CHAPTER – II

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RESEARCH METHODOLOGY

1. REVIEW OF LITERATURE AVAILABLE ON THE TOPIC.
2. RESEARCH METHODOLOGY ADOPTED FOR THIS STUDY.
3. HYPOTHESIS
1. REVIEW OF LITERATURE

This study is based on secondary data and the primary data. In primary data the interview with the bank executives, Managers and the other persona who are related to Banking Industry.

The secondary data is used for this study which is collected through the Banking Portals, Bank Managers, Bank Executives, and Magazines (Article of Financial Minister), the statement of other country ministers which they give in G-9 and G-20 Business Meetings for Indian Banking System.

The literature which used for this study are detailed in this section. The performance of banks is very wide. In today time the banks are not only for deposited the money as well as they providing the all facilities like Insurance Services, Internet Banking Services, Loan Services, Pension Plans, Investment Plan, Tax Saving Plans and many more. And that think have increased the performance area of banks. Financial Experts, Economist, Financial Ministers and Authors are given regarding the topic as under:

Article of Finance Minister Pranab Mukherjee⁴

*The effort would be to reduce fiscal deficit to 4% and revenue deficit by 1.5% by 2012*

Finance Minister Pranab Mukherjee on Monday expressed hope that the economy would grow by over seven per cent in the next fiscal and India would revert to the path of fiscal consolidation as the high fiscal deficit cannot be sustained in the long run.” In the next year, we

will have growth projection of more than seven per cent," Mukherjee told reporters after G-20 Finance Ministers meeting in Scotland. With regard to the current fiscal, he said, the country was likely to register an economic expansion of 6.5 per cent, less than 6.7 per cent recorded in the previous fiscal.

Replying questions on increasing fiscal deficit, Mukherjee said he had already told Parliament that budget deficit of 6.8 per cent of GDP proposed for 2009-10 was not sustainable in the long run. The effort, he said, would be to reduce fiscal deficit to four per cent and revenue deficit by 1.5 per cent by 2012. Mukherjee remarks assume importance as Prime Minister Manmohan Singh also said stimulus package, which widened fiscal deficit, would be phased out in 2010-11.

On the impact of monsoon, the Finance Minister said the country had enough buffer stock of wheat and rice and the country is also importing essential items to supplement domestic supply. "On the whole, the food scenario appears to be bright," he said. Referring to the purchase of 200 tonnes of gold by RBI from IMF, Mukherjee said India has a forex reserve of $285 billion and "we have spent $6.5 billion to buy the precious metal".

"In 1991, we pledged our gold, now the situation is reversed," he said, pointing out that the purchase of gold will not have any impact on the rupee value.

The Indian economy is expected to grow 6.9 per cent in FY10, despite a possible contraction in farm output, a think-tank said on Wednesday, revising downwards its earlier forecast in the backdrop of a bad monsoon. While easy monetary and fiscal policy stances were needed to sustain growth momentum, inflationary pressures are now a
concern, the National Council for Applied Economic Research (NCAER) said in a report.

"Some of the recovery in economic growth observed in the current financial year can be attributed to the fiscal and monetary policy measures, which provided stability to demand conditions and stability to the financial system," it said. "In this sense, continuation of the supportive policies is necessary until a broad based growth momentum is established."

NCAER said economic growth could be 6.9 percent in FY10, lower than its July forecast of 7.1 percent. Industrial output may rise by 6.9 per cent in FY10, while services sector could grow 9.5 percent, both faster than earlier predicted.

Farm output is expected to contract 1.5 per cent in FY10, instead of an earlier forecast of 1 per cent growth, as the worst dry spell in nearly four decades and floods hurt crops. Last week, the Reserve Bank forecast the economy to grow by 6 per cent, while a prime minister's panel pegged it at 6.5 per cent for FY10. The economy grew 6.7 per cent in 2008-09, slower than 9 per cent or more in the previous three years. NCAER said fiscal deficit could be 6.3 per cent of gross domestic product in FY10, lower than government's estimate of 6.8 per cent.

