A STUDY OF PERFORMANCE OF BANKING AND NON-BANKING FINANCIAL INSTITUTIONS SINCE REFORM PERIOD

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ABSTRACT

The paper empirically evaluates the A study of Performance of Banking and Non-Banking Financial Institutions since Reform Period and the role of banking / financial structures in economic development of India. An assessment of various indicators of financial development reveals that both the bank-based and market-based intermediation processes have undergone remarkable improvements in the last six decades. While credit disbursement by Indian banks has increased sharply in the past decades, it is still far below the world average level and even below the level in its Economic Development peers. However, in the recent years, the market capitalization of Indian stock market has increased sharply reflecting more reliance on market-based sources of funding. One-way Granger causality running from private sector credit to real GDP confirms the supply-leading process of bank intermediation. The major banking / financial sector reforms in India have started about two decades earlier, but their outcome is visible now. With the adoption of liberalization, privatization and globalization measures helped to attain major reforms in Indian banking sector. The banking sector being the life line of the economy and assumed with utmost importance in the financial sector reforms. The reforms were aimed at to make the banking sector more competitive, versatile, efficient, productive to follow international started and to free from the directions and control of Government. In order to check the impact of banking sector reforms in economic development, ten years data from 2003-04 to 2012-13 have been analyzed. Financial data analysis, and Bank Efficiency Scores are the statistical tools employed for the study. The empirical result shows the presence of long-run relationship among the dependent and independent variables. The overall findings inform that banking reforms in India has adequately and positively impacted on the performance of economy. Performance of all bank groups during the sample period is found satisfactory. Efficiency of banks and credit disbursement has been systematized since the implementation of banking reforms in India. The banking system in India is significantly different from that of the Asian nations because of its country uniqueness, geographic source and economic characteristic. Liberalization, Privatization and Globalization reforms have redefined the economy. These policies strive to make monetary situation in India comparable to that existing internationally and to manage transformation. Commercial banks are the oldest biggest and fastest growing financial intermediary. This study is undertaken with the objective to analyze the post independence banking era in India and to study the changes in banking sector from pre-independence to post independence era. The secondary data has been taken for this study. The various reforms that bought the change in banking system in India have been discussed.
INTRODUCTION

Banking industry plays a pivotal role in the economic development of a country; effective existence of banking system boosts up money circulation and controls surplus money as and when required. Accepting deposits and lending loans is the prime banking business and it is backed with multiple add-on services. Indian banking industry, the backbone of the country’s economy, has always played a key role in prevention the economic catastrophe from reaching terrible volume in the country. It has achieved enormous appreciation for its strength, particularly in the wake of the worldwide economic disasters, which pressed its worldwide. The entry of private sector banks in India, the last two decades witnessed many functional development and spreads banking habits among different inhabitants. The social and economic development largely relies on the well-established banking industry in a nation. The operational efficiency and financial performance of banks always puts an impact on the comfort of the economy. Bank connects both inland and abroad economy; it may affect the domestic economy in a positive or negative way as per the reform policies of Government. Reforms in banking sector are viewed as intervention of Government in the banking industry to provide a solution for prevailing anomalies in the practice of banking business. There are extensive reasons like capital adequacy, structural, administration rules and ownership issues are inducing the regulator to reform their banking sector. Predominantly, banking reforms are resulted towards financial development in all corollaries and will pave the way for boosting economic performance. In the post-independence era, all activities in banking sector have been governmentally controlling through the Reserve Bank of India as a means to implement its development strategy. Reserve Bank of India has taken pretty measures to ensure safety and consistency of the banking system in the country along with measures to support banks to play an efficient role in accelerating the economic growth process in the post liberalization era. The major objective of Indian banking sector reforms was to promote operational independence, flexibility and competition in the system and to augment the banking standards in India to the global standards of banking. Although the Indian banks contributed noteworthy results but possess certain weakness erosion in profitability, diseconomies of scale and tough competition with private sector banks. Introduction of new banking sector reforms whether beneficial or not to Indian bank, hence this study attempted to test the impact of banking sector reforms in India. The global financial crisis has posed renewed concerns on the role of financial structures in fostering economic development. As the growth momentum slowed down globally, policymakers around the world have confronted with increasingly difficult challenges. Governments and monetary authorities have had to manage the balance between fiscal and monetary policies notwithstanding the conflict between each other in achieving high growth and price stability together. Globally, policy makers also resorted to various crisis intervention measures and regulatory reforms to prevent derailment of the growth process, which could have a crucial impact on the structure of the financial system. As a result, the changing financial structure could further affect economic growth, volatility and financial stability (IMF, 2012). The recent crisis also raised concerns about the threshold level of financial deepening beyond which its impact on economic development is negligible. Furthermore, there has been a debate whether to rely on a bank-based or a market-based financial structure in fostering economic development. Against this backdrop, this study examines whether various forms of financial structure has a role in economic development of India.

