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BANKING SECTOR GROWTH IN INDIA: AN INTER-STATE ANALYSIS

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ABSTRACT

Indian banking sector is the backbone of Indian economy. Since the adoption of liberalization, Indian banking sector has an important role to achieve inclusive economic growth in India. Unless the growth is inclusive, the fruits of development can't reach to the poorer section of the society. Banking is the key driver for inclusive economic growth. In this paper growth rate of banking sector sector parameters such as deposit account per thousand population, number of branches per thousand km^2, and number of branches per lakh population, of two different periods i.e. for the period 2001 to 2010, and 2011 to 2020, are analysed. The paper concludes in almost all the States the banking sector growth is higher in the second period compared to the first period.

INTRODUCTION

In an address Dr. K.C. Chakravarty, Deputy Governor, Reserve Bank of India at the National Finance Conclave 2010, has mentioned that "banking is a key driver for inclusive growth". The Indian Banking Sector is the backbone of Indian economy, and Indian financial sector. India has one of the world's largest retail banking and financial services institutions with 12 Public Sector Banks, 22 private banks, 46 foreign banks, 56 regional rural banks, 1485 urban cooperative banks, and 96000+ rural cooperative banks, along with other credit institutions. The economic reforms in India helped to make India one of the fastest growing economies, but it remains an evident fact that the growth has not been uniform in its effect on people. Large numbers of Indians remain poor and suffer from deprivation. It is argued that economic reforms in India have not been inclusive enough. Unless, the benefits of growth reach a large section of the people, the economy cannot hope to sustain its growth. Indian banking sector in last three decades helps India to achieve inclusive economic growth.

REVIEW OF LITERATURE

Mohan (2009) tracks the story of Indian financial sector reforms in terms of several segments such as banking, debt markets, forex markets, and others like non-banking financial companies. This apart, as an offshoot of the financial sector reform, changes in the monetary policy are discussed. In this light, the paper looks at various performance indicators of different segments of the Indian financial sector. In general, it is found that there has been an improvement in efficiency, competitiveness, and health of all the segments of the Indian financial sector. The paper raises some issues for the future of this sector.

Goyal, Krishna ***et al*** (2012) discusses various challenges and opportunities faced by Indian banking sector such as rural market, transparency, customer expectations, management of risks, growth in banking sector, human factor, global banking, environmental concern, social, ethical issues, employees and customers retention. The paper concludes that urgent emphasis is required on Indian banking product and marketing strategies in order to get sustainable competitive edge over the intense competition from national and global banks.

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DATABASE AND METHODOLOGY

The present study uses secondary data which are obtained from Basic Statistical Return of RBI, and Census Report.

Semi-log Model:

The change of banking sector parameter over time may be obtained by using the semi log model. Let the exponential model be

$$Y = \alpha\beta^{t}\varepsilon_I \quad \text{.....(i)}$$

Here 'α' and 'β' are parameters of the model. 't' represents the time (in years) and is an independent variable. Similarly, 'Y' here representing the banking sector parameter such as deposit account per thousand population, credit account per thousand population, number of branches per thousand km^2 and number of branches per lakh population are the dependent variables.

Taking logarithms on both sides of the equation, we have the log-linear model.

$$\text{Log } Y = \log\alpha + t \log \beta + \log \varepsilon_i$$

$$\text{Or Log } Y = A + Bt + u \quad \text{.....(ii)}$$

$$\text{Here, } A = \log\alpha \text{ and } B = \log \beta$$

If 'u' is well behaved, then 'A' and 'B' can be estimated taking 't' (time) as the independent variable and log Y (logarithm of banking sector parameters) as the dependent variable. The banking sector parameters which are used in the present study are deposit account per thousand population, credit account per thousand population, no. of branches per thousand km^2, and no. of branches per one lakh population. Then, the growth rate can be found out from the estimated parameter

$$\text{That is, Growth rate} = [\text{Anti log } (\log \beta)-1] \times 100$$

$$\text{Or Growth rate} = [\text{Anti log } (B) -1] \times 100$$

The equation (ii) is called a semi log model because only the variable 'Y' or 't' is in the logarithmic form. For descriptive purposes this model is called the log-linear model, because the dependent variable is in the logarithmic form. The coefficient 'β' measures the constant proportional or relative change in 'Y' for a given absolute change in 't'. If 100 is multiplied the relative change in 'Y', the result will give the percentage change in 'Y' for an absolute change in't'

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GROWTH RATE OF DIFFERENT BANKING SECTOR PARAMETER FOR TWO PERIODS: STATE LEVEL

In this study growth rate of different banking sector parameters such as deposit account per thousand population, no. of branches per thousand km^2, and no. of branches per one lakh population is calculated.

