CHAPTER 1

Introduction

1.1 Overview:

Although the Indian banking sector has made commendable progress over the years, the progress of the banking sector is plagued by issues such as rising non-performing assets (NPAs), increasing bank frauds, poor financial outreach in rural areas regulatory and governance concerns, technological integration challenges, and unequal financial inclusion. These issues jeopardize the sector's efficiency, profitability, and ability to meet the diversified demands of a rising economy. Addressing these difficulties is critical for India's banking sector to remain resilient, inclusive, and future-ready. Additionally, the level of competition in the industry has intensified over the years. The entry of foreign banks after the introduction of financial reforms in India has added to the growing competition. A low performance of the banking sector can have a negative impact on other sectors of the economy. Better performance of the banking sector is crucial for the overall growth of an economy as financial development and economic growth are observed to be closely related. Further, it contributes to the financial system's stability and efficiency and improves financial inclusion. It also gives significant insights into global banking practices and policies, helping to build a more robust and inclusive global financial system.

Banking industry of the country is considered as the vital part for smooth functioning of the economy, financial system of country and day to day activities of citizen. Since banking sector provides the path way for the country development, it creates new era of development for Indian economy. Banks are providing loans and advances to people of country and help them find resources to fulfil their needs and wants. The role and importance of banking and the monetary mechanism in a nation's economic development cannot be underestimated. Thus, banks and other financial institutions play an important role in the economic planning of a nation, by allocating specific amounts of resources (Aspal & Dhawan, 2014). With the help of Banking Regulation Act, 1949, the central bank of India become main regulation authority of Indian banking system. It gives more power to RBI to supervise and monitor the banking activities in India. Since 1935, the RBI has served as the country's central bank. It regulates and controls credit, issues of licenses, and considered responsible for regulation of banking system. Banking system of India is main player in Indian financial system. Objective and aims of bank differ based on their ownership structure, which make them different from other financial intermediaries. Public sector banks are more focusing on upliftment of weaker section than private sector or foreign owned banks. It's worth to study the operational difference and characteristic of different banking sector in India, since their aim is different based on their ownership (Rakshit, 2022).

Foreign banks, PSBs, PVBs and regional rural banks are the main players in the banking industry of India. The figure 1.1 below shows the composition of the banking system of India as of 2020. It suggests that public sector banks (41.80 %) dominate the Indian banking sector, followed by PVBs (33.82%). Foreign banks and regional rural banks in India accounted for only 16.18 percent and 8.82 percent of banking system in India respectively.

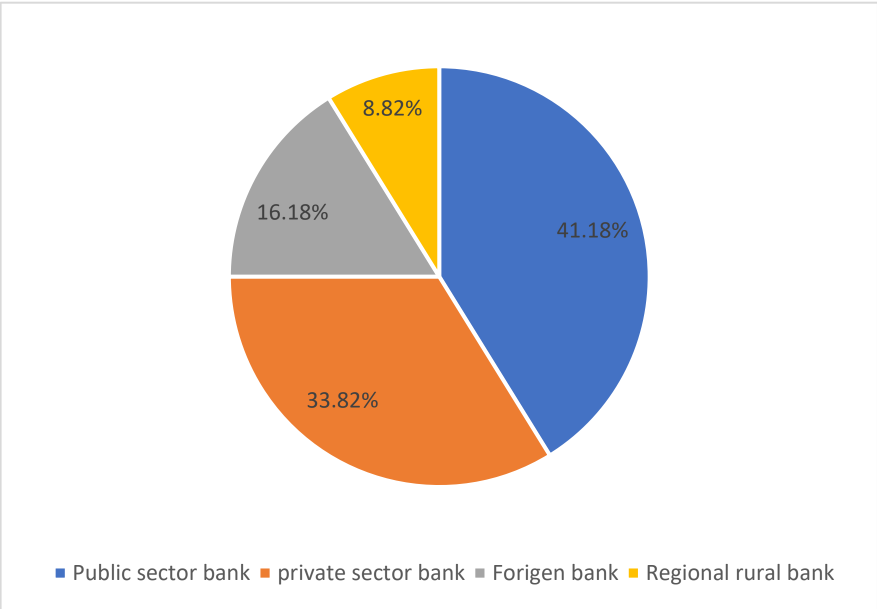

Figure 1.1: Composition of Indian Banking System (FY20)

Source: India Brand Equity Foundation (IBEF)

The figure 1.2 below portrays the total assets of the banking industry of India showing its expansion in these years. The graph clearly shows that PSBs have significantly larger amounts of assets. PVBs, foreign banks in India, regional rural banks shows less asset holding compare to PSBs.

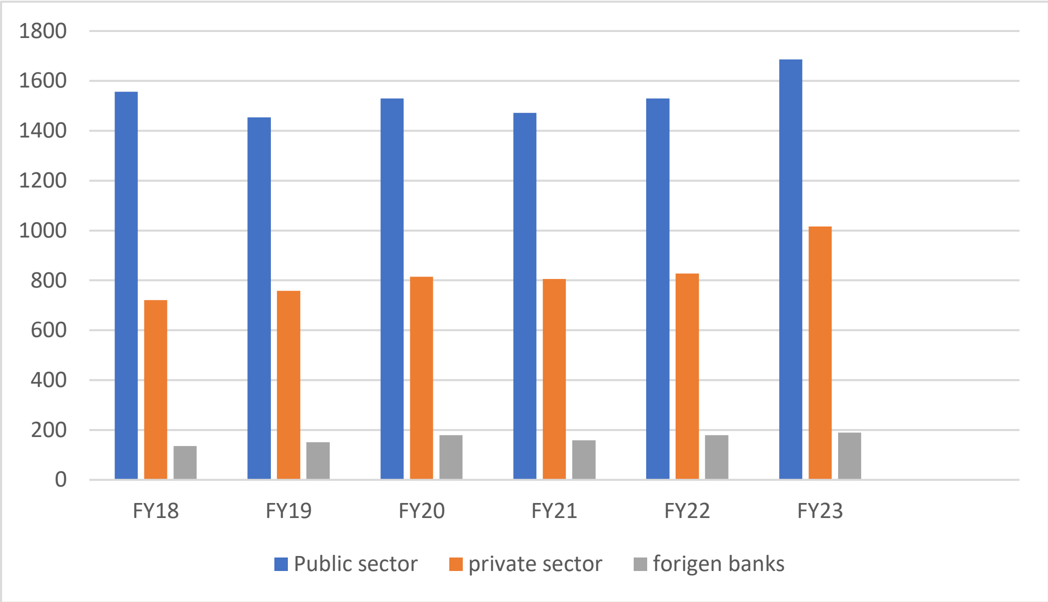

Figure 1.2: Total banking sector assets

Source: India Brand Equity Foundation (IBEF)