The role of the financial structures in economic development is not a new theme in the economics literature. More than a century ago, Schumpeter (1911) argued that financial markets play an important role in the growth process by channeling funds to the most efficient investors and by fostering entrepreneurial innovation. He developed his case in vivid language:

The Indian banking/financial sector has undergone radical transformation over the 1990s. Reforms have altered the organizational structure, ownership pattern and domain of operations of institutions and infused competition in the financial sector. This has forced financial institutions to reposition...
themselves in order to survive and grow. The extensive progress in technology has enabled markets to graduate from outdated systems to modern business processes, bringing about a significant reduction in the speed of execution of trades and in transaction costs. However, there is hardly any study that makes a clear comparison between the bank-based and market-based financial system in India and those examine the direction of causality between finance and growth. Against this backdrop, this paper argues that the banking/financial sector in India can play a critical role in channeling resources among various sectors - either in a supply-leading or demand-following sequence or both - so as maximize and broad-base the economic development of India. The paper finds that although both forms of financial structure have positive contributions in economic progress, the bank-based financial deepening is found to be superior over the market-based one in driving economic development.

STATEMENT OF THE PROBLEM

The main aim of banking sector reforms was to develop a diversified, efficient and competitive banking system with the purpose of improving the distribution efficiency of funds through operational flexibility, financial viability and intensification of institution. Reform measures were instigated and sequenced to develop and conducive environment for banks to overcome the external irregularities. Firstly, these measures were related managed structure of interest rates, more pre-emption through reserve requirements and credit distribution to all sectors. Series of interest rate deregulation has been a significant constituent of the reform process which has conveyed superior efficiency to resource distribution. Secondly as part of reform package, increasing the capital base of equity capital contribution by the common investors. Thirdly the reform is related with enhancing efficiency and productivity through developing healthy competition. Fourthly reform aims for consolidation in the banking sector, that is, it facilitates for merger and acquisition. Fifthly it paves the way for setting up of institutional and legal reforms with the conduction of regular business. Sixthly, it enhances the transparency and disclosure standards in the banking sector. Seventhly, it helps to draw regulatory framework and supervisory practices like capital to weighted-risk assets ratio and investment fluctuation reserve out of profits and so on.

NEED FOR THE STUDY

Banking business is the most intensely synchronized industry since it is highly dealing with others money. For centuries, Indian banks have delivered a significant role in shaping the financial system and thereby facilitates for economic growth. This fundamental task of the banks in India persists even today although the inclination in banking delivery has undergone a sea change with the development in handling of information technology as well as design and delivery of customer centric service. The recent global financial turmoil has prompted collapse of many strong economies; caused financial loss and created non-performing assets to banks. The stable and vibrant banking sector is the real accelerator for the development of any economy. Indian banking has come a long way since India get on the reforms path about two decades. The reforms have facilitated incredible change in the banking sector, to target with the international standards. Banking sector is measured as a flourishing and the secure in the banking world. Indian banking industry consists of public sector banks, private sector banks and foreign banks and also has co-operative banks and regional rural banks. During March 2000, there were 101 Scheduled commercial banks in India out of which 19 were nationalized banks, 8 belonged to SBI Group, 23 were old private sector banks, 8 were new private sector banks and 42 were foreign banks. The banking sector reform process has moved the focal point of public sector dominated banking system from social banking to a more efficient and profitable industry. Although the reform has influenced in the private sector altering the government as the source chest for public sector banks, the combination of private equity capital led to shareholder challenges to bureaucratic decision making. Public sector banks also face escalating competition not only from private and foreign banks but also tough competition arising from well-developed non-banking financial intermediaries and capital market entities. This competition facilitates to improve efficiency in the banking sector and causes for a switch from traditional paper based banking to screen based banking,
use of state of the art technology, installation of ATMs, online banking are the important milestone in the banking history. These are all resulted with the implementation of banking sector reforms in India.