TABLE-1

STATE WISE GROWTH RATE OF DEPOSIT ACCOUNT PER THOUSAND POPULATION AT TWO DIFFERENT TIME PERIODS

STATES	2001 to 2010	2010 to 2020
AP	7.53	8.78
ASSAM	4.29	13.008
BIHAR	2.72	15.74
GUJARAT	4.93	9.25
HARYANA	4.44	10.03
HP	3	7.86
J & k	3.51	9.09
KARNATAKA	5.37	9.43
KERALA	3.95	9.23
MP	4.67	12.97
MAHARASHTRA	3.23	9.12
ODISHA	6.36	11.67
PUNJAB	2.45	7.93
RAJASTHAN	4.6	12.5
TAMILNADU	5.3	8.97
UP	3.56	9.37
WB	2.32	11.67
ALL INDIA	4.16	10.12

Source: Growth rate calculated from the data for major Indian States, BSR,RBI

The above table depicts the growth rate of deposit account per thousand population at two different time periods i.e. from 2001 to 2010 and from 2011 to 2020. It is observed from the above table that the growth rate of deposit account per thousand population is higher in the second period as compared to first period for all the States.

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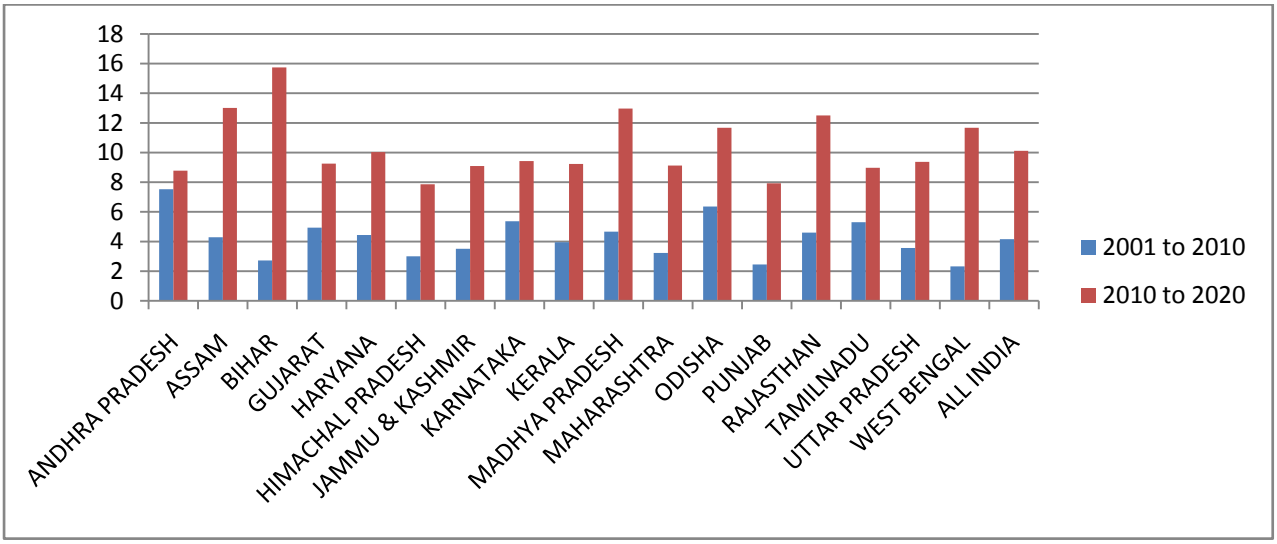
FIGURE: 1

STATE WISE GROWTH RATE OF DEPOSIT ACCOUNT PER THOUSAND POPULATION



It is observed from the above figure is that the growth rate of deposit account per thousand population for all the States is quite higher in the second period as compared to the first period. The figure depicts in the first period AP has highest growth rate having the number 7.53 while the State having lowest growth rate is WB. In the second period Bihar has highest growth rate and HP has lowest growth rate.

