

## CHAPTER - VII

### FINDINGS AND SUGGESTIONS

A thorough empirical analysis of selected commercial banks' lending in Jordan is made during 1979-92. Here, an attempt is made to summarise the main findings of this study. These research findings through analysis have been systematically and logically put forward through an uniform structured frame work. The main findings are based on volume of bank lending and its impact on bank earnings and expenses. For this an appropriate models of banks profitability, Assets utilisation and liability management have been quantified. Alongwith the findings of the research study, attempts are made to make certain thought provoking suggestions. The suggestions are based on the research investigation, opinion survey of practicing bankers, policy makers, academicians and users of bank funds and services. These suggestions have been presented in an integrated manner.

The main findings derived through the analysis of bank lending are given as follow :

#### **Main Findings**

##### **Economic Development and Sectoral Bank Lending**

After world war II, on May 5, 1946 the country achieved its political freedom. The palestinian war of 1948 had its various effects on the region. Israel occupied some portion of palestine and the remaining palestinian territories in the hands of Arabs and the same were annexed with the kingdom of Jordan in 1950. In 1952 the constitutional

framework was created. As a consequence, the Jordan emerged in its present constituency form.

Jordan was an underdeveloped country, characterised by, high population growth, lower per capita income, backward agrarian structure, heavy reliance on foreign aid, scarcity of resources, illiteracy, unemployment, heavy dependence on rainfall for agriculture, and cronic trade deficit.

Therefore, the Government of Jordan introduced the developmental planning to step up the economic development.

The developmental process moved from planning for single projects in the fifties to comprehensive economic programmes in the sixties.

The seventies and eighties witnessed the emergence of socio-economic plans on national level.

During the years 1952-66, prior to the Israeli occupation of the West Bank, the Jordanian economy achieved substantial growth inspite of limited resources and an increasing defence burden.

The period 1967-73 was characterised by economic recession on account of regional political and security considerations.

During the years 1973-80 there was an unprecedented growth rates.

Due to acute economic crisis the planning was suspended in late 1988.

The present plan comes after four years of interruption in the planning process and the economic adjustment programme was launched for achieving higher economic growth, monetary and fiscal stability and for removing macro economic imbalances, in the Jordanian economy.

Jordan's earlier plans were projects and investment programmes. The present plan has a package approach to integrate socio-economic policies. The previous plans had government control on economic matters and a major role was played by the public sector in investment programme. The current plan aims at providing a greater role to the private sector in direction of investment agumentation of production and creation of employment opportunities.

Jordan with the help of developmental planning process has restructured its economy, provided a big push to the industrial, agricultueal and infrastructural development. It has also brought radical transformation of socio-economic conditions of masses in the country. However, it is noticed that this plan has changed economic structure towards multi-dimensional character and development into different fields has been contributed by the simultaneous development of the financial sector in the Jordanian economy. One of the strongest critical inputs of economic development is the supply of funds. The financial sector has made a rapid progress and achieved a sophisticated stage of its development. The financial system of Jordan headed by Central Bank of Jordan, has contributed to the planned development of the economy immensely. In fact the development of Jordanian economy is the result of timely, suitable and rapid development of financial sector in its economy. The Central Bank of Jordan (CBJ) has

mainly contributed to the planned economic development of Jordan by developing suitable and need-based financial institutions, directed the required flow of credit, money supply and created suitable climate and framework for monetary policy. The suitable fiscal policy of Government helped the execution of the plans and thereby contributed to the rapid economic development of Jordan. The multi-strategic development projects in different economic fields particularly agriculture, industry, housing, etc., have been encouraged by the Central Bank by providing long term loans by specialised financial institutions. The specialised development financial institutions have acted as catalyst for the development and promotion of different sectors in the economy of Jordan.

#### **Sectoral Bank Lending :**

1. Among the development financial institutions mix, the commercial banks are the biggest financial intermediaries. The commercial banks through their bank lending have contributed to the present multi sectoral planned development of Jordanian economy. There is a consistent upward trend in the supply of bank credit to different sectors in the economy. The total bank credit increased from a low level of 465 million J.D. in 1979 to as high as 2218.3 million J.D. in 1992. So, the commercial banks have provided considerable volume of bank credit to the different sectors during 1979-92 period and thereby contributed to the development of different sectors in the economy.
2. The amount of credit provided to general commerce and trade had increased from 134 million J.D. in 1979 to 524.9 million J.D. in 1992. The commercial banks

have provided highest amount of bank credit to this sector in 1992. This sector is relatively more profitable and highly secured for the commercial bank lending.

