Introduction:
Banks play a positive role in the process of economic development of a country; they are the repositories of the community’s savings and the purveyor of credit. Indian banking has boosted the economic development during the last more than six decades in an effective way. It has shown remarkable responsiveness to the needs of the planned economy. It has brought about a considerable progress in the efforts in respect of deposit mobilization and has taken a number of measures in the recent past for accelerating the pace of growth of deposits. Under the lead bank scheme in each district a lead bank undertakes the responsibility of ensuring the geographical spread of bank branches all over the country. The underlying rationale was to see no part of the country remain unbanked and everybody should have access to the banking facilities. The commercial viability of the branch was never an issue. The commercial banks have opened a number of branches in urban, semi-urban and rural areas and introduced a number of attractive schemes and free services to the customers to attract more deposits.

Nationalisation of commercial banks in 1969 and 1980 was a mixed blessing. After nationalisation there was a shift of emphasis from industry to agriculture. The country witnessed rapid expansion in bank branches even in rural areas. However, nationalisation created its own problems like excessive bureaucratization, red-tapism and disruptive tactics of trade unions of bank employees. Being a near monopoly of the government, the banking sector suffered from lack of competition, low capital base, low productivity and high intermediation cost. The role of technology was minimal and the quality of service was not given adequate importance. Banks also did not follow proper risk management systems and the prudential standards were weak. All these resulted in poor asset quality and low profitability. In fact, the environment in the financial sector till the initiation of reforms in 1991 was not especially conducive for the development of deep and wide financial markets. Banks and financial institutions functioned in a highly regulated environment, characterised by an administered interest rate structure, quantitative restrictions on credit flows, fairly high reserve requirements and pre-emption of significant proportion of lendable resources for the priority and government sectors. While the quantitative restrictions resulted in credit rationing for the private sector, interest rate controls led to suboptimal use of credit resulting in low levels of investment and growth. These coupled with other factors such as the absence of proper accounting, transparency and prudential norms, resulted in a build-up of non-performing assets in the banking system. All this led to erosion of profitability in the banking sector, besides decline in productivity and efficiency. The bank-based and highly controlled regime turned out to be inimical to financial market development. The government determined the quantum, allocation and the price of credit, a situation referred to as financial repression by some experts. Financial repression includes (i) High required reserve ratios, (ii) Subsidized or directed credit programmes, (iii) Credit rationing, (iv) Ceilings on deposit and (v) Fixing maximum interest rates on loans.

The country faced macro-economic crisis in 1991. The foreign exchange reserve had plummeted to US $1.2 billion, barely sufficient to pay for two weeks of imports. The fiscal deficit of the country in 1990-91 accounted 8.5% of GDP. The industrial production was falling and inflation was rising and touched all time high to an uncomfortable level of 17% by mid-1991. The current account deficit also accounted 3.5% of GDP in 1990-91. The country was on the verge of defaulting on its foreign debts.

The GOI pursued economic reform process to overcome the macro-economic imbalance. A series of reform programmes as a part of the economic reform have been introduced in the financial sector. Despite widening of banking activities, there was general
perception that it had not actually become sound and vibrant, as it needed to be. There was serious concern about the poor performance of Public sector banks most of which became unprofitable and burdened with unsustainable level of NPAs on their books.

The Government of India appointed committee on financial system under the chairmanship of M. Narasimham, known as Narasimham Committee I & II to address the problems and suggest remedial measures. On the basis of the recommendations of the Committee the reform measures were undertaken in the banking sector. Consequently, the banks came under severe pressure to improve their bottom line and global competition through judicious blending with their efficiency and profitability consideration. The key objective of reforms in the banking sector in India has been to enhance the stability and efficiency of banks. Various reform measures were initiated that could be categorised broadly into three main groups: (i) Enabling measures, (ii) Strengthening Measures, and (iii) Institutional measures.

The financial repression has eased substantially with the deregulation of interest rates and substantial removal of credit allocation. The most significant achievement has been the marked improvement in the financial health of the nationalised commercial banks of India in terms of capital adequacy, profitability and asset quality as also greater attention to risk management. The deregulation has opened up new vistas for the banks to increase revenues by diversifying into investment banking, insurance, credit cards, depositary services, mortgage financing, securitisation, etc. The liberalisation has brought greater competition among banks; the increased competition has compelled the banks to be efficient and productive.

The banks are on the right track in terms of their efficiency, productivity and performance if tested with international standards. The performance of the banks is checked through the international prudential norms. In terms of Basel I and Basel II norms, the banks have outperformed the norms. The supervisory rating system based on capital adequacy, Asset quality, management, Earning, Liquidity, system and control (CAMELS) is being implemented successfully for the banks.

The present study is on the performance of the nationalised banks during the period 2000-01 to 2010-11. Performance analysis is in terms of profitability and productivity. The impact of NPAs on the profitability has also been analysed. Comparative study of the nationalised bank and the private sector bank has also been conducted.

Profitability:
Profitability is the ability of a given investment to earn return from its use. It is an appropriate tool by which the performance and efficiency of a firm or industry is judged. Higher degree of profit earning capacity ensures prosperity of the concern. Relative change is measured by measuring the output as proportion of the input and compares with the result of the similar firm. Huge non-performing assets (NPAs) over the years eroded the net worth of the banks and ultimately became a grave concern of the management. Consequently, profitability of the banking sector, an essential requirement for the healthy operation and survival, had come under sever pressure. Banks must give a fair return on capital after providing adequately for business risks. Besides, they should generate sufficient funds for survival, and perform their socio-economic activities entrusted on them. This has warranted banks to earn profit.

Productivity:
The present study attempts to measure the different efficiency measures of banking system of India in absolute as well as relative sense for the period 2000-01 to 2010-11. Efficiency may be defined as the ability of firm to convert expenditure input resources into outputs i.e. financial product and services. Efficiency in a service industry is measured as the
ratio of weighted output to weighted inputs. There are three different concepts of efficiency in a service industry.

To calculate the technical efficiency of all nationalised banks of India (19), the present study uses the two outputs i.e. net interest income and other income i.e. commission, exchange, brokerage etc., where operating expenses and other expenses are treated as inputs.

Four broad parameters were considered for measuring productivity. These were: labour productivity, Operational productivity, Management productivity and per employee indicators. Operational Productivity refers to how efficiently a bank manages its business. Labour Productivity indicates how much efficient are the bank employees in generating business and profits. Management Productivity is used to evaluate management quality so as to assign premium to better quality banks and discount poorly managed ones.

NPA: The main challenge facing the commercial banks is the disbursement of funds in quality assets (loans and Advances) or otherwise it leads to non-performing assets. An asset, including a leased asset becomes non-performing when it ceases to generate income for the bank. A non-performing asset (NPA) is defined as a credit facility in respect of which the interest and/or installment of principal has remained past due for a specified period of time.