The Indian banking system has changed dramatically since 1992. In the present era, banking sector are more focused on financial market activities and universal banking characteristics than traditional banking characteristic such as lending loans and accepting deposits. They are expanding their focus on non-banking activities such as portfolio management and brokerage. Presently banks are playing different roles and the new era of banking system witnessed a shift from the traditional definition of banks. It helps banks to find other sources of income rather than heavily depending on interest income. It increases the profit of the banking sector. However, it resulted in high competition in the banking sector, which increased the risk of the banks. This risk is transferred to the customers of the banks. Presently banks are operating and allocating resources based on the market conditions. At the same time, we can see that transparency and disclosure standards increased (Gulati, 2015). The Indian banking sector and Indian economy had been going through significant changes in the last twenty years. It was a transformational era for banking system of the country since liberalization started. The Indian banking system has become more profit-oriented. At the same time, asset quality and banking profit have improved drastically. Since the Indian banking system works under the strict supervision of RBI, the global financial crises didn't affect on Indian banking system much. But still, Indian banking is lagging in terms of asset quality. Banks have to focus more on loan restructuring activities in the coming years. Monetary policies in India always monitor the inflation of the country. Since the Indian economy suffers from high inflation rates, banks have started to increase the interest rate to handle the inflation which negatively affects the weaker section of the economy. The Indian banking system's funding and liquidity are relatively strong, as the loan/deposit ratio is less than 80 percent and the bank's capital is relatively low (Prashar, 2019).

Recently, market-based finance has gained importance in developing countries like India. Still, bank credit is considered as a major source of financing for a large portion of population as well as various sectors. To achieve proper economic development, policymakers have to ensure the equitable distribution of bank credit among various sectors of the economy. The figure 1.3 below shows the decreasing trends of banking credit in India. Due to a lack of genuine demand on the ground, Bank credit growth is shrinking

Most of the market-based economics considered bank credit outflow as a key indicator of economic dynamism. Bank credit outflow of the economy can give an idea about the actual situation of economy. Market-based economics considered credit outflow to be the better indicator of economic situations compared to GDP-based estimations. Sometimes, GDP figures show a higher economic growth rate compared to actual growth. But we can easily identify the actual situations of economic only by looking at the bank credits. When the bank credit outflow of the country is reduced drastically, it indicates that the country is suffering serious economic problems.

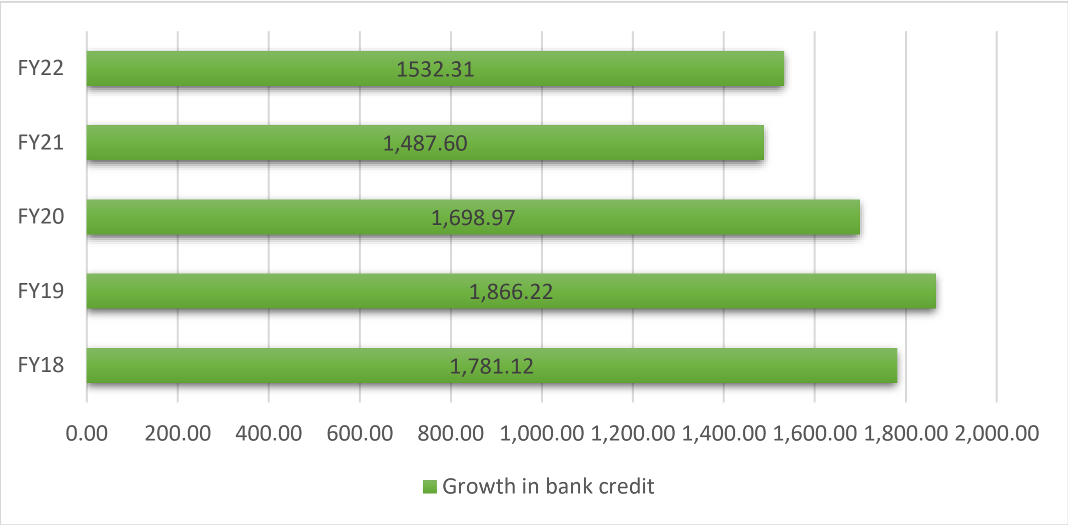

Figure 1.3: Growth in banks credits

Source: India Brand Equity Foundation (IBEF)

The figure 1.4 below shows the trends of deposits in the banking sector in India. We can see that the Indian banking sector has shown increasing trends in banking deposits over the last seven years. This indicates the structural liquidity gap in the banking system. The key function of banks is the mobilization of funds from different sources (called deposits) and the distribution of these funds (called loans) to various sections of the economy. The smooth functioning of the financial intermediation process is affected by increasing the gap between deposits and credit in the country. Later it will affect the economic development of the country. Most households in India prefer deposits in banks rather than depositing in other options. The financial decisions of the households are influenced by inflation expectations, safety, ease-off access, regular returns and risk-averse attitude, etc. The Indian economy has witnessed that financial inclusion programs help to bring a large number of unbanked people or households into the banking system. Financial and economic development of the country is the key to the mobilization of more deposits within banking system (Behera & Raut, 2019).

