AN IMPACT DUE TO MERGER IN BANKING SECTOR IN VIEW OF $5 TRILLION ECONOMY IN INDIA – A GENERAL STUDY

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ABSTRACT:

The new Indian government for the past more than half decade has been doing its best for the betterment of India bringing in various unexpected changes in various sectors and industries. Especially the impact due to demonetization and GST implementation has been enormous. One among those sectors is banking sector. It was a huge hit on the banking sector during the time of demonetization in the year 2016. Banks had to overcome many obstacles due to this change which had an impact on the economic growth. Likewise, there was a major step taken by the Finance Minister Nirmala Sitharaman on August 2019 to merge around 10 public sector banks in India for a strong National presence and global reach. Banking sector contributes to almost nearly a quarter of the economic development. This emerging banking issue is addressed here to know the impacts on the vision of $5 trillion economy in India.

KEY WORDS:

Bank, $5 Trillion economy, India, impact, economic growth

INTRODUCTION:

The central government stepped into the banking business in 1955 buying 60% Stake of Imperial Bank of India through Reserve Bank of India(RBI) and named it State Bank of India (SBI). This first intervening of government into the banking sector has definitely pulled this sector to become a major part in the economic changes from then. This move made way for the changes in the banking sector turning 7 other state banks to become the subsidiary of SBI in 1959 under the Nehru government. The next major move by the government in the banking sector was during July 1969 -Which wasnationalizing additional 14 major banks. This increased the presence of Nationalized Banks with 84% of total branches coming under government control.

The economy during the 1970's was given lesser importance. This was merely due to the concentration of government in the consumer services and not on the economic development. With this move by the government in 1969 the Indian country had 21 PSB's overall having 90% branches under their control by 1991. This of course resulted in profit except for one bank which is not a major loss. The consolidation of SBI associated Banks started first in August 2008 and 2010 which did not stop till 2017 as SBI acquired six other state-owned banks & Bank of Baroda acquired two other banks. The government took further steps to merge few more banks as announced in 2019 reducing the number of public sector banks to 12.

$5 TRILLION ECONOMY:

On June 2019 the Indian government announced that they will achieve $5 trillion economy by 2024 which is 2 and a half times more growth than the present situation. To achieve this there needs to be a vast realignment in the management of various sectors and a likeminded focus, as it is a huge milestone to be crossed.

India being a developing country has to create more awareness on this $5 trillion economic development vision, to have the heads up not only by the government but also by the vast second largest population among the world. For this aspect not only the companies, banks and industries alone should be transparent but also the government needs to be transparent.

LITERATURE OF REVIEW:

- The purpose of this paper is to investigate the cross-impact of leverage and performance for firms operating in the developed and frontier bank-based economies (Sibanjan Mishra and Ranjan Dasgupta, 2019)
- The equation of unified knowledge says that S = f (A,P) which means that the practical solution to a given problem is a function of the existing, empirical, actual realities and the future, potential, best possible conditions of general stable equilibrium which both pure and practical reason, exhaustive in the Kantian sense, show as being within the realm of potential realities beyond any doubt. The first classical revolution in economic thinking, included in factor "P" of the equation, conceived the economic and financial problems in terms of a model of ideal conditions of stable equilibrium but neglected the full consideration of the existing, actual conditions. That is the main reason why, in the end, it failed. (Gill Seyfang, 2006)
- This article shows that this form of specialized banking may help in promoting growth in these developing economies. During the transition phase of a developing growth economy to a full

fledged market based economy many structural changes are required in its financial institutions, especially since the role of a financial intermediary in supplying funds to growing new industries is crucial. At the same time, the potential for destabilization resulting from improper resource allocation, due to either faulty risk assessment or the design of the contract, could be significant. Also, this article examines the implementation of an Islamic banking system and how Islamic banks can provide liquidity and aid in the money creation process through offering transactions accounts with compensation for inflation to risk-avoiding depositors. (Farhad F.Ghannadian and Gautam Goswami 2004)

- Business Management, Global Marketing Strategy, Strategic Management, International Business, International Management are of important tools to evaluate business in developing countries.(Frederick Robert Buchanan and Syed Zamberi Ahmad, 2014)
- Outlines the characteristics of Japanese keiretsu (vertically integrated firms interlinked through industrial groups) and reviews the history of financial keiretsu and associated research. Compares the performance of Japanese and US banks 1989-2000; and examines Japanese bank profit inefficiency by developing a mathematical model and applying it to 1992-1999 bank data. Shows a “zig-zag” pattern of profitability change over the period and concludes that the Japanese banking industry is “barely holding its own in profitability”. Points out the particular importance of this to the real economy in Japan and briefly considers the implications for government policy. (William L. Weber and Michael Devaney 2002)
- The aim of this study is to provide insights into the factors affecting the banks’ use of financial information in financial statements of small- and medium-sized enterprise (SME) which has implications for the governance of these important organizations. Specifically, this study assesses the views of bank lending officers on their demand for and use of financial information relating to SMEs. (Son Dang-Duc, Neil Marriott and Pru Marriott 2008)

GAP IN LITERATURE:

After addressing the international and nationwide study regarding the economy and the banks, the researcher found few unaddressed issues regarding the improvement of economy within a few years to a vast extend. Meanwhile the merger of almost 10 banks is also a new situation while having a $5 trillion economy to be reached by 2024.