3. The volume of bank credit to construction sector increased from 150 million J.D. in 1979 to 463.3 million J.D. in 1992. So, it ranks second in terms of volume of bank credit in 1992. This sector is also found more profitable for commercial bank lending due to fast appreciation in the values of real estates.
4. The bank credit to professionals and private individuals has gone up from 29.7 million J.D. 1979 to 375.3 million J.D. in 1992.
5. Jordan in its economic planning has given a high priority to the development of industrial sector. As a result the commercial bank credit to industrial sector increased from 56.5 million J.D. in 1979 to 269.3 million J.D. in 1992. The development of industrial sector has helped to reduce the trade deficit and also helped to attain self-sufficiency in its developmental needs.
6. The volume of bank credit to municipalities and public utilities increased from 27.7 million J.D. in 1979 to 186.7 million J.D. in 1992.
7. Due to constant instability in the regional development, the transportation sector has suffered. The share of transportation sector has remained relatively low. However, the bank lending to the transportation sector has recorded a phenomenal rise from 13 million J.D. in 1979 to 78.3 million J.D. in 1992.

8. Agriculture ranks eight in chronological order of ranking sectoral bank credit in 1992. So, the share of agriculture in total bank credit has remained relatively low. This is due to small size of farms, uncertain rainfall, illiteracy of farmers, lack of proper maintenance of books of accounts and lack of discipline in regular repayment of instalments. This has increased the non-performing bank assets. As a consequence the commercial banks have less preference to provide bank lending to agriculture. In spite of high risk involved in bank finance to agriculture, the bank credit to agriculture had increased not very significantly from 17.3 million J.D. in 1979 to 54.4 million J.D. in 1992.
9. The commercial bank lending to financial institutions increased from 4.8 million J.D. in 1979 to 48.8 million J.D. in 1992. In 1980 two important institutional innovations had taken place. An introduction of financial intermediaries, generally known as 'compradors'. These individuals act as intermediaries between the banks and would be borrowers and depositors. They accept deposits from the public as well as secure loans for clients at a premium over normal bank lending rates. The second institutional innovation was the creation of real estate and saving institutions. These institutions have expanded their coverage of lending to real estate and also diversified their financial activities as well as areas.
10. The tourism industry in Jordan has a good potential for development due to healthy climate, unparalleled historical associations and proximity to Europe. However, the political disturbances have been responsible for slow and small level of development of tourism industry in Jordan. Hence, the share of bank

credit to tourism has remained low. The bank credit to tourism industry increased from 9.7million J.D. in 1979 to 37.3 million J.D. in 1992.

11. The commercial bank credit extended to the mining sector in Jordan increased from 4 million J.D. 1979 to 20 million J.D. in 1992. This increased bank credit has helped to increase the production of phosphate and potash in Jordan.
12. The general commerce and trade constructions and industry have relatively high shares in bank credit. Thus, commercial bank lending has immensely contributed to the sectoral development in Jordanian economy.

## **Suggestions**

1. The commercial banks as a biggest financial intermediaries have to play a crucial role through their bank lending in the economic development of Jordan. The country has embarked on planned development with market oriented strategy. The private sector has been given freedom to play its important role in the development of the country. Therefore, the commercial banks have to restructure their assets allocation policy with the help of assets management techniques. The commercial banks have to redesign their assets allocation according to the plan priorities and strategies of development. So, in the changed scenario of economic development the commercial banks should increase their bank lending to industries and agriculture.
  
2. Economic development is redefined in terms of industrial development. The government of Jordan has now given a high priority to its industrial development. Therefore, the commercial banks should provide a relatively high priority in bank lending to industries. The commercial banks should make a detail study of the development plan of the country. Such a study will help the commercial banks to know their trend in sectoral bank lending for future. On that basis the commercial banks should prepare their future action plan of bank lending to industries. Such an exercise will integrate bank lending in the main stream of economic development of the country. This attempt of preparing assets allocation plan on the basis of economic development plan of the country will improve the future bank lending prospects and also open up new opportunities of earnings for banks.