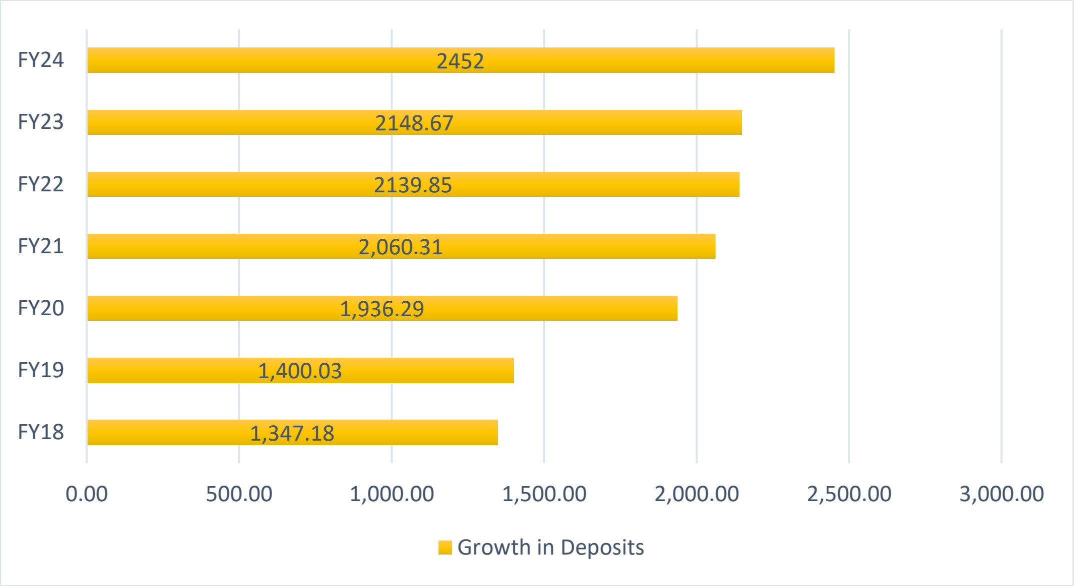

Figure 1.4: Growth in deposits

Source: India Brand Equity Foundation (IBEF)

Since the banking system is one of the key players in the financial system of India, it affects the smooth functioning and development of the economy. The performance of the banking sector is regarded as an effective indicator of an economy's financial health (Aspal & Dhawan, 2014).Most of previous studies found that banking performance measured with the help of ROA and ROE

The Figure 1.5 below shows that Indian banking performance influences the country's GDP performance. When India's banking performance deteriorates gradually, the overall economy suffers. Bank performance has caught the interest of a wide range of stakeholders, including regulators, customers, investors, and the general public. Bank performance analysis can help policymakers identify a bank's success or failure and develop effective strategies for the bank's success. Bank performance evaluation is a critical tool for understanding the bank's financial situation and taking the necessary steps to transform a financially weak bank into a successful one. Financial performance knowledge aids in predicting, comparing, and evaluating the bank's earning potential. It also aids in financial and investment decisions. Financial information is provided by the company in the form of financial statements and reports. Hence it is important to study the banking performance of India.

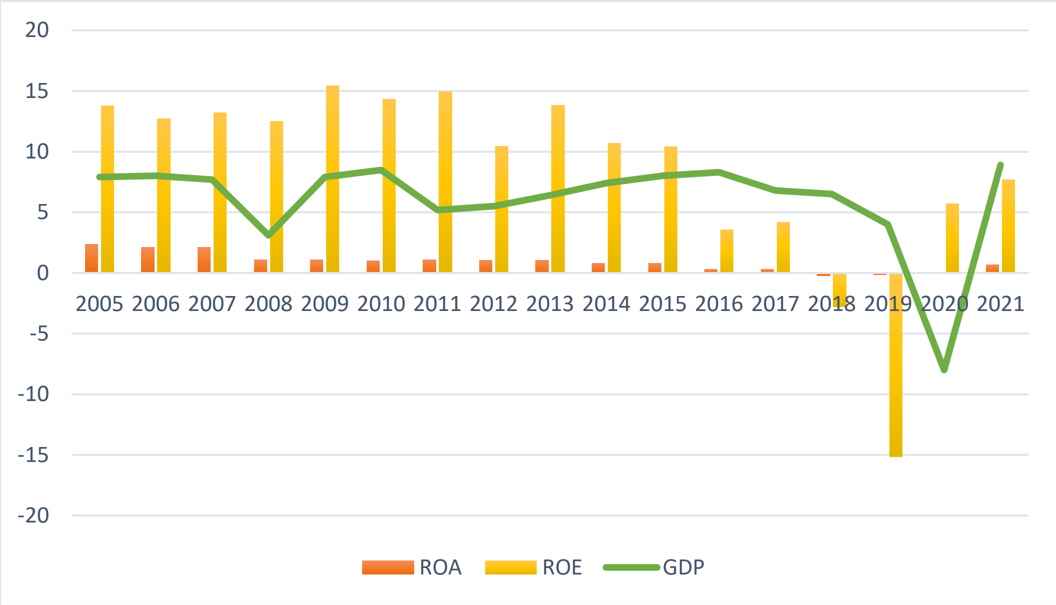

Figure 1. 5: Banking Performance Indicators and GDP

Source: Author compilation

Existing literature gives an idea about the present scenario of the Indian banking sector and its performance. The studies found that banking performance increased by CEO duality (Gupta & Mahakud, 2020) combined intellectual capital (Barak & Sharma, 2024), CSR expenditure(Kayal, 2023), RTGC-based transactions (Shaika & Anwar,2022), board governance (Pant & Nidugala, 2022), women representation in higher level (Jain, 2022), and professional financial education of the AC chairman & members (Gupta & Mahakud 2021) Meaning while, environment reporting (Pawar& Munuswamy, 2024), credit-based digital transactions (Shaika & Anwar,2022), political connection (Chahal & Ahmad, 2021), women representation in workforce level (Jain, 2022) and frequency of the AC meetings (Gupta & Mahakud, 2021) find an inverse relationship with banking performance in India. Level of impact and direction of influence will change. Since India has a dynamic banking sector and economic sector.

1.2 Board diversity

Indian Companies Act 2013, made a provision for the mandatory appointment of at least one women director on the board to increase gender diversity, strengthen the board and women empowerment. Every listed company or unlisted public company with a paid-up share capital of INR 100 crores or more, or a turnover of INR 300 crores or more has to appoint a women director to their board as directed by the Companies Act 2013. Increasing gender diversity has the potential to promote accountability. The presence of female directors on firms could provide additional perspectives when making decisions, which could enhance overall company performance.

The board of directors is considered as the agents of the shareholders since they are responsible for protecting the interests of shareholders. Moreover, shareholders of the company choosed the directors of the company through election. The financial behaviour and decisions of board members are influenced by their demographic characteristics, financial socialization, experiences, etc. The board director's attitudes and attributes are influencing the firm strategies and its planning to achieve success in the competitive environment. Emphasizing upon demographic factors, studies like Kagzi and Guha (2018) explored how diversity in the boardroom influences firm performance. Female representation on boards of directors is essential to promote gender diversity. Furthermore, organizations must reflect the diversity of the society in which they operate which can help them build strong goodwill among customers. The board of directors can increase company performance through customer trust and brand value. So, the board of directors has to give more focus on brand building and customer satisfaction, since satisfied and loyal customers are the best advertisement source for the company.