OBJECTIVE OF THE STUDY:

* A possible impact on economic growth due to merger of banks

* Make the stakeholders aware about the impact

HYPOTHESIS:

* There is a significant effect of merger of banks on the economy

* Letting public aware of this will bring a significant reduction in the downward sloping economic growth of India.

METHODOLOGY:

The data collected here are secondary. The information was collected from the latest magazines, Newspapers like economic times, websites and journals.

MERGER OF BANKS:

MERGER DURING PAST 3 YEARS

Anchor Bank	Amalgamating Banks	Business Size	PSB rank by size
SBI	State of Bikaner & Jaipur, Hyderabad, Mysore, Travancore, Patiala and Bharathiya Mahila Bank	Rs. 52.05 lakh crore	1st largest
Bank of Baroda	Dena Bank and Vijaya Bank	Rs. 16.13 lakh crore	3rd largest

NEXTGEN PUBLIC SECTOR BANKS - 2019

Anchor Bank	Amalgamating Banks	Business Size	PSB rank by size
Punjab National Bank	Oriental Bank of Commerce, United Bank of India	Rs.17.94 lakh crore	2nd largest
Canara Bank	Syndicate Bank	Rs. 15.20 lakh crore	4th largest
Union Bank of India	Andhra Bank, Corporation Bank	Rs. 14.59 lakh crore	5th largest
Indian Bank	Allahabad Bank	Rs. 8.08 lakh crore	7th largest

EFFECT ON ANNOUNCEMENT OVER BANK MERGER:

The Bank merger announcement was welcomed by few in the nation. Due to merger the top banks run their business without any discrepancies even after going through a huge NPA issues earlier. Further the banks will have a higher asset strength and increase the capital base. Also the problem of NPA and other problems like capital requirement which are faced by banks can be resolved to some extent. Therefore, the banks can be seen even more healthier than before with credibility standing alongside each Bank. On the other side the bank union also opposing the merger saying the move is bereft of logic and lack any rationale should be noted.

WHEN THE BANKS ARE MERGED:

The merger of banks making the number of public sector banks from 19 to 12 will ring an alarm on the loan growth rate table. Already the banking sectors credits stood at 11.6% at the end of august 2019, compared to 14.2% a year ago. It must be noted that the credit growth rate will not be more than 12% to 15% in the near future as mentioned by a chief of SBI. As seen earlier during the merger by government with SBI and Bank of Baroda back in 2017 there was a huge slowdown of regular bank process due to adhoc works related to merger, likewise the current merger will also face such a situation.

As mentioned, it is noted that no bank employees will lose jobs but they may face enormous work pressure due to the merger. Hiring extra employees is also not possible due to economic pressure. This in turn might or will push credit growth monitoring and lending take the back seat for a while. If the credit growth monitoring and lending are not much concentrated, the RBI might implement rate cuts and avoid surplus liquidity when the problem reaches the real downfall in the economy.

RELATED MEASURES TO REACH THE $5 TRILLION ECONOMY:

- A vast improvement in credit growth is needed now and for next 4 years more than ever to reach the 5 trillion economy.
- More employees are to be appointed in the banking sector to avoid the heavy downslide of this industry.
- Letting the public aware on the issues for them to take precautionary measures which may give a helping hand to the government during tough times
- Pump in more money to banks to withstand at least their current position in the economy.
- Pool in great economists to advise on the situation
- The new banks could form local head offices in every region to leverage the strengths of each merger candidate.

SCOPE OF THE STUDY:

The study being the best of significance with the bank mergers and the betterment of economy to $5 Trillion, it has an utmost scope to know what must be done in the near future. Since the merger has been planned to be done by April 2020, the banks are left with few more months from the time the paper is published. The government could make an effective use to consolidate the problems due to merger. The study gives an insight of how to manage the bank merger situation and lead the country to achieve the $5 trillion economy.

SUGGESTION &CONCLUSION:

The situation at this point seems really tough as the current economic status of India is under severe downfall. Even though the banks being merged at this point of time might be an utmost risk for the economic growth, it is very clear that the current Indian government is very keen to risk it only for the betterment of India maybe within a decade. But the whole country must be really aware about all these factors rather than spending their effective time elsewhere. It would really be a benefactor if the government let this situation be known to the public for them to avoid crashing down until the economy stands still at a reasonable growth rate.

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