In financing the new business ventures, there are three phases of financing.

**Seed Capital :**

This is the first step in the development of a new business. The commercial banks are advised not to finance in this phase due to high risk element.

**Venture Capital :**

The finance is needed to bring the concept from the feasibility stage to commercial stage. The long term finance is required for financing the venture capital. The commercial banks should provide venture capital indirectly i.e., credit is to be routed through state financial institutions. The commercial banks after careful feasibility study of the projects jointly provide the long term loans for venture capital. The commercial banks can also jointly participate in equity participation. The commercial banks through subsidiaries should participate in venture capital. The subsidiaries can promote the progressive private sector companies by supplying long term developmental capital through loans and equity. Such subsidiaries should also develop the consultancy services in financial management. The financial subsidiary of a parent bank can sale the equity if the change in the management of the company takes place.

**Development Capital :**

The commercial banks should prefer to finance the companies which are in production, and in the developmental stage. The commercial banks should

channelise their funds through subsidiaries. The commercial banks can provide development capital to publically quoted companies. The commercial banks should increase their involvement through syndicate loans.

3. Agriculture is the back bone of the Jordanian economy. Therefore, government has given a high priority in its developmental planning process to agricultural development. The plan efforts are on to bring about technological transformation, modern inputs, institutional reform for restructuring land man relationship, improving size of land holdings, modern marketing and institutional finance to agriculture. Therefore, the commercial banks have to restructure their assets management approach in favour of agriculture. The commercial banks through research in bank lending methods, practices and techniques have to adopt service area approach for their lending to agriculture. The commercial banks have to focus on financing to the small farmers. The crop loan system can be introduced to provide credit to agriculturists. The commercial banks should develop expertise in agriculture finance. Specially, trained staff in agriculture finance should be employed. Every commercial bank should have a separate department of agricultural finance. This department through field survey, identify the potential areas of bank lending for agriculture. The command area strategy of bank lending to agriculture should be practiced to increase performing assets of the commercial banks.

The commercial banks should provide the credit for modern inputs to the farmers. The commercial banks should avoid, as far as possible, to give sanctioned credit

amount to the farmers but they should be asked to produce bills. Further, the concerned commercial banks should issue the crossed cheques in the name of sellers/co-operatives from whom they have purchased the inputs (Machinery, Seeds, Fertilizers, Pesticides, etc.). This will ensure the end use of bank credit. The farmers should be provided credit for buying animals, poultry farming, fishery, etc. This will provide them extra income through subsidiary occupations. The commercial banks with the help of survey of selected areas identify the traditional skills of different types. Thus a well thought out programme is to be structured to identify the potential borrowers in the selected area of the survey. The marketing prospects of such traditional products should be considered in lending programme of such potential borrowers.

4. Jordan has a very big segment of small-scale industries. The commercial banks should design the viable and feasible bank lending programme through bank marketing research. The commercial banks have good prospects for increasing their lending to this growing sector. The commercial banks through bank marketing research identify the profitable product lines in small scale industries and prepare the bank lending programme for them.
5. The commercial banks should encourage the bank lending to the agro-based industries. Such agro-based industries have growing profitable prospects. Even the commercial banks with their management expertise should develop the projects and sale such projects to the enterprising people in the rural areas. The commercial banks can also increase their bank lending by attracting potential

borrowers for repairs and maintenance facilities for agricultural modern machinery. So, there should be an integrated credit approach of commercial banks to agriculture. The commercial bank should develop the special bank lending attractive programmes for vegetables and fruits farming (i.e., horticultural products). This is a highly profitable area of bank lending in agriculture and in allied activities in Jordan. The commercial banks can also explore dairy development as a potential area of bank lending. The dairy development has a vast potential of development in rural economy. Therefore, the commercial banks with their expertise, should structure the programme of bank lending for dairy development.