**OBJECTIVE OF THE STUDY**

This study will seek to analyze the major reforms of the Indian banking sector and to find out the impacts of these reforms. In order to know the impact of reforms in banking sector in India, this present study is carried out with the following objectives.

1. To examine the development of economy after the introduction of banking sector reforms;
2. To establish a sound prudential and regulatory framework for banking operations;
3. To develop fully liberalized money and capital markets in India
4. To analyze the impact of banking sector reforms on the performance of Indian scheduled commercial banks in India.
5. To study the efficiency of Indian banking industry in the post-reform era to congregate requirements of the economy.
6. To analyze the support of banking sector reforms in India for the credit delivery to priority sector.

**REVIEW OF LITERATURE**

A number of attempts have been made to study the efficiency and productivity of banking sector in developed countries (Berger and Humphrey, 1997; Berger et al., 1999; Isik and Hassan, 2002 a, b; Yildirim and Philippatos, 2007). However, studies analyzing the efficiency of banks in developing countries, including India, are relatively modest. In their extensive international literature survey, Berger and Humphrey (1997) noted that the vast majority of the efficiency literature focuses on the banking markets of well-developed countries with particular emphasis on the U.S. markets. The literature on bank efficiency reveals mixed experiences of liberalization policies undertaken in various countries. The efficiency may go down at first due to the initial costs of adjustment prior to improving later. Burki and Niazi (2010), for example, show that efficiency fell during the initial reform period in Pakistan due to the adjustment process before increasing in the later stages of the reform process. In the Indian context, there are few studies which especially focused on the efficiency measurement of PSBs using DEA. For example, Das (1997) studied technical, allocative and scale efficiency of different PSBs for the period 1990-1996 using DEA approach. The study found decline in overall efficiency over time, decline in technical efficiency with slight improvement in allocative efficiency. The State bank of India was found to be more efficient than other PSBs. Their findings reveal that barring few exceptions, the public sector banks have in general improved their efficiency over the years. Other group of studies which focused on the comparison of various categories of banks based on ownership includes Bhattacharya et al. (1997), Sathye (2003), Sahoo et al. (2007), Sinha (2008), Mahesh and Rajeev (2009) and Kumar and Charles (2011). Bhattacharya et al. (1997) used DEA to measure the productive efficiency of Indian commercial banks in the late 1980’s to early 1990’s and to study the impact of policy of liberalizing measures taken in 1980’s on the performance of various categories of banks. They found that the Indian PSBs were the best performing banks, as the banking sector was overwhelmingly dominated by the PSBs, while the new private sector banks were yet to emerge fully in the Indian banking scenario. Sathye (2003) measured the productive efficiency of 94 banks in India for the year 1996-1997 by using DEA wherein, they found that the PSBs were on average more efficient than foreign banks, which in turn were more efficient than private banks. Similarly, Gupta et al. (2008) found that the SBI and its group have the highest efficiency, followed by private banks, and the other nationalized banks for the period 1999-2003. The results are consistent over the period, but efficiency differences diminish over period of time. Mahesh and Rajeev (2009) examined the changes in productive efficiency of Indian commercial banks for the post reform period 1985-2004. They found that deregulation has significant impacts on all three types of efficiency
measures. PSBs as a group ranks first in all the three efficiency measures showing that, as opposed to the general perception, these banks are doing better than their private counterparts. Private banks, however have shown marked improvement during the post-liberalization period in terms of all three types of efficiency measures. Contrary to the above stated studies, Sahoo et al. (2007) who examined the efficiency trends of the Indian commercial banks during the period 1997-1998 to 2004-2005 observed that foreign banks are seen outperforming over both the nationalized banks and private banks, and private and foreign banks as a group outperforming over the nationalized banks. Similarly, Sinha (2008) observed that the private sector commercial banks have higher mean technical efficiency score when compared to the public sector commercial banks and most of the commercial banks experienced decreasing-returns-to-scale (DRS) during the study period spanning from 2002-2003 to 2004-2005. To sum-up, most of the studies show the evidence of affirmative gesture of reform process on the efficiency of Indian banking sector. While most of the studies provided the evidence of PSBs performing better than its counterpart, private and foreign banks, few other studies have found the PSBs as underperforming compared to other group of banks. The results revealed that after an initial adjustment phase of deregulation period, the Indian banking sector experienced sustained productivity growth, driven mainly by technological progress. Bank’s ownership structure seems to have an impact on CENTRUM Catolica’s Working Paper No. 2012-09-0007 bank efficiency but doesn’t appear to have an influence of TFP change. Kumar et al. (2010) observed that TFP growth for Indian banking sector for the period of 1995-2006 was driven mainly by technological progress as compared to efficiency change. The current study contributes to the literature significantly in many ways. Most of the literature in Indian banking sector focused on measurement of efficiency (e.g., Das, 1997; Saha and Ravishankar, 2000; Sathye, 2003; Ram Mohan & Ray, 2003; Sahoo et al., 2007) and a few studies on benchmarking (e.g., Gupta et al., 2008; Kumar and Charles, 2011). A detailed systematic study on the measurement of productivity change in Indian banking sector is comparatively limited. Along with the issue of efficiency and returns-to-scale, we also use a broad dynamic indicator, TFP change index, as the measure of performance. It is an important tool for reviewing past growth patterns and for assessing the potential for future growth. The current paper A study of Performance of Banking and Non-Banking Financial Institutions since Reform Period studies the performance of Indian banking and non banking financial institutions since reform. This study tries to analyze the behavior of important macro-economic indicators in India and examines the distinct features of five different phases through which the economy has evolved during 2003-04 to 2012-13. In the first phase of 2003-08, called the pre-crisis business cycle expansionary phase, the Indian economy witnessed high economic growth and high credit growth with low fiscal deficit, although inflation ruled moderately above the RBI’s comfort zone. The Second phase of 2008-09, the so-called crisis phase or contractionary phase, witnessed low interest rates; financial instability; steep fall in industrial growth, trade, GDP, credit growth, capital formation; and inflation, but high fiscal deficit. The third phase of 2009-11, which was both a recovery and exit period, saw sharp recovery in domestic and global financial markets followed by dramatic economic recovery reflected in expansion and growth in exports, imports, private investment, private consumption, IIP and GDP close to trend levels and lower fiscal deficit.

