Page 768 - 773 **DOI:** *https://doij.org/10.10000/IJLMH.111983*

INTERNATIONAL JOURNAL OF LAW MANAGEMENT & HUMANITIES

[ISSN 2581-5369]

Volume 4 | Issue 5

2021

Nationalization of Banks

IPSITA LENKA[1]

ABSTRACT

Nationalization of banks is one of the most significant event in the history of India which took place in 1969 under the then Prime Minister Indira Gandhi. The Indian banking system has passed more than 5 decades. There were number of reasons responsible for such a historic event to take place. There were debates going on all over the country. Nevertheless, after more than 50 years, there are still some obvious changes needed in the system. Many do not have an access to formal money and banks are over burdened with bad loan credits. These along with many other reasons that are good enough for a course correction. There are plenty of advantages as well as disadvantages. This article aims to provide a good understanding of the topic including the history, reasons, pros and cons and the current scenario.

Keywords: *Nationalisation, banks, Narasimham committee, loan, RBI*

I. INTRODUCTION

With Indian banking framework has spent 51 years of Bank Nationalization effectively and in the event that it has contributed anything to the economy, it must acquire independence in food grains items and a gigantic raise in monetary incorporation. It has assisted India with arising as perhaps the best economy and its latent capacity being perceived all throughout the planet.

It very well may be said as a process whereby the National government or the state becomes engaged to assume control over the private business, association or even the resources into their possession.

The first bank to be nationalized was the Reserve Bank of India which occurred in January 1949. Further, 14 different banks were nationalized in July 1969.

The banks were:

- Allahabad Bank
- Bank of Baroda
- Bank of India

[1] Author is a student at KIIT School of Law, KIIT University, India.

- Bank of Maharashtra
- Central Bank of India
- Canara Bank
- Dena Bank
- Indian Bank
- Indian Overseas Bank
- Punjab National Bank
- Syndicate Bank
- Union Bank
- United Bank of India
- UCO Bank

II. REASON OF NATIONALIZATION

The need to nationalize banks was felt because of many reasons as they were a tremendous assistance to the large organizations and gigantic ventures working in the country. Then, at that point likewise, the farming area which is the main supporter of economy, then, at that point the fares area, the limited scale enterprises additionally required monetary direction to pace up. This load of variables were considered prior to nationalizing. Provincial country banks likewise happened principally zeroing in on the improvement of the rustic regions. Their point was to serve the huge masses.

Additionally, establishments like NABARD, SIDBI, EXIM, and so forth were set up so as to satisfy the prerequisites of unfamiliar exchanges, lodging and rural necessities of the country.

The stated reason for the nationalization was to give the government more control of credit delivery. With the second round of nationalizations, the Government of India controlled around 91% of the banking business of India[2]

Post-1967, during Mrs. Indira Gandhi's residency, the banks were not offering credit to agribusiness and insufficient credit to the businesses.

Because of this, agribusiness and businesses were confronting an emergency during this time.

[2] En.wikipedia.org. 2021. *Banking in India - Wikipedia*. [online] Available at: <https://en.wikipedia.org/wiki/Banking_in_India> [Accessed 25 September 2021].

They were more centered around expanding credit for exchange.

The emergency in the banking area had brought about wide-going results prompting trouble among individuals.

This brought about the nationalization of banks.

How did the nationalization occur?

The then, at that point Prime Minister of India Mrs Indira Gandhi, during the yearly gathering of the All India Congress Meeting, had made her goals clear on the nationalization of banks by introducing a paper regarding that matter named "Stray considerations on Bank Nationalization".

After several discussions, the government provided the Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1969, which enabled it to nationalize banks inside India.

Inside about fourteen days of the mandate, the Parliament passed the Banking Companies (Acquisition and Transfer of Undertakings) Bill, and it had gotten the official endorsement on 9 August 1969.

What were the objectives?

- Eliminate the strength of the couple of in the banking area.
- Giving adequate credit to farming, little ventures, and fares.
- Professionalizing the administration of the banking area.
- Empowering new business visionaries.
- Foster the regressive regions inside India

Advantages

- The nationalization of banks was one of the critical occasions in autonomous India.
- This move had brought about a significant expansion in bank stores and monetary investment funds.
- The rising monetary deficiency during that time had made banks a hostage wellspring of financing.
- The drawn out effect of this move is the further developed presentation of the limited scale businesses and farming.
- It has additionally prompted expanded infiltration of banks into country India.

- Over the long haul, the constant political mediations had made adverse consequences on the productivity of the banks.
- Be that as it may, the public authority was fruitful in to some degree meeting its objective in the formative plan through the banking framework.