6. The commercial banks should consider a viable programme of branch expansion for bank lending programme in rural areas for agriculture. The banking facilities should be made available to the rural masses. This will help the commercial banks to collect rural savings and will also help to provide credit to the farmers. It will become easy for the commercial banks for monitoring the bank lending and recovery of the bank credit through their rural branches. Every branch of a bank is a front line organisation. Therefore, it will increase the involvement of commercial banks in agriculture credit. While opening a branch of a bank in the agricultural sector, the potentiality of deposit growth, credit absorption capacity of the areas and level of economic development are to be taken into consideration. The composition of staff mix should be carefully thought out and arranged. The required number of staff with relatively less seniority should be deployed. The basic consideration of staff mix should be based on the volume of business. The

government can help the commercial banks in their branch expansion in agriculture by providing premises on low rents to open branches, wherever the business potential is low and uneconomical for a branch. The commercial banks can start satellite branches. Such satellite branches should work at the fixed hours at the given places. Such a viable branch banking programme, will increase the bank lending to agriculture in Jordan and it will further boost up the economic development of the country.

7. The increase in the bank lending to agriculture will push up the savings. This will encourage the investment through the financial intermediation of the commercial banks. Thus, saving is stimulated by expanding the coverage of commercial banking. The commercial banks will lend money to small farmers, artisans, landless labourers, small businessmen etc. The commercial bank lending in agriculture to small borrowers is costly and risky. Therefore, commercial banks should lend to the sound borrowers. The banks must evolve a suitable system of processing loan proposal, monitoring, follow-up, farm visits, and end use of credit, etc. to avoid the non-performing assets.

### **Bank Lending and Profitability**

Banks are basically the commercial organisations. They have organisational objectives mix. These objectives are framed by the brain box i.e., top management personnel of a bank. The bank's objectives are framed within the policy guidelines, statutory constraints, and political and economic conditions. The bank lending is a primary function of the commercial banks to materialise these objectives mix. Among the given objectives mix of the commercial banks, profitability is a major parameter to evaluate the bank lending performance. Therefore, profitability is used as an index of evaluating the bank lending.

1. There is a positive relationship between bank lending and profitability. Therefore, a structured framework has been used to analyse the bank lending and profitability. The profitability model is quantified with the help of interest surplus and non-interest load. The performance analysis has shown that the interest surplus of the national commercial banks has declined while the non-interest load of the national commercial banks has recorded rise for the period covered under the study. As a result, the profitability of bank lending of the national commercial banks has declined for the period 1979-92.
2. In case of the foreign commercial banks the interest surplus has increased and the non-interest load also increased during 1979-92. But the increase in the interest surplus has been slightly greater than increase in the non-interest load. As a

consequence the profitability of the foreign commercial banks has recorded rise slightly during 1979-92.

3. The profitability of bank lending of the national commercial banks has declined due to fall in the interest surplus and increase in the non-interest load. So, the national commercial banks have to increase their interest incomes and simultaneously reduce their interest expenses. The national commercial banks can increase their interest incomes by expanding their volume of bank lending. Simultaneously, the national commercial banks have to reduce their interest expenses. But it is difficult for the commercial banks to reduce their interest expenses. So, the feasible alternative before commercial banks is to increase their volume of bank lending to increase the interest surplus.
4. The national commercial banks have to step up their non-interest incomes and reduce their non-interest expenses. This can reduce their non-interest load. The commercial banks should develop a new package of incentive oriented and economically viable schemes to increase their non-interest incomes and the personnel should be made cost and productivity conscious. The commercial banks should evolve a time bound result oriented monitoring mechanism of controlling the non-interest expenses. Thus the profitability of bank lending can be stepped up by increasing interest surplus and simultaneously reducing the non-interest load.

## Suggestions

1. The profitability of bank lending has declined due to decline in the interest surplus ratio and increase in the non-interest load. Therefore, it is suggested that the commercial banks have to increase their interest surplus income. For this, the banks have to improve their credit-deposit ratio. The commercial banks should increase their volume of bank lending in order to increase their interest surplus income.
  
2. There should be an on going research study by banks to find out the cost of deposits and the cost of funds lent to the various sectors. On the basis of the findings, the prices of bank funds should be fixed. In fact, the deposits are just like an output for a bank. So, the cost of deposits is major cost in the total cost of a bank. While credit is just like a sale product of a bank. Therefore, the total sales proceeds will determine the profit of a bank. Hence, it is suggested that proper pricing decision of bank funds is needed to improve their interest earnings.
  