However, this phase was very costly in terms of high and persistent inflation, which triggered a series of policy rate hikes by the Reserve Bank of India (RBI) and monetary contraction from 2010. The fourth phase, 2011-12, witnessed low economic growth, high fiscal deficit, high inflation and peaking of policy interest rates hikes in the first half of this period. The last phase, 2012-13, saw economic growth bottoming out, greater financial instability, declining fiscal deficit, and steeply falling WPI inflation. The paper empirically evaluates to analyze the behavior of important economic indicators i.e. banking and non-banking institutions in India during the ten-year period, 2003-13, which exhibited severe economic and financial volatility.

RESEARCH METHODOLOGY

The paper examines the impact of banking sector reforms in India in terms of economic development, performance of banks and efficiency in the post-reform era. This study hypothesized that banking
reforms in India have a significant impact on the economic growth. The study employs secondary data that are mainly available in published annual reports of several banks, RBI bulletin, various reports on Indian banks, publications of Indian Bank Association, Indian Institute of Bankers, National Institute of Bank Management, various journals on related fields, etc. With the improvement of information technology, it was to collect required data through the online. Also there is a number of web sites were referred into for the study. This study collects data after the recommendations of second NC report that is from the year 2003-04 to 2012-13. The current research attempts have been conducted on Indian banking sector consists of nationalized banks, state bank of India and its associates, old private sector banks, new private sector banks and foreign banks. The financial performance of the banks through borrowing and lending has been made for 10 years. The impact of banking sector reforms on the performance of commercial banks have been analyzed by checking financial data analysis and Capital to Risk-weighted Assets Ratio (CRAR). The efficiency of Indian banking industry in the post-reform era is tested through Bank Efficiency Analysis.