**RBI to Issue Rules on Provisioning Soon**

The Reserve Bank will soon issue guidelines on meeting provisioning rules and some banks have sought time to meet them, its

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deputy governor Shyamala Gopinath said. The Reserve Bank of India will soon issue guidelines on meeting provisioning rules and some banks have sought time to meet them, its deputy governor Shyamala Gopinath said on Friday. "Banks have made certain submissions to us in the policy, in terms of little more time. We are going to come up with guidelines soon," Gopinath said. The Reserve Bank in its policy review on Tuesday proposed to advise banks to augment their provisioning cushions consisting of specific provisions against non-performing assets as well as floating provisions, and ensure that their total provisioning coverage ratio, including floating provisions, is not less than 70 percent. "Banks should achieve this norm not later than end-September 2010," the policy document said.

She also said RBI was working out details regarding margin payments and risk management with regards to the introduction of trade in cross-currencies in the currency futures market. "The issue is really working out the risk management issues and what should be the margin," she said.

**Finance Minister’s P. Chidambaram**

The Finance Minister P. Chidambaram formulation of budget estimates for the financial year 2005-06 presented in Parliament on February 28 has been challenging for Finance Minister P. Chidambaram. He had to keep in mind the aspirations of the Left parties when implementing the National Common Minimum Programme (NCMP) of the UPA Government and also ensure that the restructuring of taxes to

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6 Business World, March, 2004
bring about simplification and transparency did not vitiate the investment climate.

Analysts say the question of implementing the recommendations of the Twelfth Finance Commission during 2005-06 also imposed an additional burden of Rs. 26,000 crores. The reconciling of conflicting objectives had to be attempted with caution. However there was optimism in industry and stock market circles that Chidambaram would live up to his reputation as a “Minister for Investment”. This onerous task has been successfully accomplished and has been aided by the fact that the fundamentals of the Indian economy are sound and there is confidence that with a step-up in investment in thrust areas, the Gross Domestic Product (GDP) can be stepped up to 8-10 per cent annually.

The performance of the economy in 2004-05 should be considered heartening as the major industries continue to raise their output and the sales and service sector also is making a valuable contribution. There was, of course, a drop in agricultural output because of a fitful monsoon. But it was still possible for this sector to make a positive contribution. It is, therefore, estimated that the growth in the GDP will be 6.9 per cent in 2004-05 as against the earlier estimate of 6.5 per cent. The commendable growth rate of 8.5 per cent in 2003-04 was due to the exemplary performance of the farm sector.

**Indian Economy is doing very well–Pranab Mukherjee (Finance Minister)**

Union Finance Minister Pranab Mukherjee said that the country’s economy is responding well. Addressing the media here, Mukherjee said:

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7 Times of India, Article by Pranab Mukherjee, Tuesday, 25th, March, 2008
“The economy, I would like to say is responding well, the policy statement which we have initiated, the Reserve Bank of India (RBI) and Finance Ministry are working in close co-operation and this will continue for future.”

He noted that the economy was likely to expand in the range of 6.5 to 6.75 percent during the fiscal year ending March 2010. Mukherjee further elaborated that the easy monetary policy is likely to continue until economic recovery is firm after the RBI started the first phase of its exit from easy policy but held rates steady.

Earlier in the day, the RBI laid the groundwork for a rise in interest rates by tightening credit to the commercial property sector, lifting its inflation forecast and warning of the threat of asset price bubbles. The RBI left key interest rates on hold but surprised markets by removing emergency liquidity support measures that were implemented to protect Asia’s third-largest economy from the global downturn. Mukherjee also informed that the government took essential measures to tackle the adverse impact of inflationary pressure.

“In respect of the inflationary pressure I can tell you that we have taken major steps to ensure that the adverse impact of inflationary pressure is reduced by strengthening the supply management,” he said “Commodities of short supply are imported though there is likely to be shortfall of Kharif crops but the existing stock is sufficient. There would be no shortage of food grains,” Mukherjee added.
IMPACT OF ECONOMIC REFORMS

Presenting the central Government's budget for the year, 2001-02, the Union Finance Minister on 28/02/2001 said, "it is now 10 years since economic reforms began in 1991. During this period the economy has grown at an average rate of 6.4% per year since 1992-93 compared to the 5.8% recorded in the 1980s. Poverty has fallen from 36 percent in 1993-94 to 26 percent or less now. Summarising the impact of the decade old reforms, the Minister, asserted" while economic reforms have placed the country on a much more secure and sustainable growth path, we still have some serious concerns and can not afford to be complacent.