3. The commercial banks can increase their interest incomes by adopting the performance based budgeting. The top management should prepare a policy guidelines and tentative business targets for the budgeted year. This should be send to all the branches of the commercial bank. Every branch will prepare its performance based budget. The branch will also prepare its input budget. The budgets prepared by the branches will be finalised in the budget settlement meeting. This will become a performance based budget for the year. This



performance based budget is prepared by the participation of concerned bank personnel. So, it is a promised performance of the profit.

The performance based budgeting should be based on command area approach. The command area is that area which has a high business potentiality. The bank should conduct an environmental analysis of the command area for optimising the business potentialities. Such an environmental analysis of the command area of business will be divided into viable divisions. The bank should prepare division-wise and the occupational-classification. This will help the bank management to identify the persons not banking, persons whose banking habits are not developed and persons who are banking with other banks.

Environmental analysis will highlight the new business activities while developing the command area and also the uncovered expertise in the areas.

The commercial bank can evolve suitable strategies, prepare projects and estimate the new addition of business for the budgeted year.

The commercial bank should divide the performance targets into three months. At the end of three months there should be a budget steering committee. The performance based budget should be reviewed and evaluated. If there is any gap between the targeted performance and the actual performance, then the critical analysis should be done to assess the performance gap. Such an exercise will show the reporting variance. By controlling the reporting variance the

performance gap can be removed. Thus, there should be monitoring and the constant follow-up of the performance based budget.

The commercial banks should use the Break-Even analysis as a tool of profit management technique. The Break-even chart will help to depict the scenario and make the bankmen aware of revenue cost and revenue earnings (i.e. profit).

4. The bank management should make every effort to keep the costs within the coverage of interest surplus.
5. In order to step up the interest incomes, the bank management should use marketing research and market segmentation techniques. The bank marketing research will help to evolve new packages of bank lending. It will explore the new areas, and borrowers. The market segmentation will further intensify the marketing efforts of a bank. So, the bank marketing research and market segmentation will improve the interest earning prospects of the banks.
6. The commercial banks can improve the profitability of bank lending by reducing their non-interest load. For this, the commercial banks have to increase their non-interest incomes and reduce their non-interest expenses.
7. The commercial banks should improve their tax management. The commercial banks should prepare their tax planning in advance. The commercial banks can take the help of tax consultants for effective tax planning and management. The commercial banks should make every effort to minimise their tax burden. This will

help the commercial banks to reduce their non-interest expenses, and at the same time help to enhance the profits.

8. Every service provided by the bank has its own cost. So, the commercial banks should find out the costs of their services. The services provided by the commercial banks should be priced in such away that they provide non-interest sufficient incomes to the commercial banks.
9. The commercial banks should improve the quality of existing services.They should try to diversify them. The commercial banks should also study the changes in the social pattern, business and customers requirements of bank services. Accordingly, the commercial banks should develop the new innovative package of modern services for their different types of customers. Such new innovative services with proper pricing can step up the non-interest incomes of the commercial banks.
10. The commercial banks can provide the financial services like, investment planning, lease financing, mutual funds, merchant banking, and capital market. These areas of financial services can help the commercial banks to increase their non-interest incomes.
11. The commercial banks can increase the non-interest incomes by slightly increasing the services charges on transfer of funds, collection of bills, issue of drafts, mail and telegraphic transfer.

### **Asset Management**

1. In Chapter III, Bank lending and Profitability, our analysis has shown that the profitability of bank lending has declined due to decrease in the interest surplus ratio. The national commercial banks can improve their profitability of bank lending by increasing their interest incomes because the profitability of bank lending and asset utilisation are positively related.
2. The Asset Utilisation Indicator is used to measure the asset utilisation efficiency of the selected commercial banks during 1979-92. The Asset utilisation Indicator of the national commercial banks has declined. But the Asset Utilisation Indicator of the foreign commercial banks has increased. Thus, the profitability of bank lending of the national commercial banks has declined due to decline in their asset utilisation.
3. In case of foreign commercial banks their asset utilisation has improved. As a result their profitability of lending has improved during the time frame of the study.
4. The asset utilisation of the commercial banks is also influenced by the cash and reserves of the banks. So, a further probe is made by calculating the cash balances and reserves of banks as a percentage to total assets. Our analysis has revealed that the cash balances and reserves as percentage to total assets of the national commercial banks has gone up for the period under study.