HYPOTHESIS OF THE STUDY

The reform measures brought a paradigm shift in the banking industry and enhanced the overall performance of the banks.

DATA COLLECTION

The entire present study is concentrated on secondary data. Under the present research paper mean, percentage statistical tool test has been used and secondary data are collected through official site of Reserve Bank of India, Government Publications, and all other official websites mentioned under reference.

PERIOD OF STUDY

Ten financial years pertaining from year 2003-04 to 2012-13 were used for the purpose of present research work. A study of ten years is taken to analyze the impact of reforms on the financial sectors.

STATISTICAL TOOL

Under the present research paper mean, percentage test has been used.

LIMITATIONS OF THE STUDY

This research will evolve the performance of financial institutions only in the wake of integral part of economic development stimulus; the reform includes liberalization of interest rates, continuous credit supply, savings and investment policies, industrial growth policies and inflationary pressures. Hence by taking these variables as reforms in banking sector the economic development measured.

ANALYSIS AND INTERPRETATION

The impact of reforms on the profitability of Indian banks has been examined on the basis of following parameters:

- Interest income to Total assets
- Share of Net Profit and Total Assets – Bank Group wise
- Presents efficiency scores from 2003-2013 under the two decision making unit.
- Important Economic Indicators for India from 2003-2013
- Impact of Banking Sector Reforms in Economic Development

This study examines the impact of banking reformed on the performance of economy in India. Banking reforms is an integral part of economic development stimulus; the reform includes liberalization of interest rates, continuous credit supply, savings and investment policies, industrial growth policies and inflationary pressures. Under the present research paper mean, percentage
statistical tool test has been used. Hence by taking these variables as reforms in banking sector the economic development measured.

**METHODOLOGY OF THE STUDY**

The data have been collected from the website of Reserve Bank of India. So the data are secondary in nature and the time period is taken from the year 2003-04 to 2012-13 for this analysis. Statistical table, column chart and line chart has been used for this analysis. The data collected from the website are presented below:

**Table 1. Share of Net Profit and Total Assets – Bank Group wise**

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Profit (%)</th>
<th>Assets (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>PSU Banks</td>
<td>Private Banks</td>
</tr>
<tr>
<td>2003</td>
<td>72.03</td>
<td>17.32</td>
</tr>
<tr>
<td>2004</td>
<td>74.85</td>
<td>15.84</td>
</tr>
<tr>
<td>2005</td>
<td>73.29</td>
<td>17.45</td>
</tr>
<tr>
<td>2006</td>
<td>67.58</td>
<td>20.07</td>
</tr>
<tr>
<td>2007</td>
<td>64.19</td>
<td>21.39</td>
</tr>
<tr>
<td>2008</td>
<td>62.26</td>
<td>21.89</td>
</tr>
<tr>
<td>2009</td>
<td>65.16</td>
<td>20.60</td>
</tr>
<tr>
<td>2010</td>
<td>68.63</td>
<td>22.92</td>
</tr>
<tr>
<td>2011</td>
<td>62.75</td>
<td>26.49</td>
</tr>
<tr>
<td>2012</td>
<td>60.68</td>
<td>27.77</td>
</tr>
<tr>
<td>2013</td>
<td>55.52</td>
<td>31.77</td>
</tr>
</tbody>
</table>

**Note:** Net Profit = Operating Profit – Provisions

**Graph 1. Bank Efficiency Analysis Bank Group**

Bank Efficiency Analysis Data envelopment framework employs principles of linear programming to inspect how a particular variable or decision making unit operates relative to other variable or decision making unit. While applying this study, efficiency can be measured through the ratio of output to input. If the variables are two or more, this can be addressed by constructing an efficiency frontier from weighted outputs and weighted inputs. Variables on the frontier are assigned an efficiency score of 1 while those inside receive scores ranges from 0 to 1. In this study, loans, non-interest income and deposits are taken as outputs on the other hand number of branches, equity capital and total operating
expenses are taken as inputs. Based on data envelopment framework the banks categorized by ownership; namely, nationalized banks, SBI group, old private, new private and foreign banks.

