



## Cost-benefit analysis of scheduled commercial banks in India

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### Abstract

This paper examines the cost–benefit trends of Scheduled Commercial Banks in India during 2016–2025, focusing on the cost of deposits, cost of borrowings, return on advances, and return on investments. The analysis reveals that both deposit and borrowing costs declined steadily until 2021–22, followed by a sharp rise in subsequent years due to monetary tightening and policy changes. Conversely, returns on advances and investments declined initially but showed recovery from 2021–22 onwards. Public sector banks generally incurred higher costs, private banks consistently recorded higher returns, and foreign banks maintained lower costs with moderate returns. The findings highlight the evolving financial performance of Indian banks under changing economic and policy conditions, offering insights for policymakers, regulators, and stakeholders.

**Keywords:** Scheduled commercial banks, cost-benefit analysis, deposits, borrowings, advances, investments, public banks, private banks, foreign banks, banking efficiency, india

### Introduction

The banking sector is a cornerstone of economic growth, serving as the primary channel for mobilizing savings and providing credit for trade, industry, and commerce. Efficient banking not only ensures the smooth flow of funds but also supports investment, capital formation, and overall economic development. In India, Scheduled Commercial Banks (SCBs) play a pivotal role in this process. SCBs include public sector banks, private sector banks, and foreign banks, each contributing differently to deposit mobilization, lending, and investment activities.

Capital formation is essential for sustaining economic growth, and banks help transform individual and corporate savings into productive investments. Savings in financial assets, while safe, are subject to inflationary pressures; savings in real assets may not always contribute to productive activities. Banks overcome these challenges by offering a range of deposit instruments with varying liquidity, safety, and returns, thereby encouraging savings and ensuring efficient allocation of funds for development purposes.

The Indian banking sector has undergone significant structural changes over the decades. A major turning point was the nationalization of 14 major private banks in 1969, followed by another six in 1980, which helped expand branch networks and increase deposit mobilization. The liberalization and reform initiatives of the 1990s, guided by the Narasimham Committees, further strengthened the efficiency, productivity, and financial stability of banks.

Despite these reforms, the dynamics of costs and returns remain critical for understanding bank performance. Cost of deposits, cost of borrowings, return on advances, and return on investments are key indicators of a bank's financial health and efficiency. Public banks generally operate with higher costs, private banks often achieve higher returns, and foreign banks maintain comparatively lower costs with moderate but stable returns. Studying these trends over a period provides insights into how banks adapt to changing economic conditions, monetary policies, and market challenges. This study focuses on the period 2016–2025, a time marked by evolving market conditions, policy changes,

and economic disruptions. By analyzing the cost-benefit trends of SCBs, the research aims to highlight differences in financial performance across bank types and provide valuable insights for policymakers, regulators, and stakeholders to support sustainable growth and stability in the Indian banking sector.

### Review of Literature

1. Shobana V.K. and Shanthi G. (2010) studied the profitability of foreign banks operating in India using a multi-discriminant model. The study analyzed data from 1996–97 to 2004–05 and concluded that among 15 profitability determinants, only a few ratios such as Interest Earned/Total Assets and Earning Assets/Shareholders' Equity significantly influenced bank profitability. The findings highlighted the growing importance of foreign banks in the post-reform era and their strategic focus on efficiency and asset utilization.
2. Bodla B.S. and Richa Verma Bajaj (2010) examined the efficiency of private sector banks in India using Data Envelopment Analysis (DEA). The study covered 29 private banks from 1998–99 to 2005–06 and analyzed inputs such as interest and non-interest expenses, and outputs including advances, deposits, and investments. Results revealed that only a small percentage of private banks were fully efficient, indicating scope for improving operational efficiency and reducing non-performing assets (NPAs).
3. Mutarak Ali E., David Sam Jeyakumar G.S., and Senthil P.L. (2011) studied the service quality of Indian banks in Thanjavur District using survey data. The research focused on five service quality dimensions: tangibles, reliability, responsiveness, assurance, and empathy. It concluded that banks had made significant efforts to enhance service quality, which is critical for customer satisfaction and competitiveness in the global market.
4. Bires K. Sahoo and Anandadeep Mandal (2011) analyzed the performance of banks in India during the post-transition period (1997–2005). Using DEA, they measured productive performance, scale elasticity,

efficiency, and capacity utilization. The study found positive trends in technical efficiency, though nationalized banks still lagged in cost efficiency compared to private and foreign banks. This indicates that while reforms improved efficiency, further cost-optimization strategies were necessary.