5. The analysis of assets utilisation of the commercial banks with the help of asset utilisation indicator has revealed that the asset utilisation indicator has declined. The cash balances and reserves as percentage to total assets of the banks has increased. So, logically it proves that the profitability of bank lending has been adversely affected due to relatively less income generation of these as compared to their expenses.

### **Suggestions for Improving Asset Management**

The commercial banks can improve the profitability of bank lending by increasing their incomes. The interest incomes is the major source of earnings to the commercial banks. The commercial banks can increase their interest incomes through better asset management. The asset management efficiency will determine the interest earnings from assets of the banks. So, the commercial banks can improve their earnings through proper allocation of assets, quality of assets, assets mix, volume of assets, and the percentage of performing assets.

1. The commercial banks should explore the new areas of profitable bank lending. The marketing of bank business and exploratory research can help the commercial banks to find out the new areas, new customer mix, new types of bank lending, improve the existing bank lending and diversify their assets management portfolio. Alongwith this, the commercial banks should use the market segmentation techniques and concentrate their attention and efforts for achieving optimum results in bank lending.
2. The commercial banks should give a serious attention to the processing of loan proposals, procedures, and skills required by the bank personnel to perform the jobs efficiently. This will improve the quality of bank lending. The commercial banks should assess the credit worthiness of the borrower, the feasibility of the loan proposal, the profitability of business venture, and repayment schedules. The commercial banks must make an effective follow-up and monitoring system. The loan monitoring system should provide timely signals for maintaining regularity

in repayment of loans. The recovery of loans should be given the utmost priority in the management of assets utilisation of the commercial banks. A time and target bound recovery programme should be developed by the commercial banks. The commercial banks should sincerely and effectively implement such programmes. The recovery drive, will create recovery consciousness among the bank personnel and an increasing pressures on the borrowers will help to recover loans speedily.

3. The liquidity management in commercial banks can play a vital role in improving the interest earnings and reducing the carrying cost to the commercial banks. The commercial banks with the help of scientific study determine their minimum liquidity requirements. The liquidity management is as important as an inventory management to industries. In a proper system of monitoring, the cash management should be practiced by the banks. In fact, liquid assets are non-earning assets and they have cost. The commercial banks should reduce their excess cash through the study of inflow and outflow of cash. A proper system of collection of cash, cheques collection system and effective remittances should be practiced for the management of liquidity. The computer should be utilised for determining the liquidity requirements of the banks. However, the liquidity requirement of a bank can be determined by taking into account the demand for bank funds, growth of deposits, banking habits of the people, level of development, trend of cash holding in the past, available alternatives to meet emergency cash requirements, statutory requirement and regulatory system of the banking.

## Profit Margin

1. In the earlier Chapter we have seen that the volume of bank lending has increased. But the profitability of bank lending was declined during 1979-92. Therefore, attempt is made to quantify the assets management efficiency with the help of assets utilisation indicator. The performance analysis has shown that asset utilisation of the national commercial banks has declined for the period covered under the study. Now, further, attempt is made to analyse the expenditure of the selected commercial banks during 1979-92. The principles of marginal analysis are applied to bank earning and expenses. We have used a marginal approach with the help of profit margin. The marginal approach shows the marginal earnings and marginal expenses of the selected commercial banks. Suppose, if profit margin of the commercial banks increase, the banks have earned more than their expenses (i.e.,  $MR > ME$ ). If the profit margin of the commercial banks decline, it means banks have spent more than earnings (i.e.,  $ME > MR$ ).
2. The analysis of marginal earnings and expenses with the help of profit margin has revealed that the profit margin of the national commercial banks has declined during 1979-92. But, volume of bank leading, total earnings and net profit have increased. It implies that the commercial banks have spent more than their earning. Therefore, an attempt is made to find out the principal reporting variance

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\* MR = Marginal Revenues  
ME = Marginal Expenses



caused increase in bank expenses. The expenses analysis has shown that the major item responsible for increased bank expenses is the interest paid on deposits, and borrowings. However, the establishment expenses and other expenses as percentage to total expenses of the banks have also increased for the period covered under study.

