulation to ensure stability.

- **Post-2000 Reforms**

The second phase of reforms, particularly post-2000, saw further consolidation of the financial sector. The introduction of Basel II norms, the establishment of the Financial Sector Legislative Reforms Commission (FSLRC) in 2011, and a renewed focus on digital banking and financial inclusion were major developments. The banking sector witnessed the growth of private sector banks, increased foreign investment, and the spread of banking services through technological advancements (Chakrabarty, 2013).

2. PERFORMANCE OF BANKS POST-REFORMS

The performance of Indian banks after the implementation of banking reforms can be assessed across several key dimensions: profitability, capital adequacy, asset quality, and operational efficiency.

- **Profitability and Efficiency**

Post-reform, Indian banks, particularly private sector banks, showed significant improvements in profitability and operational efficiency. The introduction of market-based interest rates, improved risk management practices, and increased competition among banks contributed to enhanced financial performance. For instance, HDFC Bank, ICICI Bank, and Axis Bank have demonstrated strong growth in profit margins and return on assets (ROA) in comparison to public sector banks (PSBs) (Kumar & Nair, 2020). On the other hand, PSBs have lagged in profitability metrics, partly due to legacy issues such as poor asset quality and high operational costs (RBI, 2023).

- **Capital Adequacy**

The implementation of capital adequacy norms based on the Basel II framework has strengthened the capital base of Indian banks. Banks have increasingly complied with the prescribed capital ratios, ensuring their resilience, during financial stress. According to the Reserve Bank of India (2024), the average capital adequacy ratio (CAR) for Indian banks has remained above the regulatory minimum of 9%, though PSBs often face challenges in maintaining adequate capital due to government ownership constraints.

- **Asset Quality**

One of the most critical issues faced by Indian banks, particularly in the post-reform period, has been the rise in non-performing assets (NPAs). The period from 2010 to 2017 saw a significant increase in NPAs, particularly among PSBs. Factors such as poor lending practices, insufficient due diligence, and the lack of strong credit risk management frameworks contributed to this rise (Ghosh, 2015). The Insolvency and Bankruptcy Code (IBC) introduced in 2016 aimed to resolve stressed assets more efficiently, and its implementation has improved recovery rates, especially for large corporate NPAs. However, challenges remain, especially in tackling the NPA problem in smaller and medium-sized loans (Chakrabarty, 2013).

- **Digital Banking and Financial Inclusion**

The digital transformation of the banking sector has been one of the most positive outcomes of the reforms. The Government of India's push for financial inclusion through initiatives like the Jan Dhan Yojana and the growth of digital payment systems (e.g., UPI) has significantly enhanced access to banking services, particularly for the unbanked population (Sharma, 2021). Public sector and smaller private banks have particularly benefited from the adoption of digital platforms, improving their customer reach and operational efficiency.

- **Challenges Faced by Indian Banks**

While significant progress has been made, several challenges persist. The most notable among them is the issue of NPAs, particularly in the public sector. Despite the IBC and other recovery mechanisms, the legacy of bad loans continues

to weigh on the performance of PSBs. In addition, the banking sector faces regulatory and compliance pressures, the need for continuous investment in technology, and the challenges posed by fintech disruptions (RBI, 2023).

3. RESEARCH METHODOLOGY

- **Nature of Research study:** The above study is conducted using the descriptive research design. Here the authors attempted to examine the performance of banks in India after banking sector reforms by reviewing the existing literature on banking sector performance.
- **Methods of data collection:** secondary sources of data collection are used in this study. Mainly the data is collected from research articles and internet websites.

4. CONCLUSION

The banking sector reforms in India have had a transformative effect on the industry. The enhanced capital base, improved profitability, and operational efficiency of private sector banks are clear indicators of the success of these reforms. However, challenges such as NPAs, regulatory complexities, and the need for digital, adaptation remain significant hurdles. Moving forward, Indian banks need to focus on strengthening risk management practices, improving asset recovery, and leveraging technology to maintain their competitive edge. The performance of Indian banks post-banking sector reforms, demonstrates a profound transformation driven by liberalization, technological advancements, and robust, regulatory frameworks. These reforms have enhanced operational efficiency, financial stability, and profitability, with net profits reaching record highs. The reforms have set a strong foundation for the banking sector to act as a catalyst, for economic development, enabling it to adapt to evolving challenges and opportunities.

CONFLICT OF INTERESTS

None.

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