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Fifty-Seven Years of Bank Nationalisation

19 July 2026 · ECONOMY · GS3

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Fifty-Seven Years of Bank Nationalisation

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> **July 19, 2026** *marks* **57 years** *since the Government of India, led by Prime Minister* **Indira Gandhi***, nationalised* **14 major commercial banks** *by an ordinance on* **July 19, 1969**. *The move remains one of the most consequential economic decisions in independent India's history and continues to frame today's debate on public-sector-bank consolidation and privatisation.*

THE 1969 NATIONALISATION

On the night of **July 19, 1969**, the government promulgated an ordinance taking over **14 commercial banks**, each with **deposits above Rs 50 crore**. Together these banks held roughly **85 per cent** of national deposits, so the state effectively acquired command over the bulk of the country's organised credit at a single stroke.

The ordinance was later given permanent legal form through the **Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970**, after the Supreme Court struck down the first attempt on procedural grounds. The stated purpose was to align banking with national development priorities, an approach often described as **social-control banking**.

The Two Rounds

ROUND	DATE	BANKS TAKEN OVER	DEPOSIT
First	July 19, 1969	14 banks	Above Rs 50 crore
Second	April 15, 1980	6 banks	Above Rs 200 crore
Total		20 banks	

A **second round in 1980** nationalised **6 more** banks, each with **deposits above Rs 200 crore**, taking the total number of nationalised banks to **20**. This further deepened the state's footprint in commercial banking.

The Earlier Case of SBI

It is worth noting that the **State Bank of India** was already state-associated well before 1969. It was **formed in 1955** from the **Imperial Bank of India**, with the Reserve Bank of India acquiring a controlling stake. So the 1969 and 1980 actions extended, rather than began, public ownership of banking in India.

WHY IT WAS DONE

Before 1969, commercial credit largely flowed to established industry and trade in urban centres, while agriculture, small industry and rural India were starved of formal finance. Nationalisation was intended to redirect this flow.

Three shifts followed:

- **Priority-sector lending.** Banks were mandated to lend a fixed share of credit to agriculture, small enterprise and weaker sections. Today the norm is generally **40 per cent of Adjusted Net Bank Credit** for domestic banks, with sub-targets for agriculture and weaker sections.
- **Rural branch expansion.** Public-sector banks opened thousands of branches in unbanked and rural areas, sharply widening the physical reach of formal banking.
- **Financial inclusion.** Bringing farmers, small traders and households into the banking net laid the groundwork for later inclusion programmes.

The Costs

Social-control banking also carried costs. Directed lending, political interference in credit decisions and weak recovery culture contributed over time to rising **non-performing assets**, low profitability and thin capital. By the early 1990s these strains had become a drag on the wider economy.

THE REFORM TURN

The liberalisation of 1991 forced a rethink of how public banks were run. The **Narasimham Committee I (1991)** recommended prudential norms, income recognition, capital adequacy and reduced directed lending. The **Narasimham Committee II (1998)** pushed further on bank consolidation, stronger regulation and governance reform. Together they moved Indian banking from pure social control toward a mix of commercial discipline and developmental obligation.

WHERE THE DEBATE STANDS NOW

Fifty-seven years on, the argument has come full circle. Supporters of the 1969 legacy point to how public-sector banks powered later inclusion drives such as the **Pradhan Mantri Jan Dhan Yojana** and made possible large-scale **Direct Benefit Transfer**, which routes welfare payments straight into verified bank accounts. Without a wide public-bank network, the plumbing for these programmes would not have existed.

Critics argue that public ownership brings recurring recapitalisation burdens on the exchequer, lower efficiency and periodic asset-quality crises. This underpins the current policy direction toward **consolidation** of public-sector banks into fewer, larger entities and selective **privatisation**. The core tension is the same one that framed 1969: the balance between **financial inclusion** and **operational efficiency**.

UPSC RELEVANCE

GS Paper 3: Indian economy; banking sector reforms; mobilisation of resources; inclusive growth; role of the public sector.

Prelims pointers:

- **14 banks** nationalised on **July 19, 1969** (deposits above **Rs 50 crore**); **6 more** in **1980** (above Rs 200 crore); total **20**.
- Given legal effect by the **Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970**.
- The 14 banks held about **85 per cent** of national deposits in 1969.
- **SBI** formed in **1955** from the **Imperial Bank of India**.
- **Priority-sector lending** target is generally **40 per cent of Adjusted Net Bank Credit** for domestic banks.
- Reform blueprint: **Narasimham Committee I (1991)** and **II (1998)**.

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July 19, 1969: 14 banks nationalised by ordinance under PM Indira Gandhi; each had deposits above Rs 50 crore.

The move captured roughly 85 per cent of national deposits.

Legal backing came from the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970.

1980: a second round nationalised 6 more banks (above Rs 200 crore), total 20.

SBI was already state-associated, formed in 1955 from the Imperial Bank of India.

Priority-sector lending is now generally 40 per cent of Adjusted Net Bank Credit for domestic banks.

Later reforms drew on the Narasimham Committee I (1991) and II (1998).

Sources: RBI - History of Bank Nationalisation, PIB - Banking sector milestones, The Hindu - 1969 bank nationalisation legacy, Reserve Bank of India - Priority Sector Lending norms

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Source: Fifty-Seven Years of Bank Nationalisation — Ujiyari.com | Free UPSC & State PCS Current Affairs

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