### **Liability Management**

1. The marginal analysis is used with the help of profit margin. The profit margin of the national commercial banks has declined. It means the expenses of commercial banks have increased more than proportionate to their earnings. The carrying cost of liabilities is a major component in total cost of banks. Therefore, the carrying cost of liabilities is examined with the help of equity multiplier and liability cost indicator. The equity multiplier and liability cost indicator are positively related. The analysis of equity multiplier and liability cost indicator have shown that both have increased for the period covered under study.

Increase in the equity multiplier and liability cost indicator have increased the carrying cost liabilities. In order to explain the phenomenon of increased in carrying cost of liabilities, an analysis of liabilities mix is under taken. The analysis of liabilities mix has shown that the high cost carrying time deposits have increased as percentage to total deposits. The low cost carrying current and saving deposits as percentage to total deposits have declined during 1979-92. So, the increase in the interest expenses of the national commercial banks is mainly due to increase in the high interest carrying fixed deposits of the banks.

2. We have analysed the major component of liabilities i.e., deposit mix of the commercial banks. The second component of liabilities mix is the equity capital of the commercial banks.

Our analysis of equity utilisation has revealed that the equity utilisation efficiency of the national commercial banks has declined for the period covered under study.

### **Suggestions relating to the Profit Margin and Liability Management**

The incremental bank expenses have increased more than incremental earnings. Therefore, commercial banks have to reduce their bank expenses.

1. The interest paid on deposits is the major component in the total bank expenses. Increased in the time deposits and decline in the current and saving deposits of the commercial banks are mainly responsible for the increase in the carrying cost of funds. Therefore, commercial banks should develop new incentive oriented schemes to step up their saving and current deposits. A minimum deposit amount<sup>45</sup> must be determined to be kept by every current and saving deposit holders. A saving drive should be launched by the commercial banks to expand the coverage of current and savings deposits. The commercial banks should develop an efficient system of monitoring and controlling the expenses. The bank management should create awareness among the bank personnel for controlling expenses. The commercial banks should estimate their expenses and carefully plan for the expenses. Such a plan of expenses will work as an effective tool for

controlling expenses. Every plan of expenses should be a participative exercise. This will provide promise performance for controlling expenses.

2. The commercial banks can reduce to some extent their expenses by reducing printing, stationery, travelling, telephones expenses, etc.
3. The commercial banks must improve their productivity performance. For this, the commercial banks have to improve their manpower utilisation. The commercial banks should properly estimate the number, quality, and type of personnel required. The human resources forecasting and planning will help the commercial banks through proper designed programme of recruitment and selection to employ the right types of people for right places.
4. For improving the productivity performance, the commercial banks should pay a serious attention to the training of personnel. A proper job analysis must be undertaken. On the basis of job analysis, the training needs are to be determined. By identifying training needs, the training programme literature, and methods need to be designed. Alongwith this a system of feedback of trainees should be set-up. Such training programme, will train the hands, heart and head of an employee. Trained employees will become an appreciating human asset in the commercial banks. The training to the bank employees will up grade their conceptual, technical, human, and communication skills. This will improve the productivity performance of bank employees. The training programme should be lunched at macro and micro levels. The top management should be trained for improving their decision making skills with the help of different training methods.

At the same time an appropriate training should be given to the operative personnel through different methods to improve their efficiency in Job performance.

5. The bank management should ensure, that the average cost of management should be lowest through productivity performance. Every attempt should be made by the bank management to create better work culture and productivity consciousness among personnel to improve the quality of bank personnel and their utilisation.
6. Our analysis of equity multiplier has shown that total liabilities as percentage to equity has increased for the period covered under the study. Therefore, the bank management should improve their equity base. The commercial banks should expand their equity base. Simultaneously, the commercial banks also should step up their equity utilisation efficiency. In fact, equity utilisation efficiency is an index of evaluating the lending portfolio of the commercial banks.