5. Bhagirathi Nayak and C. Nahak (2011) examined the performance of public sector banks in the post-liberalization period using accounting ratios and principal component analysis. The study constructed a performance index covering profitability, financial efficiency, operational efficiency, and financial soundness over ten years. The findings suggested that reform measures strengthened the stability and soundness of public sector banks, with the State Bank of India maintaining the top position in operational and financial performance.

Collectively, these studies highlight that while Indian banks have made considerable progress in efficiency, profitability, and service quality, differences remain between public, private, and foreign banks. Cost management, return optimization, and strategic reforms are critical for enhancing overall banking performance and supporting economic growth.

### Statement of the Problem

Deposit mobilization, cost management, and return optimization are critical issues for Scheduled Commercial Banks (SCBs) in India. The performance of banks directly impacts economic growth by determining the availability of funds for trade, industry, and investment. Despite reforms and technological advancements, banks face challenges in maintaining a balance between the cost of deposits, cost of borrowings, and returns on advances and investments.

In recent years, factors such as changing monetary policies, market fluctuations, and economic disruptions have influenced the cost-benefit structure of banks. For instance, declining deposit rates may affect the willingness of individuals and corporations to save, while rising borrowing costs may limit credit flow to productive sectors. Similarly, variations in returns on advances and investments affect the profitability and efficiency of banks.

Given these challenges, it becomes essential to analyze the trends in costs and returns of SCBs, comparing public, private, and foreign banks, to understand their financial performance and efficiency. This study aims to provide insights into how banks have managed their resources between 2016 and 2025, identify factors affecting cost-benefit trends, and highlight areas requiring policy intervention or operational improvement.

### Objectives of the Study

The following are the main objectives of the present study

1. To analyze the cost of deposits of Scheduled Commercial Banks in India.
2. To examine the cost of borrowings of public, private, and foreign banks.
3. To evaluate the returns on advances provided by different banks.
4. To assess the returns on investments of Scheduled Commercial Banks.
5. To compare cost-benefit trends among public, private, and foreign banks during 2016–25.

### Methodology

The study is analytical and descriptive in nature and is based primarily on secondary data. The data were collected from

- Reserve Bank of India (RBI) publications
- Annual reports of scheduled commercial banks
- Journals, research articles, and official websites

The study covers a period of 2016–17 to 2024–25 and includes public, private, and foreign banks.

### Data Analysis Tools

- **Ratios:** Cost of deposits, cost of borrowings, return on advances, and return on investments
- **Statistical measures:** Mean, standard deviation, and trend analysis

This approach allows a comparative analysis of the cost-benefit efficiency of different types of banks over the study period, highlighting patterns, trends, and performance differences.

### Analysis and Discussion

The study evaluates the cost-benefit trends of Scheduled Commercial Banks in India from 2016–17 to 2024–25, focusing on public, private, and foreign banks.

1. **Cost of Deposits (Table 1):** Deposit costs declined steadily from 2016–17 to 2022–23 for all banks, with public banks having the highest rates and foreign banks the lowest. A slight rise in 2023–24 and 2024–25 reflects market adjustments and policy changes.
2. **Cost of Borrowings (Tables 2 & 3):** Borrowing costs followed a similar trend, decreasing until 2021–22. From 2022–23, costs surged sharply due to monetary tightening and rising interest rates, with public banks bearing the highest costs and foreign banks the lowest.
3. **Return on Advances (Table 4):** Returns on advances declined slightly until 2020–21, reflecting lower lending rates. Recovery began in 2021–22, with private banks maintaining the highest returns, followed by public and foreign banks.
4. **Return on Investments (Table 5):** Investment returns also declined until 2020–21 due to lower yields. From 2021–22 onwards, returns started recovering. Public banks consistently earned slightly higher returns than private banks, while foreign banks showed moderate fluctuations.

### Overall Performance

- **Private banks:** Highest returns on advances and relatively stable costs.
- **Public banks:** Higher deposit and borrowing costs but stable investment returns.
- **Foreign banks:** Lowest costs but fluctuating returns.

The analysis highlights that cost management and strategic allocation of funds are crucial for improving bank efficiency. Policy changes, market conditions, and bank strategies strongly influence cost-benefit trends,

impacting overall profitability and contribution to economic growth.

**Cost-Benefit Trends Of Scheduled Commercial Banks In India**

This study analyzes the cost-benefit trends of Scheduled Commercial Banks in India from 2016–25, focusing on deposits, borrowings, advances, and investments. The comparison between public, private, and foreign banks highlights their financial efficiency and responses to changing market and policy conditions.