Existing literature presents mixed results on the importance of gender diversity's impact on performance of a firm. Singhania et al. (2022) found that gender diversity positively impacts the market performance of Indian firms. Ann and Owen (2017) discovered that only better-capitalized banks experience a favourable effect on their performance due to gender diversity. On the contrary, some studies found that unfavourable association between gender diversity and banking performance (Jadah et al.,2016). Besides there are studies that show that gender diversity has no significant impact on the firm's performance. For example, Sanan (2016a) and Issa et al. (2021) found that board gender diversity is not key determinant of the financial and social performance of firms. From the existing literature, it can be inferred that the level and direction of influence of gender diversity on firm performance is dependent upon board characteristics and socioeconomic factors of the nation.

Nonetheless, countries are emphasizing on the diversity agenda. Table 1 shows the ranking of countries on gender diversity in the boardroom as per DGWBR, 2022 (Deloitte Global's Women in the Boardroom Report). France has the highest of 43 percent gender, attributed to the implementation of quotas. India ranks 29th among 51 countries in gender diversity. To improve diversity on Indian company boards, Stock Exchange Board of India requires that corporations include a matrix showing the board's skills, expertise and competencies in their annual reports. As of March 2019, companies were expected to list the skills, expertise and competences necessary for the board to perform effectively. As of the fiscal year ending 2020, boards were required to disclose in their annual reports which directors matched those skills, expertise and competencies. As an emerging country, India's recent corporate governance reforms reflect the national government's positive attitude. Its improvs the smooth functioning of boards across Indian companies (Mahadeo et al.,2012). The socio-cultural attitude of the country determines the direction of the impact of board diversity (Du, 2016).

Table I.1: Percentage of board seats held by women

Country	Percentage of women director	Country	Percentage of women director
France	43.2	Ireland	27
Norway	42.4	Spain	26.3
Belgium	36.6	Malaysia	24
Italy	34.9	USA	23.9
Sweden	34.7	Portugal	23.3
Finland	32.7	Poland	22.9
New Zealand	31.9	Switzerland	22.5
South Africa	31.8	Israel	22.4
United Kingdom	30.1	Nigeria	21.7
Denmark	29.6	Bermuda	19.1
Australia	29.6	Thailand	17.8
Germany	28.9	Philippines	17.7
Netherlands	28.6	Singapore	17.6
Austria	28.2	India	17.1
Canada	27.8	Luxembourg	15.5

Source: DGWB report, 2022

To increase diversity in boards of Indian company, SEBI mandated that companies disclose a matrix detailing the board's skills, expertise, and competencies in their annual reports. Which are required for board to functioning effectively. As of the fiscal year ending 2020, boards were required to disclose in their annual reports which directors matched those skills, expertise, and competencies. As an emerging country, India's recent corporate governance reforms reflect the national government's positive attitude toward improving the smooth functioning of Indian boards (Mahadeo et al., 2012).

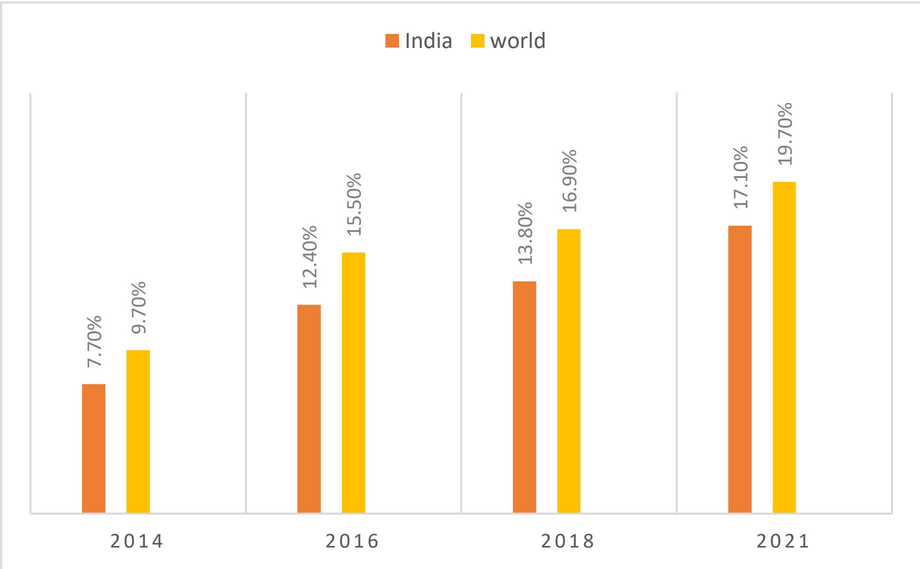

Figure 1. 6: Board seats held by women

Source: Deloitte Global's Women in the Boardroom Report 2022

According to Deloitte Global's Women in the Boardroom report 2022, only 17.1 percent of board seats in India are held by women, up from 7.7 percent in 2014 (Figure 1.6). It is required that the representation of women in key positions at corporates should increase and fill the gap between the ideated measures and ground realities.

Since, influence of board gender diversity on financial performance of organization has not received much attention in research, it seems reasonable to investigate whether its implementation has improved board gender diversity of banks and more importantly if it has been uniformly improved across PSBs and PVBs in India. The structural characteristics of PSBs and PVBs are not the same, their board structure, consequently, may be different. Furthermore, we study the role of board gender diversity on the PSBS and PVBs profitability position.

1.3 Banking efficiency

With the introduction of financial reforms, India has seen the entry of many foreign banks adding to the growing competition. To address issues in the banking sectors and to improve performance of the sector, banks must be more efficient. An efficient bank will ensure productive utilization of financial resources, lower costs, improved profitability and better service quality. Besides, it makes banks more resilient to shocks happening economy. (Diallo, 2018). Efficiency of banks refers to making the best use of current resources leading to generate more output for every unit of input. In simple terms, efficient banks perform better with less inputs (Saji et al., 2023). Efficient banks can easily achieve high profitability through lowering their non-performing assets (Syed, 2020). Moreover, efficient banks are able to perform better due to their lower operational costs and better productivity. Efficient banks can expand their business through deposits and credit, reach out to customers, and eventually, help policymakers in their decision-making process by using developed decision-making tools (Maity & Sahu, 2022).