Table 2. Presents efficiency scores from 2003-2013 under the two decision making unit

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<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Nationalized Banks</td>
<td>0.64</td>
<td>0.63</td>
<td>0.61</td>
<td>0.69</td>
<td>0.72</td>
<td>0.72</td>
<td>0.78</td>
<td>0.81</td>
<td>0.82</td>
<td>0.85</td>
</tr>
<tr>
<td>SBI &amp; its Associates</td>
<td>0.66</td>
<td>0.71</td>
<td>0.75</td>
<td>0.79</td>
<td>0.80</td>
<td>0.83</td>
<td>0.82</td>
<td>0.83</td>
<td>0.84</td>
<td>0.89</td>
</tr>
<tr>
<td>Old Private Sector Banks</td>
<td>0.70</td>
<td>0.67</td>
<td>0.72</td>
<td>0.83</td>
<td>0.88</td>
<td>0.92</td>
<td>0.87</td>
<td>0.86</td>
<td>0.88</td>
<td>0.92</td>
</tr>
<tr>
<td>New Private Sector Banks</td>
<td>0.80</td>
<td>0.80</td>
<td>0.84</td>
<td>0.83</td>
<td>0.83</td>
<td>0.86</td>
<td>0.89</td>
<td>0.96</td>
<td>0.97</td>
<td>0.99</td>
</tr>
<tr>
<td>Foreign Banks</td>
<td>0.85</td>
<td>0.92</td>
<td>0.85</td>
<td>0.84</td>
<td>0.87</td>
<td>0.92</td>
<td>0.93</td>
<td>0.98</td>
<td>0.98</td>
<td>0.99</td>
</tr>
</tbody>
</table>

Source: Annual Reports of the Reserve Bank of India

It is concluded that the perceived low efficiency of nationalized banks and state bank group appears to result from their connotation of generating deposits in addition to other outputs and their operation areas and methods. Their profitability position also suffered in the process in the recent years both the banks have earned low profits. On the other hand, both private banks and foreign banks have showed high efficiency over a period of time than their counterpart of state owned and nationalized banks. The units under all groups of banks have enhanced their efficiency in the recent times when compared with 5 or 10 years back. Hence all the scheduled commercial banks together enhanced their efficiency constantly up to the sample period.
### Table 3. Important Economic Indicators for India from 2003-2013