**Table 1:** Cost-Benefit Analysis of Scheduled Commercial Banks in India – Cost of Deposits (%)

Year	Public Bank	Private Bank	Foreign Bank
2016-17	5.48	5.20	4.00
2017-18	5.29	5.05	3.85
2018-19	5.12	4.92	3.70
2019-20	4.56	4.40	3.30
2020-21	4.11	3.95	3.15
2021-22	3.83	3.70	3.05
2022-23	3.62	3.50	2.90
2023-24	3.84	3.72	3.10
2024-25	4.76	4.50	3.40

Table 1 shows that the From 2016–17 to 2022–23, the cost of deposits for public, private, and foreign banks declined steadily, with public banks having the highest rates and foreign banks the lowest. A slight increase occurred in 2023–24 and 2024–25, reflecting market and policy changes.

**Table 2:** Cost of Borrowings of Scheduled Commercial Banks in India (%)

Year	Public Bank	Private Bank	Foreign Bank
2016-17	6.72	6.60	4.10
2017-18	6.45	6.30	3.95
2018-19	6.10	5.95	3.70
2019-20	5.78	5.55	3.50
2020-21	5.35	5.10	3.20
2021-22	5.20	4.95	3.05
2022-23	6.11	5.80	3.60
2023-24	8.07	7.65	4.20
2024-25	8.50	8.10	4.50

Table 2 shows that the cost of borrowings for all banks declined between 2016–22, with public banks generally higher than private and foreign banks. From 2022–23 onwards, borrowing costs rose sharply, reflecting tighter monetary policy and rising interest rates.

**Table 3:** Cost of Borrowings of Scheduled Commercial Banks in India (%)

Year	Public Bank	Private Bank	Foreign Bank
2016-17	6.72	6.55	4.15
2017-18	6.45	6.25	3.95
2018-19	6.10	5.95	3.70
2019-20	5.78	5.55	3.50
2020-21	5.35	5.10	3.20
2021-22	5.20	4.95	3.05
2022-23	6.11	5.80	3.60
2023-24	8.07	7.65	4.20
2024-25	8.50	8.10	4.50

Table 3 shows that the Borrowing costs declined from 2016–22, reaching the lowest in 2021–22. However, from 2022–23 onwards, costs increased sharply for all banks due to monetary tightening, with public banks bearing the highest rates and foreign banks the lowest.

**Table 4:** Return on Advances of Scheduled Commercial Banks in India (%)

Year	Public Bank	Private Bank	Foreign Bank
2016-17	8.75	10.25	8.80
2017-18	8.62	10.10	8.65
2018-19	8.55	9.95	8.50
2019-20	8.20	9.70	8.25
2020-21	7.95	9.40	7.95
2021-22	8.05	9.55	8.10
2022-23	8.72	10.20	8.65
2023-24	9.15	10.55	8.95
2024-25	9.42	10.80	9.10

Table 4 shows that the Returns on advances slightly declined till 2020–21, reflecting lower lending rates, but showed recovery from 2021–22 onwards, with private banks maintaining the highest returns, followed by public and foreign banks.

**Table 5:** Return on Investments of Scheduled Commercial Banks in India (%)

Year	Public Bank	Private Bank	Foreign Bank
2016-17	7.85	7.55	7.10
2017-18	7.60	7.40	6.95
2018-19	7.42	7.25	6.80
2019-20	7.18	7.05	6.55
2020-21	6.85	6.72	6.30
2021-22	6.95	6.85	6.42
2022-23	7.28	7.10	6.70
2023-24	7.65	7.45	7.05
2024-25	7.92	7.72	7.30

Table 5 shows that the Returns on investments declined steadily till 2020–21, reflecting lower yields, but started to recover from 2021–22 onwards. Public banks consistently earned slightly higher returns than private banks, while foreign banks showed more fluctuations.

**Conclusion**

The study of Scheduled Commercial Banks in India from 2016–17 to 2024–25 indicates significant trends in cost and return management. The cost of deposits and cost of borrowings declined steadily until 2021–22 but increased slightly afterward, reflecting changes in market conditions and monetary policy. Returns on advances and investments initially declined but showed recovery from 2021–22, with private banks consistently earning the highest returns, public banks maintaining stability, and foreign banks experiencing moderate fluctuations.

Overall, the findings emphasize that efficient cost management, strategic allocation of funds, and responsive policies are essential for improving bank profitability and supporting sustained economic growth in India.

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