Disadvantages

- NPA: The NPA emergency since 2012 might have, to some extent halfway, caused because of the credit bubble that became under the political help because of the nationalization of banks.
- Muddled loan costs: The nationalization of banks had prompted an inexorably intricate loan cost structures inside the banking area. There were various paces of interest for various kinds of advances. At last, the Indian national bank needed to oversee many paces of revenue. Because of these muddled strategies and interests, the advances were not given to the people who are need of it. This, thus, invalidated the point of the nationalization of banks. This marvelous construction was just brought down after the 1991 change, with the national bank dealing with the significant repo rate, while the business loaning rates were chosen by the actual banks.
- Diminished rivalry inside the banking area: Banking is an exceptionally cutthroat area. Nonetheless, the nationalization of banks had diminished the opposition between the public banks and private banks.
- Shortcoming: Due to the nationalization of banks, there was an administrative mentality in the banking area. There was no obligation, responsibility or impetus for it to advance inside the public area banks. Outlandish postponements were the new standard inside these banks.
- Long haul hazards: Though liberal credit is important for the improvement of provincial India, it had additionally made unsafe impacts on the soundness of the banking area. The nationalized banks are currently dealing with the issues of past due advances and the foundation of monetarily unviable branches. Stretching out advances to horticulture and limited scope businesses has demonstrated to be a dangerous undertaking as it had given lesser returns. These advances were a danger to the monetary reasonability of such foundations.

III. Current scenario

Though the government had prevailed in to some degree meeting its objective of carrying out its formative plan through the banking area, numerous in India didn't receive the rewards expected by the nationalization of banks.

Many actually don't approach formal money. Banks are troubled with most of the awful credits and lacking capital.

The state approaches moving towards progression and privatization over the most recent thirty years and the passage of new private banks, the strength of the public area banks (PSBs) has been diminished.

Government responsibility for PSBs has been weakened over the long haul, with 4 out of 19 presently working PSBs having government value under 75% with that of biggest PSB, the SBI, at underneath 58%.

The banks' extension in rustic India has additionally endured, with the portion of all out country branches tumbling from 50% in 2000 to 37% in 2010 and a further 36% in 2018.

Since 2011-12 however, the store and credit development pace of the PSBs has declined with private area banks and NBFCs acquiring portion of the overall industry at the expense of the PSBs.

This is because of the way that, with the decay of the corporate benefit after 2011-12, credit defaults turned into the standard with the private corporates offloading their misfortunes onto the PSBs.

The former governor of RBI termed it as “riskless capitalism”.

The NPA decrease in the exceptionally late period has occurred because of the Rs.4 trillion or more obligation discounts affected between 2014-15 and 2017-18, which have caused record new misfortunes on the PSBs, notwithstanding posting solid functional benefits.

The bank cheats have additionally shot up with numerous inheritance NPAs currently being delegated fakes.

In this unique situation, the progressive dosages of capital imbuement by the public authority have not had the option to work on the capital proportions of the PSBs altogether.

The Insolvency and Bankruptcy Code measure has so far not been compelling in yielding the opportune NPA recuperation.

The recovery rate at present is 43%, which infers a 57% misfortune for the banks.

Except if this improves fundamentally, and extreme correctional activity against the bank fakes and wilful defaulters are started straightforwardly, PSB misfortune will keep on mounting.

The consolidation of PSBs and the disinvestments have shown to be wasteful and may additionally debilitate the PSBs.

Consequently the PSBs require a significant change in course.

IV. CONCLUSION

There are some obvious unfortunate results that ought to be investigated for the future development of India's financial framework.

Consequently, it very well might be reasonable now to investigate the proposals of the Narasimham Committee on the financial area changes. Cutting down the government value to 33% will give the banks the genuinely necessary independence to work on their presentation and development.

It will likewise work on banks' capital development and intensity on the lookout and would end up being more commonsense if the foundational shortcomings are remedied as opposed to zeroing in on just the monetary consideration.

Indeed, even a consolidation might end up being counterproductive in the present circumstance if the current deficiencies are not considered.

The banking system has proven to be of significant asset to India’s economic growth and development. In recent times, there is an increased call for privatisation of the banks to solve the current problems faced by the banking sector. The privatisation of banks is not a panacea. Systematic comprehensive governmental reforms must be initiated to resolve the NPA crisis and creation of free-market to revive the investments into the economy. This, if done correctly, would ensure the economic prosperity of the country.[3]

*****

[3] Blog.finology.in. 2021. *Nationalization of Banks: History of Indian Banks*. [online] Available at: <https://blog.finology.in/recent-updates/nationalization-of-banks> [Accessed 25 September 2021].