Empirical studies have established that the efficiency of banks is crucial for better performance of the banking sector (Dsouza et al.(2022); Rakshit (2022); Brahmaiah and Ranajee (2018); Olson and Zoubi (2011)). The efficiency of banks, in turn, is affected by a number of factors. In the Indian context particularly, Narwal and Pathneja (2015) found that, in addition to better utilization of resources, bank's diversification policies have a major impact on efficiency. It boosts total production and, ultimately, profits. Another study, by Manoj (2010), found that rural branches have a crucial role in overall banking efficiency. So, the banking sector has to adopt new technologies, convenient lending processes and proper strategies for risk management of rural branches that can help to achieve overall banking efficiency.

Additionally, to increase asset quality by lowering bad assets inside the bank, banks must closely monitor their lending regulations. (Maiti and Jana,2017). Efficiency can improve through the proper adoption of human resource management. (Soni,2012). Additionally, asset quality, management effectiveness, and capital adequacy are other few factors that have a direct effect on how effectively banks operate (Bhatia & Mahendru, 2015).

Numerous studies have evaluated bank efficiency from various angles such as profitability efficiency (Olson and Zoubi (2011); Rakshit (2022)), cost efficiency (Sholikha (2023); Rakshit (2022)), technical efficiency (Abdul-Wahab & Haron,(2016); Goswami et al.(2019); Hassan (2019); Sufian (2011); Alhassan et al. (2016)), relative efficiency (Zeitun (2012) ; Kuchler (2013)) so on. In this study, we make an attempt to comprehensively examine both profitability and marketability efficiency of banks. The capacity of banks to effectively handle their funds and generate more profit through their funds is referred to as profit efficiency. So, if a bank is effective in terms of profit, it will also be effective in terms of costs and volume of production. Additionally, banks can make greater profits by using their financial assets. When it comes to marketability efficiency, it is measured by the income and profit generated by the bank in the stock market. In other words, market efficiency is the ability of banks to make a profit through buying and selling of their securities with minimum additional transaction costs. As a result, the overall bank performance picture can be adequately mapped by profitability and marketability efficiency.

Most literature on efficiency mainly addressed the profitability aspect by emphasizing on the input and output variables, ignoring their possible impact on the capital market. Although profitability efficiency can be used to illustrate how well a bank operates, it does not provide any information regarding how well its stock is marketed. Even though profitability efficiency gives an idea about the profitable position of banks, marketability efficiency gives an actual position and present position of banks in the industry and people's perception of banking policies.(Seiford & Joe Zhu, 1999). Banking performance is affected by more than just the quantity of bank-specific factors. It all comes down to how efficiently banks use their resources. So, in this study, we first evaluate how profitability efficiency effect on performance of banks in India, then subsequently, we try to compare the profitability efficiency and marketability efficiency of Indian banks. Additionally, we compared the profitability efficiency and marketability efficiency between public and private sector banks.

1.4 Inflation expectation

Inflation expectation is the rate of inflation expected by distinct sections of the people including workers, business people, and investors in the future. The Reserve Bank of India has been conducting different surveys to measure inflation expectations in the Indian economy. These surveys are aimed for different agents and their accuracy in predicting inflation expectations. Industrial outlook survey, inflation expectations survey of households, survey of professional forecasters, and consumer confidence survey are the different inflation expectation surveys prevailing in the Indian economy. Since 1998, the manufacturing Industrial Outlook Survey (IOS) has been performed quarterly to obtain inflation expectation for industries. The survey mainly attempts to collect qualitative assessments of the current quarter's business environment and expectations for the future quarter. In the inflation expectation of household's concern about price changes or inflation expected by Indian households. So the survey provides an idea about inflation and inflation expectations of the economy and how it affect household's financial and consumption decisions. Similarly, the Survey of Professional Forecasters (SPF) focuses on professionals' inflation expectations. In this survey, 42 professional forecasters (outside the RBI) provide information about the level of economic development, current price changes happening in the economy, and future expected price changes of professionals. The Consumer Confidence Index (CCI) is a survey that is done every two months to determine how optimistic or pessimistic consumers feel about their financial status. The current index examines the change in consumer impression of his/her economic status over the previous year, while the future expectations index analyses what the consumer believes about his/her financial situation in the next year. The survey's major factors include the economy, employment, price level, income and spending.

Households' inflation expectations have attracted central banks' interest, as they are important in devising effective monetary policy. The level of inflation expectation has a significant impact on actual inflation and, as a result, the central bank's capacity to attain price stability. For central banks, managing inflation expectations has become an important instrument in implementing monetary policy. Several recent research show how the financial behaviour of a family can be influenced by inflation expectations. When people expect high inflation in the coming year, they try to invest in short term investments rather than long-term investments. If people expect less inflation rate in the future, then they try to borrow fund with fixed interest. (Malmendier and Nagel, 2016). The relationship of an inflation expectations on financial decisions and investment decisions of individuals are supported by the economic theory, which is proven with the help of the financially motivated investment experiment conducted by Armantier et al. (2015). The formation of inflation expectations of people is influenced by their day-to-day experiences with price changes and information about economic and social conditions. Expectation of price hike indicates a greater willing to acquire hard goods (D'Acunto et al. 2016).

The RBI is undertaking the Inflation Expectations Survey of Households (IESH) in the biggest cities in India since September 2005(Samanta and Kumari, 2006). To discover the inflation expectation of households, they have been employing the WPI and CPI-IW. RBI introduced the IESH across 12 cities in India which exhibited fruitful information to the policymakers regarding inflationary pressure and financial variables. The inflation expectations are built by individuals based on their consumption basket and should not be considered as a benchmark for an official measure of inflation (Pattanaik et al., 2020). The higher rate of inflation expectation affects the financial behaviour of individuals and financial institutions. Which in turn affect their ability to allocate resources in various sources (Boyd et al., 2001).