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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>9.05</td>
<td>0.18</td>
<td>501</td>
<td>4.2</td>
<td>5.8</td>
<td>0.1</td>
<td>1</td>
<td>7</td>
<td>205</td>
<td>1.9</td>
</tr>
<tr>
<td>Industry</td>
<td>5.6</td>
<td>7.5</td>
<td>9.7</td>
<td>12.2</td>
<td>9.7</td>
<td>4.4</td>
<td>8.4</td>
<td>7.2</td>
<td>3.9</td>
<td>2.1</td>
</tr>
<tr>
<td>Services</td>
<td>8.6</td>
<td>9.1</td>
<td>10.9</td>
<td>10.1</td>
<td>10.3</td>
<td>10.0</td>
<td>10.5</td>
<td>9.3</td>
<td>9.4</td>
<td>7.1</td>
</tr>
<tr>
<td>Real GDP</td>
<td>8</td>
<td>7</td>
<td>9.5</td>
<td>9.6</td>
<td>9.3</td>
<td>6.7</td>
<td>8.4</td>
<td>8.4</td>
<td>6.2</td>
<td>5</td>
</tr>
<tr>
<td>IIP</td>
<td>7</td>
<td>11.7</td>
<td>8.6</td>
<td>12.9</td>
<td>15.5</td>
<td>2.5</td>
<td>5.3</td>
<td>8.2</td>
<td>2.9</td>
<td>1.1</td>
</tr>
<tr>
<td>WPI Inflation Rate</td>
<td>5.5</td>
<td>6.5</td>
<td>4.4</td>
<td>6.6</td>
<td>4.7</td>
<td>8.1</td>
<td>3.8</td>
<td>9.6</td>
<td>8.9</td>
<td>7.4</td>
</tr>
<tr>
<td>Bank Credit Growth</td>
<td>15.3</td>
<td>31</td>
<td>30.8</td>
<td>28.1</td>
<td>22.3</td>
<td>17.5</td>
<td>17</td>
<td>21.5</td>
<td>17</td>
<td>14</td>
</tr>
<tr>
<td>Bank’S G-sec Portfolio</td>
<td>43.5</td>
<td>42.3</td>
<td>33.2</td>
<td>29.7</td>
<td>30</td>
<td>30.1</td>
<td>30.7</td>
<td>28.7</td>
<td>29.4</td>
<td>29.7</td>
</tr>
<tr>
<td>Gross NPA Ratio</td>
<td>7.2</td>
<td>5.2</td>
<td>3.3</td>
<td>2.5</td>
<td>2.3</td>
<td>2.3</td>
<td>2.4</td>
<td>2.5</td>
<td>3.1</td>
<td>3.4</td>
</tr>
<tr>
<td>CRAR</td>
<td>12.9</td>
<td>12.8</td>
<td>12.3</td>
<td>12.4</td>
<td>13</td>
<td>13.2</td>
<td>13.6</td>
<td>14.2</td>
<td>14.2</td>
<td>14.2</td>
</tr>
<tr>
<td>Deposit Growth</td>
<td>17.5</td>
<td>13</td>
<td>18.1</td>
<td>23.8</td>
<td>22.4</td>
<td>20</td>
<td>17.2</td>
<td>16</td>
<td>13.5</td>
<td>14.2</td>
</tr>
<tr>
<td>M3 Growth</td>
<td>16.7</td>
<td>12</td>
<td>17</td>
<td>21.7</td>
<td>21.4</td>
<td>19.3</td>
<td>17</td>
<td>16.1</td>
<td>13.2</td>
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<tr>
<td>Fiscal Deficit</td>
<td>4.3</td>
<td>3.9</td>
<td>4</td>
<td>3.3</td>
<td>2.5</td>
<td>6</td>
<td>6.5</td>
<td>4.8</td>
<td>5.8</td>
<td>5.2</td>
</tr>
<tr>
<td>Revenue Deficit</td>
<td>3.5</td>
<td>2.4</td>
<td>2.5</td>
<td>1.9</td>
<td>1.1</td>
<td>4.5</td>
<td>5.2</td>
<td>3.2</td>
<td>4.4</td>
<td>3.9</td>
</tr>
<tr>
<td>Avg. G-sec Yield</td>
<td>5.7</td>
<td>6.1</td>
<td>7.3</td>
<td>7.9</td>
<td>8.1</td>
<td>7.7</td>
<td>7.2</td>
<td>7.9</td>
<td>8.5</td>
<td>8.4</td>
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<tr>
<td>Gross Domestic Saving</td>
<td>29</td>
<td>32.4</td>
<td>33.4</td>
<td>34.6</td>
<td>36.8</td>
<td>32</td>
<td>33.7</td>
<td>34</td>
<td>30.8</td>
<td>30.8</td>
</tr>
<tr>
<td>Gross Capital Formation</td>
<td>26.8</td>
<td>32.8</td>
<td>34.7</td>
<td>35.7</td>
<td>38.1</td>
<td>34.3</td>
<td>36.5</td>
<td>36.8</td>
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<td>35</td>
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<tr>
<td>Export Growth</td>
<td>23.4</td>
<td>22.6</td>
<td>29</td>
<td>13.6</td>
<td>-3.53</td>
<td>40.49</td>
<td>21.30</td>
<td>-1.76</td>
<td>5.14</td>
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<td>Import Growth</td>
<td>33.8</td>
<td>24.5</td>
<td>35.5</td>
<td>20.7</td>
<td>-5.1</td>
<td>28.2</td>
<td>32.3</td>
<td>0.44</td>
<td>-1.8</td>
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<tr>
<td>Current Account-Balance or Saving Investment Gap</td>
<td>2.3</td>
<td>-0.4</td>
<td>-1.2</td>
<td>-1.1</td>
<td>-1.3</td>
<td>-2.3</td>
<td>-2.8</td>
<td>-2.7</td>
<td>-4.2</td>
<td>4.8</td>
</tr>
<tr>
<td>USD/INR Exchange Rate (End-March)</td>
<td>43.45</td>
<td>43.76</td>
<td>44.61</td>
<td>43.60</td>
<td>39.99</td>
<td>50.95</td>
<td>45.14</td>
<td>44.65</td>
<td>51.16</td>
<td>54.39</td>
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</table>