TABLE 2

STATE WISE GROWTH RATE OF NO. OF BRANCHES PER THOUSAND KM^2 AT TWO DIFFERENT TIME PERIODS

STATES	2001 to 2010	2010 to 2020
AP	3.3	5.84
ASSAM	1.75	8.89
BIHAR	1.44	6.92
GUJARAT	2.69	6.06
HARYANA	5.11	7.95
HP	2.88	5.35
J & K	1.22	5.92
KARNATAKA	2.65	6.17
KERALA	2.88	4.35
MP	2.48	5.96
MAHARASHTRA	2.72	5.52
ODISHA	2.98	6.3
PUNJAB	3.57	6.57
RAJASTHAN	2.26	6.85
TAMILNADU	3.03	6.43
UP	2.56	5.96
WB	1.95	6.48
ALL INDIA	2.66	6.15

Source: Growth rate calculated from the data for major Indian States, BSR,RBI

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The above table shows the growth rate of number of branches per thousand km^2 at two different time periods. In all the States the growth rate is higher in the second period compared to the first period. Haryana has highest growth rate in the first period and in the second period Assam has highest growth rate. J & K has lowest growth rate in the first period whereas Kerala has lowest growth rate in the second period.

Figure 2

STATE WISE GROWTH RATE OF NO. OF BRANCHES PER 1000 KM^2

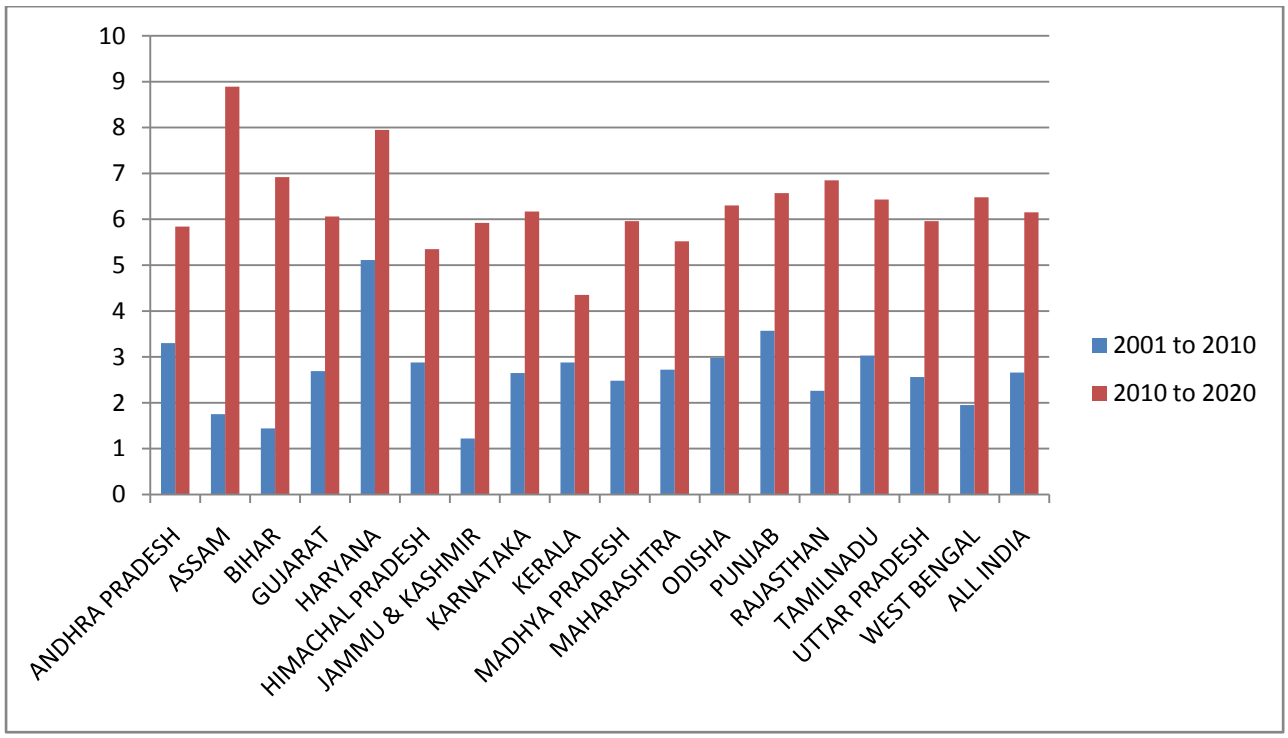

Figure 2 shows the growth rate of number of branches per thousand km^2 for two different periods. It is observed from the above figure that in the second period the growth rate of all States is much higher in comparison to the first period.