Household expectations influences the spending and saving decisions in an economy. Thus, it can lead to actual inflation in the economy (Coibion et al., 2020). Inflation defines the price changes happening in the economy. It can interfere with the financial and economic efficiency of the country. Theoretically, inflation is affected by the financial instruments and financial assets of banks, and ultimately it affects the financial profitability and financial performance of firms. Guru et al. (2002) found a positive impact of inflation and macroeconomic variables on banking profitability. Later, an unfavourable impact of inflation expectation on banking performance indicators- ROA, ROE found by Saeed and Saeed (2014) & Khan et al. (2014). High inflation always hits the long-term lending for small-scale businesses and start-ups by fiscal contracting. It is visible that inflation affects banking profitability, performance and cost efficiency (Tan and Floros, 2012). Developing economies like India are always concerned about macroeconomic indicators like GDP and inflation. GDP always creates a positive association between banking profitably, while inflation creates a negative impact on banking profitability which is measured by ROA (Marinkovic &Radovic, 2010). Developing countries can use inflation as the ladder for economic development. Additionally, they try to fix inflation at a minimum level, so it can create favourable conditions for development.

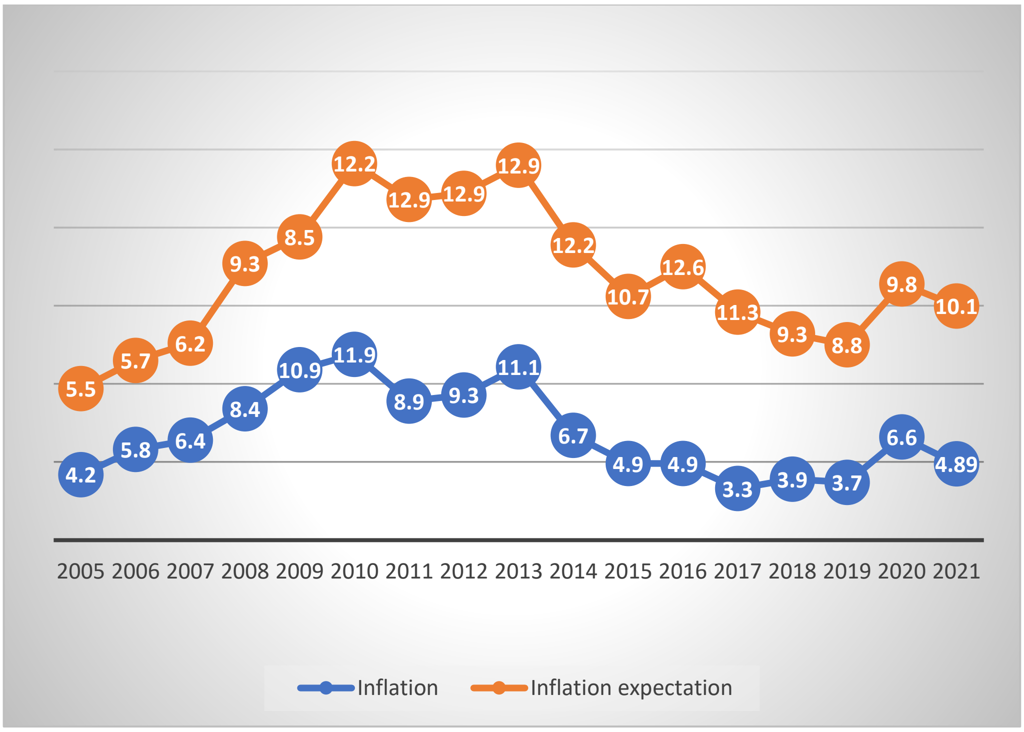

Figure 1.7: Trend of inflation and inflation expectation

Source: Author's compilation

The figure 1.7 above shows that inflation expectation followed the path of the inflation. Inflation expectations are crucial to modern macroeconomic research because they influence actual inflation (Rudd & Whelan, 2007). According to RBI Report 2020, Household inflation expectations in India have been found to be very sensitive to actual inflation, with individual household characteristics such as age profile, profession, and geographic location all contributing to variances in expectation formation.

Banks and non-bank financial intermediaries have traditionally been responsible for converting household savings into corporate investment, monitoring investments, allocating money and spreading risk (Dash et al., 2020). It is important that the bank's financial performance to be periodically assessed. The performance of banks may be impacted by both internal and external factors (Al-Tamimi and Hussein, 2010). The internal elements include unique features of each bank, which are mostly determined by internal decisions made by the management and the board. Sector-specific or national variables are outside the purview of banks, yet have an impact on bank profitability that are known as external or macroeconomic factors. The transient and frequently unexpected nature of macroeconomic conditions continues to generate great interest in the relationship between inflationary conditions and bank performance. For strategic planning in a highly competitive business climate, it is constantly necessary to stay up-to-date on the changing effects of inflationary conditions on bank profitability. Particularly, we aim to investigate how inflation expectation influences on performance of banking industry in India.

1.5 Oil price

The level of variation happening in price of oil at the global level and national level over the years is called oil price volatility. It is a measure of how much the price of oil deviates from its average or expected value. Energy is essential for promoting national development. Since natural gas and crude oil are the two main components in the production process, they are of vital importance for economic activities as well as for capital market performance (Morana 2017); (Lee and Lee, 2019)). The consequent impact of changes in their prices are seen in both the real and financial sectors (Narayan & Gupta, 2015). The oil price changes affect bank's liquidity position, capital structure, and worth of capitalization (Lee & Lee, 2019).

In recent years, policymakers and researchers have given more focuses to oil price changes, the characteristics of oil prices, and how it affects in the economy. The effect of oil price on the economy has changed in the present era. The importance of oil price has increased drastically, due to the need of oil for the development and modernization of the nation. The availability of oil can determine the level of development of the country. Oil volatility changes are measured by the deviation of oil price from the expected or actual price of oil. Oil prices can be subject to significant and rapid changes due to various factors, and the extent of these fluctuations is defined by the concept of volatility.

India is one of the largest oil-importing countries in the world. However, India accepts the prevailing oil price of the international market due to the large gap between supply and demand. However, they typically use discretion to pass on price hikes to local prices. The regulated pricing mechanism in India accomplishes national policy goals including controlling the rate of inflation, development of every sector, and equity distribution, while also acting as a safety net against variations in global prices.

Budgetary expenditures (subsidies) maintain the managed price system for oil, despite the fact that oil revenues is the a major part of the government's total revenue. Significant consequences for how swings in international oil prices influence the macroeconomy stem from the transmission regulations, which is now on the reform agenda. Rising international price of oil leads to increased import bills, worsened trade terms, deteriorated trade balance, and reduced aggregate demand, in addition to supply-side consequences (Das et al.,2014).

