

Abstract:

This seminar presents an assessment of the productivity/efficiency of banking sector in India in terms of accounting as well as economic measure. Accounting measure i.e., financial ratios, shows that there has been an across the board improvement in the performance of banking industry since early 1990s. The performance of various bank groups in respect of most of the ratios has tended to converge. However, between 1991-92 and 2006-07, performance in terms of different ratios varied across the bank groups. There are areas such as business per employee or per branch, other income to total income where public sector banks still need to catch up with their peers in the private sector, while in terms of ratios such as non-labour cost per unit of assets, return on equity and intermediation cost, public sector banks are ahead of private sector and foreign banks.

The economic measure of efficiency and productivity computed through Data Envelopment Analysis (DEA) subsumes all inputs and outputs and provides bank-wise efficiency scores. DEA scores substantiate the results arrived at through the accounting measures. That is, efficiency has improved across all bank groups and most of these efficiency gains have emanated after few years of reforms, i.e., from 1997-98 onwards. During 2006-07, the new private sector banks as a group are the most efficient, followed by the State Bank, nationalised banks, foreign banks and old private sector bank groups. In the foreign bank group, there are several banks with very low efficiency score, which pulled down the overall efficiency score of foreign banks as a group. Otherwise, 9 of the 17 most efficient banks were in foreign bank category. The analysis at bank level revealed that of the 81 banks operating in the country at end-March 2007, 28 least efficient banks were either private banks or foreign banks.

Speaker's Profile:

Mr. Rajan Goyal, M.Phil (Economics), Punjab University, Chandigarh is working as an economist at the Reserve Bank of India since 1990. He has worked in the Public Debt, Capital Market and Industrial Production sections of the Research Department and Financial Market Desk of the Department and handled implementation of Monetary Policy of the Bank. He has also been associated with various working groups and committees set up by the Bank for handling policy assignments. Currently, he is the Director and is heading the Department of Economic Analysis and Policy at New Delhi.

Mr. Goyal's publications include a number of articles in journals in India and abroad relating to areas such as public finance, financial markets and monetary economics. He has recently been associated with a detailed study of Efficiency, Productivity and Soundness of the banking sector in India which has appeared as a chapter in the Report on Currency and Finance – 2006-08 (released by Reserve Bank in September 2008).