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TABLE-3

STATE WISE GROWTH RATE OF NO. OF BRANCHES PER LAKH POPULATION AT TWO DIFFERENT TIME PERIODS

STATES	2001 to 2010	2010 to 2020
AP	2.37	4.42
ASSAM	-0.54	8.52
BIHAR	0	4.93
GUJARAT	0.57	4.74
HARYANA	4.79	4.46
HP	1.33	4.19
J & K	0	3.82
KARNATAKA	1.35	5.06
KERALA	2.06	4.42
MP	-0.44	4.38
MAHARASHTRA	0.73	4.005
ODISHA	1.51	5.34
PUNJAB	1.56	5.44
RAJASTHAN	0	5.6
TAMILNADU	1.15	5.72
UP	0	5.11
WB	0	4.67
ALL INDIA	0.47	4.77

Source: Growth rate calculated from the data for major Indian States, BSR,RBI

The above table depicts the State-wise growth rate of number of branches per lakh population for two periods. All the States has shown a higher growth rate in the second period as compared to the first period. Assam, and MP has shown a negative growth rate in the first period. Although Assam has shown a negative growth rate in the first period, in the second period it has shown highest growth rate. Bihar, J & K, Rajasthan, UP, and WB has shown no growth in the first period. In the second period J & K has shown lowest growth rate.

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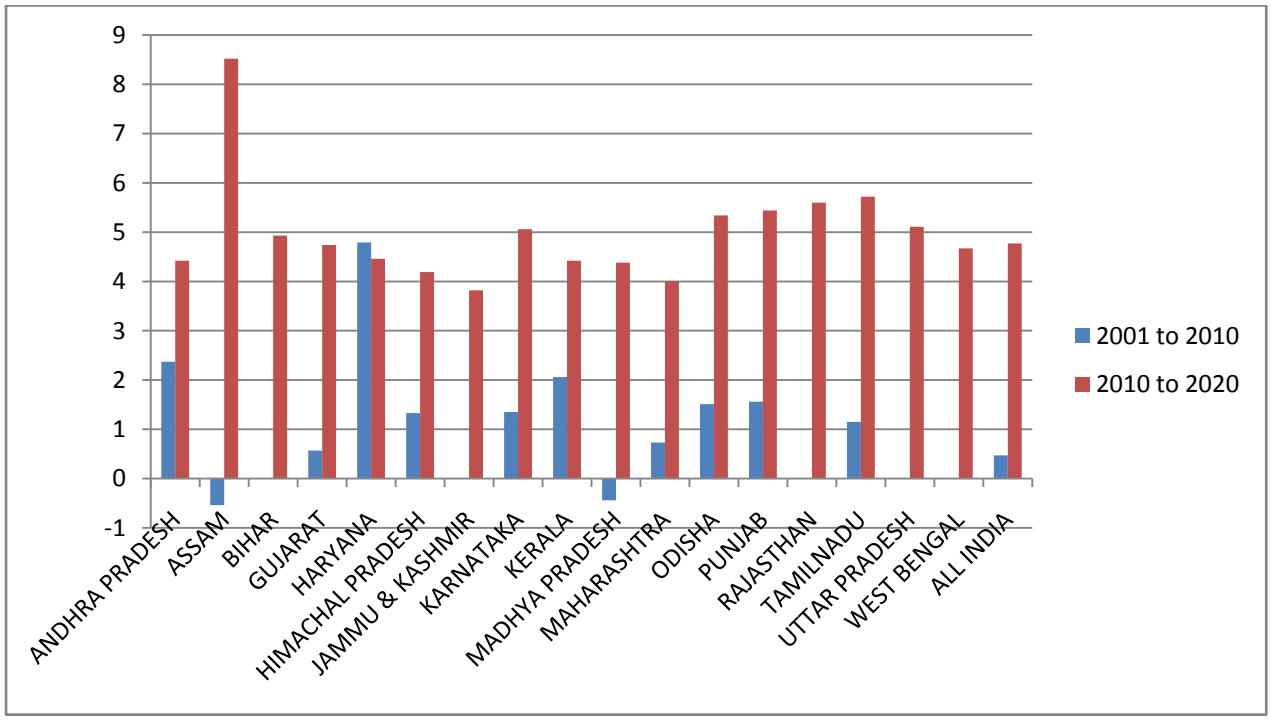
Figure 3

STATE WISE GROWTH RATE OF NO. OF BRANCHES PER LAKH POPULATION



The above figure shows State-wise growth rate of number of branches per one lakh population for two periods, such as 2001 to 2010, and 2011 to 2020. The figure depicts a higher growth rate in the second period as compared to first period for almost all the States. Haryana is an exception where growth rate in the first period is higher in compared to the second period.

CONCLUSION

Indian banking sector is the key driver to achieve inclusive economic growth in India. The paper concludes in almost all the States there is increase in growth of banking sector parameters for all the variables. The variables are deposit account per thousand population, number of branches per thousand km^2, and number of branches per lakh population. In the period 2011 to 2020 the growth rate of all banking sector parameters are higher in comparison to the period 2001 to 2010.

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