As the world's most populous country and the third-largest oil consumer, India's demand for oil and simultaneous consumption have increased drastically, particularly since the economic reforms in 1991. Energy is essential for promoting national development. Since natural gas and crude oil are the two main components in the production process, changes happening in the oil demand and supply have a noticeable influence on the actual economy (Narayan & Gupta, 2015). As Indian banks provide large loans to the oil and gas industries of India, changes happening in the oil price can bring some changes on the value of assets and securities held by banks. When the oil prices on the global market are out of equilibrium, India as a second largest importer of oil, puts pressure on the central banks to raise the country's inflation rate. The increasing oil price can lead to a high inflation rate in the economy. So, to control rate of the inflation in the country, RBI will increase the interest rate of the banking system. The adjustments making through the interest rates is known as monetary policies of RBI. The RBI adjusts its monetary policies through the interest rate of banks based on inflation. This can create a significant impact on the interest income of banks as well as interest to investors. Finally, it will influence the profitability position of banks.

In India, oil is the second-largest source of total energy supply in the country after coal, and it also accounts for the majority of final consumption. The need for oil is growing rapidly. However, due to a lack of natural resources and stagnating local output, India relies heavily on imports to bridge the demand-supply imbalance. This may lead to a higher fiscal deficit in the country. This will add to a country's current account deficit, particularly if the deficit is financed through external borrowing. This can result in increased dependency on foreign capital and make the country more vulnerable to changes in global financial conditions. Furthermore, the oil and gas sector is one of India's eight core industries and among the most traded commodities. As a result, it is inevitable that major fluctuations in global crude oil prices would have far-reaching consequences for the Indian macroeconomic system.

Similarly, global crude oil price moves have an impact on the market performance of stocks. As the Indian stock market has expanded, the Indian financial sector has been increasingly connected with the global financial system over time (Sahoo, 2021). In particular, regular shocks to the price of oil have shifted the conditions of trade, due to different types of inflations namely cost-push and demand-pull inflation. It is caused by oil price changes across nations and continents. Oil price variations would affect the commodities prices in two ways – cost-push inflation and demand-pull inflation. In cost-push inflation, the price of goods and services increase due to higher oil price. Secondly, in demand-pull inflation, the price of the commodities is increasing due to the high demand for oil. And it will result in inflation in the country (Sarmah and Bal 2021).

Indian banking performance is impacted by oil prices through two different channels: directly through the banks' own asset portfolio and indirectly through the country's inflation rate. For example, shocks to the price of oil may have a direct impact on bank performance through increased lending associated with oil, shifts in monetary policy, economic activity, or a surplus of liquidity. Since the price of oil affects government's expenditure, which in turn affects business and bank profitability through loans to the oil industry. Inflation and the nation's economic development serve as another indirect pathway. Increased inflation in the nation due to higher oil prices may result in increased bank lending and confidence as well as a decrease in bad assets.

Empirical studies have established that oil price influences the performance of the banking sector. Killins & Mollick, (2020) found that as oil prices rise, the banking industry absorbs the shock positively through monetary transactions like trading in the derivatives market, capital raising, and so on, resulting in better profits. To the contrary, the oil price of the country creates negative impact on banking performance through liquidity position and managerial inefficiency in handling the risk. However, a stable economy can easily handle the negative impact of oil price on banking performance (Lee and Lee,2019). Furthermore, increasing oil price can lead an increase in nonperforming assets and the failure of firms due to loss. It will adversely affect the performance of banks (Al-Ghazali and Mirzaei, 2017). Jin et al. (2022) found that oil price can influence the banks through three oil shocks namely, oil supply shocks, aggregate demand shocks, and oil specific demand shocks. Alsagr and Almazor (2020) discovered that oil exporting countries not only mitigate the negative impact of geopolitical risk on banking profitability but also assist banks to create profits. In contrary Saif-Alyousfi et al. (2021) argue that oil price shocks are influencing banks through macroeconomic variable and there is no direct effect on banking performance. According to Belkhaoui (2023), the developed banking sector can manage the risk involved in the oil price changes and reduces the negative impact on economy.

Kilian and Zhou (2022) find that household inflation expectations increased or decreased significantly in response to nominal gasoline price shocks. Moreover, oil price variations affect breakeven inflation, inflation expectations, inflation risk premium, and liquidity risk premium, all of which are influenced by investor risk aversion Hammoudeh and Reboredo (2018). Price fluctuations in gasoline can impact the production costs of other items, both directly and indirectly. If cost increases are passed on to consumers, it's possible that non-energy consumer prices will show a delayed rise (Kilian & Zhou, 2021). In contrary Alessio (2013) discovered that oil prices have no significant impact on long-term inflation expectations. The association between oil prices and long-term inflation expectations is indirect, perhaps due to weak economic conditions and a shift from price stability.

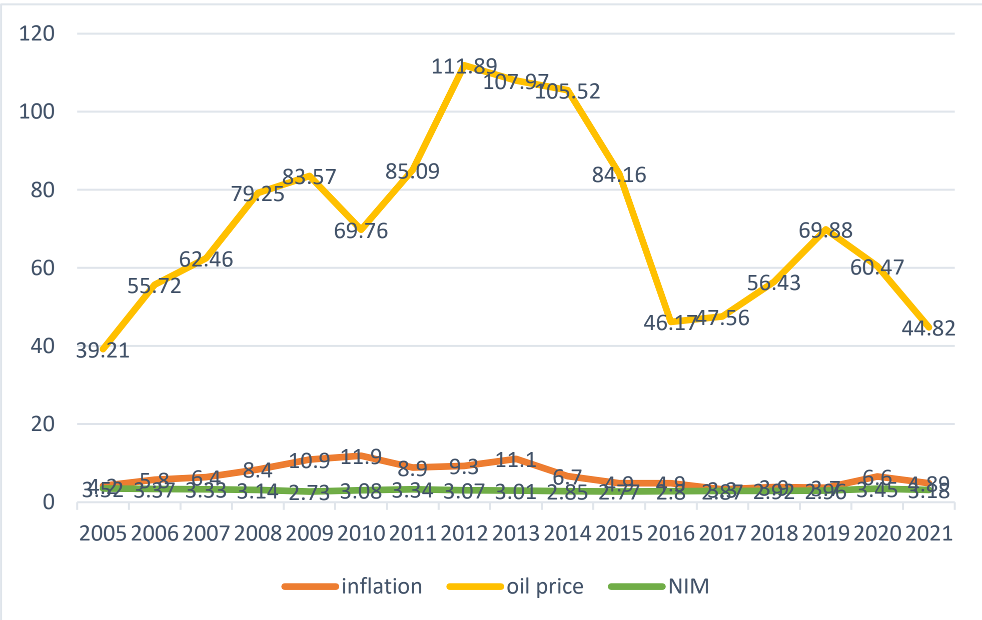

Figure 1.8: Trend of oil price in India

Source: Author's compilation

The figure 1.8 above shows the trend of oil price of the country along with net interest margin and inflation. The figure 1.8 is showing that that oil price has influences on the trend of inflation and net interest margin (NIM).