Investment is the driving force of economic growth. When investment within the country is not adequate to accelerate economic growth, foreign direct investment (FDI) has a crucial role to play. The cumulative F.D.I in flows since 1991 increased to $ 26.89 billion Rs.1,03,636 crores, while approvals were at $ 72.98 billion - Rs. 2,67,798 crores till August 2001. India has received foreign direct investment of US $ 2 to 3 billion last year while China got $ 40 billion in FDI. This is one of the salutary effects of liberalization and globalization. Apart from Delhi, major recipients of FDI had been the states of Maharastra, Gujarat, Karnataka, Andhra Pradesh and Tamil Nadu. However the flow of FDI at US$ 2.26 billion into India in 1998 was far lower than into countries like Singapore (U.S.$ 7.22 billion) China ($ 45.5 billion) and Mexico ($ 7.24 billion). While foreign investment, as a percentage of GDP was almost

8 Handbook of Statistics on the Indian Economy (various years)
zero in 1990-91 and 0.1% in 1991-92, its average during 1992-2000 was 1.2%7.1. At the confederation Of Indian Industry partnership summit 2002 held in Bangalore European Commissioner said - with total Indian Software exports of $ 6.300 billion in 2000-2001 of which European Union accounts for 23 percent - a mere 0.42% of the total European IT Market. India has still long way to go and areas of mobile communications C.R.M. back office management S.C.M. Solutions and e-learning segments, require Indian expertise.

Savings and investment rates have remained more or less stable around 22/23 percent. Further these rates are lower than the comparable rates in Singapore at 51.4% and 34.5% and in China at 42.5% and 38.8% respectively. Moreover the negative rate of savings in the Govt. sector because of revenue deficits is a matter of concern.

For the year 2000, in respect of current competitiveness index (prepared by the World Economic Forum) India's rank was 37 out of 58 countries, in respect of Growth competitiveness index (GCI) India was in the 49th position out of 59 countries, in respect of Emerging Market Index (that measures the market openness of a country) India's rank at 46 was higher than China. In the case of Globalization Index (that measures integration with the rest of the world) the rate of integration during 1993-97 was about 2% per annum. The inference from all these measures is that India is a fairly stable economy. Transport, power, telecommunication, water, sanitation etc., are the principal constituents of infrastructure, which is essential for sustained economic development.
2. RESEARCH METHODOLOGY

Research Methodology is the Process or technique which provides the base to start & carry on a research studies. The following research methodology is adopted:

RESEARCH DESIGN

The Research is an exploratory research and the banking sector of Indian banks is selected for the research purpose to analyze the financial system of banks for the purpose of study banking sector are allocate in three category i.e. Reserve Bank of India, Commercial Banks, and Co-operative Banks.

RESEARCH AREA

The Research area is divide into three parts i.e. Reserve Bank of India, Commercial Banks, Co-operative Banks.

RESEARCH PERIOD

The Research Period is divided into two categories:

a. Macro Level: 1991 Onwards
b. Micro Level: 2005 to 2008 (4 Years)

DATA COLLECTION

The Secondary source used to collect the data. To obtain secondary data, it is proposed to visit the RBI & Ministry of Finance, New Delhi, and carryout detailed study of the concept of financial system of Banks through interaction with the dealing officers at the ministry and study of
relevant literature at library and offices of the ministry and RBI. The Secondary data also collected from books, magazines, journals, newspapers and internet.

**DATA ANALYSIS**

After collecting of Data, it arranged according to the needs of the study and analyzed with the help of the different statistical devices. On the basis of analysis of different information and statistical data important conclusion has been drawn and constructive suggestions given for the better financial system of Indian banks.

After completing the analysis work the result will be interpreted in such a manner so that these may prove useful for the better financial system of Indian banks.

4. **HYPOTHESIS**

1. This work will be beneficial for the Economist and the Analyst.
2. To encourage the entrepreneurs and to meet the financial requirement of them.
3. This work will be beneficial to increase the purchasing power of the common citizen.
4. This study helpful in mobilization of resources and to convert the savings in most productive ventures.
5. It will support to analyze the India’s economy with any other country economy.