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Nationalization of Banks of India

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The year 1949 marked the beginning of a new era in the economic history of India. The history of bank nationalization, therefore starts with the nationalization of Reserve Bank of India from 1st January 1949.

In the second phase of bank nationalization the Imperial Bank of India was nationalized and the State Bank of India was set up on 1st July 1955. In the third phase, 7 State associated banks were nationalized in 1959 and attached with the State Bank of India as its subsidiaries. In 1969 marked the Fourth phase when 14 major banks were nationalized. The final phase in the history of bank nationalization in India was the nationalization of six other commercial banks on 15 April 1980.

Objectives of Nationalization :-

1. Mobilisation of savings and their use for productive purposes.
2. Meeting all genuine credit needs of private sector industries.
3. Ensuring that banks operate for a larger social purpose and the subject to close public regulation and scrutiny.
4. Meeting the needs in a large measure of priority sectors specially small industries, selfemployed groups and farmers.
5. Fostering the growth of new entrepreneurs and neglected and backward areas.
6. Checking the misuse of bank credit.
7. Developing professional management and promoting the use of modern technology and practices in banking operations.
8. Making provision of training and providing reasonable terms of service to the bank staff.
9. Expanding branch network all over the country.
10. Reducing regional and sectoral imbalances.

Achievements of Nationalization :-

In India there has been a tremendous progress since nationalization of banks. The nationalized banks have also introduced some non-traditional programmes. A number of facilities are being provided to the customers. Some of these banks have also opened offices in foreign countries. The banks after nationalization have started playing a developmental role in the interest of the country. After nationalization, banks have started investing in government and other approved securities with the result that there is a flow of fund for implementing the economic plans of the country.

After nationalization, these banks have started care of priority sectors. After nationalization these banks have increased the flow of their credit to the weaker sections of the society. After nationalization, the commercial banks have started extending finance for promoting exports at concessional rates and terms.

Failures of Nationalization :-

Despite above achievement the public sector banks have failed in more than one respect. After nationalization regional disparities increased in different states. More importantly the rural branches of these banks have not produced the desired results. This has led to inefficient management resulting in low profitability, lack of motivation of staff and absence of team spirit.

The progress of the scheme has been very slow. Due to rise in costs, increase in social obligations declining profitability of banks.

Conclusions :-

Accordingly the Banking Companies Act, 1994 was passed, do enable these banks to raise money from the capital market and meet shortfalls in their capital requirements. Now the government will hold only 51% of the paid-up share capital and 49% would be held by individuals and companies consequently this amounts to partial privatization of public sector banks.

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