

PROFITABILITY AND PRODUCTIVITY OF PUBLIC & PRIVATE SECTOR BANKS IN INDIA : A STUDY

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Abstract

The new millennium has brought along challenges and opportunities in the various fields of economic activities including banking. The entry of various private sector and foreign banks exposed the inefficiencies in the public sector banks. This paper compares various categories of banks on their productivity and profitability. While there is no remarkable difference in the spread ratio, there is a significant difference in Burden ratio among the public sector and private sector & Foreign banks. The key to profitability for the public sector banks is increased productivity. Those public sector banks that have been able to increase the productivity found themselves at par with the private sector banks. The main reason of more productivity of private sector banks is the better utilization of technology than the public sector banks. The purpose of this paper is to discuss the different determinants of productivity and profitability of banks functioning in India.

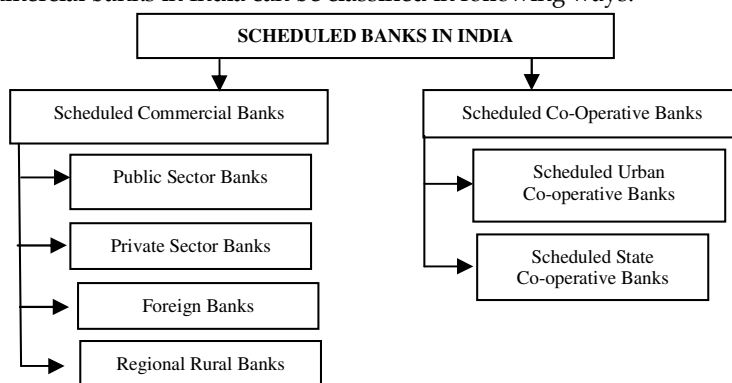
Keywords: Profitability, Productivity, Performance, Economic Activities, Spread Ratio, Burden Ratio.

Introduction

The banking sector is considered as one of the leading contributors to the growth of an economy. It is termed as the primary engine of growth an economy. This sector has experienced a complete transformation over the years across the globe. The banking institutions throughout the world are facing a fast paced dynamic environment where efficiency and competitiveness hold the key to survival. Globalization, deregulation, financial innovation and automation have been the major forces leaving their impact on performance of the banking sector. Due to its major contribution towards the overall growth of a country it becomes important to gauge the performance of this sector in terms of productivity and profitability on continuous basis. India is an imperative market as far as banking is concerned. It is also grabbing the attention, not only due to its utter size, but also because of extensive changes the sector has witnessed in the last two decades. Further, the terms productivity and performance are commonly used within academic and commercial circles, they are, however, rarely and adequately defined or explained.

Classification of Commercial Banks in India

Commercial banks in India can be classified in following ways:



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