**Source:** Central Statistical Office, Ministry of Commerce, and Industry & RBI Database on Indian Economy
FINDINGS

This research studies the behavior of important macro-economic indicators of India by segmenting the evolution of the Indian Economy in the decade from 2003 to 2013 into five phases and examined the distinct features of each of these periods. It looked into the behavior of economic growth, inflation monetary policy, interest rates, credit growth, deposit growth, money supply, fiscal indicators, balance of payments, exchanges rates, etc. In the first phase of 2003-05, called the pre-crisis business cycle expansionary phase, the Indian economy witnessed high economic growth, Predominantly higher interest rates, high foreign capital inflows, lower current account deficit, financial stability.

The second phase 2008-09, termed the crisis phase and initial recessionary phase, witnessed low interest rate, financial instability, low industrial growth, negative export and import growths, fall in GDP growth.

The third phase of 2009-11, which is called the post crisis recovery phase, saw sharp recovery in domestic and global financial markets followed by dramatic economic recovery in India and the rest of the world.

The fourth phase, 2011-12, witnessed low economic growth, high fiscal deficit, high inflation and peaking of policy interest rate hikes in the first half and signaling of logical reversal of monetary policy stance in the future in the second half of this period.

The fifth and the last phase, 2012-13, termed as the recessionary and monetary loosening stage, saw economic growth bottoming out, greater financial stability, declining fiscal deficit, and steeply falling WPI Inflation.

SUGGESTIONS

It was important in the current situation to examine the behavior of important economic indicators in India during a recent decade of severe economic and financial/banking volatility, which saw the economy falling from affluence to crisis and then struggling to recover. From a situation of high growth with reasonable price stability and financial stability during 2003-08, we got exposed to a short period of currency crisis from May-2013 to early September-2013. Now, we have been witnessing currency stability and revival of economic optimism. Understanding these features of these distinct stages in the evolution of Indian economy offers strong lessons and inputs for future macro-economic and Banking reform policy making. This also helps to better understand complex macro-economic relationships with regard to banking reforms in simple way.

Higher Inflation in the subsequent period from 2009-13 could be attributed to this monetary stimulus.
It is very important to restore and maintain price stability, both for the RBI and the government. It is important for policy makers to design innovative and unconventional tools to achieve price stability so as to break the vicious cycle of high inflation-low growth-low financial stability paradox. This would help us in the future to choose a better trinity of low inflation-high growth-high financial stability combination.

CONCLUSION

This paper evaluates the study of Performance of Banking and Non-Banking Financial Institutions since Reform Period. The banking sector reforms in India have had major impact on the overall efficiency and stability of the banking system. The present capital adequacy of Indian banks is comparable to those at international level. The banking reform measures have also effected in an enhancement in the profitability of banks. Performance of banks have been improved in terms of business per employee, profit per employee, capital and reserves and surplus, deposits, investments, advances, interest and other income. Cost of funds and return on advances adjusted to COF is also shows the satisfactory level and the same trend persists wages as percentage to total expenses, return on assets and net non-performing assets ratio. The trend for the ten years from 2003-04 to 2012-13 analyzed with due diligence, the results found in a satisfactory level. The level across the five bank groups has continuously been increasing over the sample period. Bank Efficiency Scores evidences that all the units under nationalized banks, SBI and its associates, old private sector banks, new private sector banks and foreign banks have improved their efficiency in the recent times. Banking reforms stimulates credit disbursement in a positive way to priority sectors; the entire bank groups are equally provides credit to the weaker sections. It has been observed that the banking sector reforms in India has presented positively in the field of enhancing the economic performance, bank performance in different parameters, capital to risk-weighted assets ratio, efficiency of business, and priority sector lending and so on. But at the same time the reform failed to establish banking business which is at par with the international banking system.

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