India is largely depended on oil imports, it will affect the price mechanism of the country, since oil price have influence on inflation and economy development. These price changes affect the production and performance of most of the industries, which will affect financial system of the country. Since oil price have important role in Indian economy, it is important to study about how oil price changes affect banking performance.

1.6 Statement of problem

Performance of banking sector is known to be dependent upon macroeconomic factors, industry-specific and bank-specific variables. The impact of these factors on banking performance have been widely discussed over previous literature. Nonetheless, with changing dynamics of the banking system in India, it is vital to look into additional dimensions bringing an impact on the performance of the sector. For instance, it is important to investigate whether the implementation of the Companies Act 2013 has improved board gender diversity of banks and more importantly if it has been uniformly improved across public and private sector banks in India. Further, the impact of board gender diversity on the performance of PSBs and PVBs in India can highlight the role of gender diversity in decision-making within the board.

The performance of the banking sector is improved if banks are more efficient. An efficient bank will ensure the productive utilization of financial resources, lower costs, improved profitability, and better service quality. The overall banking efficiency is determined by profitability efficiency and marketability efficiency. Hence, it is meaningful to assess profitability efficiency and marketability efficiency of banks in India and their impact on banking performance. Efficiency analysis will help the banking industry to optimize the production process and resource allocation.

Macro-economic variables have a significant impact on profitability position of banks. The transient and frequently unexpected nature of most macroeconomic conditions continue to generate great interest in the relationship between inflationary conditions and bank performance. Policy makers use inflation expectation to understand actual inflation of the economy, which will help them attain stability of economy. Inflation expectation affect banking performance through the monetary policies of the country. Indian economy gives more focus on inflation expectation, since it gives a crucial image about inflation and will help to make strategic decisions for tomorrow. The authorities have to take care of the growing inflation expectation in the country through proper economic policies. Inflation expectation can be used for enhancing banking performance and economic development, if it is handled properly.

Energy is essential for promoting national development. Natural gas and crude oil are the two main components in a production process and they hold vital importance in economic activities as well as for the better performance of capital market (Lee & Lee ,2019). Changes in oil prices impact both the real and financial sector of an economy (Narayan & Gupta, 2015). The banking sector is affected in terms of capitalization earning, capital structure and level of liquidity (Lee & Lee, 2019). Due to India's large dependency on imports, changes in the price of oil have a substantial influence on its economy through a number of price transmission mechanisms. An assessment of whether oil price has a direct or indirect impact on the banking performance can indicate if oil price affects the performance of banks through banking related activities or it is because of macro-economic variables of an economy.

1.7 Research Gap

Following gaps in the existing literature call for a comprehensive study to analyse the performance of banking sector in India.

- Very few studies have addressed the impact of board gender diversity on performance of financial institutions in India. Besides, the divergence of this impact across public and private sector banks not been studied.
- Studies were found analysing banking efficiency and banking performance. Very few studies have analysed the impact of both profitability efficiency and marketability efficiency as determinants of banking performance.
- Studies are available on the role of inflation in explaining banking performance. However, studies addressing the role of inflation expectation on banking performance especially in the Indian context have not been found.

- Oil price as determinant of banking performance has not been explored much in the Indian context. Moreover, no study has been found to look into the moderating role of inflation expectation on the relationship between oil price and banking performance.

1.8 Research Questions

In order to fulfil the research gaps, the present study is a modest attempt to find out the answers of the following research questions:

- Has the implementation of Companies Act, 2014, improved gender diversity uniformly across listed public and private sector banks in India?
- Does gender diversity have an impact on banking performance India?
- What is the level of profitability efficiency and marketability efficiency for listed public and private sector banks in India?
- Does Indian banking sector have high profitability efficiency compared to marketability efficiency?
- Does profitability and marketability efficiency have an impact on banking performance in India?
- Does inflation and inflation expectation have an impact on banking performance in India?
- Does oil price have an impact on banking performance in India?
- Is the impact of oil price on banking performance direct or indirect in India?
- Does inflation expectation have a moderating effect on the relationship between oil price and banking performance in India?

1.9. Research Objectives

The present research work aims to fulfil the following objectives:

- To examine the association between board gender diversity and banking performance.
- To determine the relationship between efficiency and banking performance.
- To determine the association between inflation expectation and banking performance.
- To investigate the association of oil price with banking performance.

1.10 Research Hypothesis

- There is a positive association between board gender diversity and banking performance.
- There is a positive association between profitability efficiency and banking performance.
- There is a positive association between marketability efficiency and banking performance
- There is a negative association between inflation expectation and banking performance.
- There is a negative association between inflation and banking performance.
- There is a negative association between oil price and banking performance.
- There is a direct impact of oil price on banking performance

1.11 Limitation of the study

This study makes a noble attempt to provide a comprehensive analysis on the various factors affecting banking performance in India. The scope of this study is limited to the Indian banking sector. A cross-country analysis taking into consideration other emerging nations would be able to provide a comparative picture of the role of the various determinants of banking performance.

1.12 Plan of the Study

The research work is organized to be presented in eight chapters as hereunder:

- ❖ Chapter 1: Introduction
- ❖ Chapter 2: Literature Review
- ❖ Chapter 3: Data and Methodology
- ❖ Chapter 4: Board Gender Diversity and Banking Performance
- ❖ Chapter 5: Banking efficiency and Banking performance
- ❖ Chapter 6: Inflation expectation and Banking performance
- ❖ Chapter 7: Oil price and Banking performance
- ❖ Chapter 8: Conclusion