

Explained: Bank nationalisation of 1969 as the defining economic decision in Independent India

Bank nationalisation undoubtedly remains the most important economic decision taken by any Indian government. Not even the 1991 reforms are comparable in their consequences — political, social and, of course, economic.

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Prime Minister Indira Gandhi spearheaded the nationalisation of banks in India. (Express archives)

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The nationalisation of banks in India is widely regarded as the single most consequential economic decision taken by any government since Independence in 1947. Its impact —

political, social and economic — was so far-reaching that even the sweeping economic reforms of 1991 are often considered less transformative in comparison.

This landmark decision was spearheaded by Indira Gandhi, who, while serving as both Prime Minister and Finance Minister, nationalised 14 of the country's largest private banks on July 19, 1969.

The decision was rooted in the government's commitment to a socialist framework, aiming to align the financial system with broader developmental and social goals. Notably, the process of state intervention in banking had begun earlier, with the nationalisation of the State Bank of India in 1955.

By any measure, this was the defining economic event not just of the 1960s, but also the next several decades as well, according to the third volume of the *History of the Reserve Bank of India* (1967-1981). Its reverberations have yet to die down. From 1951 to 1966, in an effort to consolidate commercial banking, then very fragile, the number of commercial banks was sharply reduced.

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Why was bank nationalisation necessary?

Until the 1960s, the expansion of branches was largely limited to urban areas, and rural and semi-urban areas continued to go unserved, the *History of the RBI* notes. As a result, several economic activities in agriculture, as well as small-scale industrial units and the self-employed, did not have proper access to banking facilities.

This led to the widespread political perception that, left to itself, the private sector was not sufficiently aware of its larger responsibilities towards society. The political class became convinced that privately owned banks needed to be made aware of the credit needs of society.

Private banks were seen as being excessively concerned with profit alone, making them unwilling to diversify their loan portfolios across different scales of economic operation, as this would raise transaction costs and reduce profits, the volume says.

How Indira Gandhi stepped in

The idea of 'social control' of banks, as it first emerged in 1967, was the result of a compromise between two extreme viewpoints on banking held by the political class, then mainly represented by the Congress party.

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Throughout 1968, Indira Gandhi orchestrated the demand for nationalisation. By the start of 1969, it became clear that she and Morarji Desai, her Deputy Prime Minister and Finance Minister, who was steadfastly opposed to nationalisation, would have to part ways. Soon after presenting the [budget](#) for 1969-70, Morarji Desai resigned. Within a few months, the political crisis that had been brewing for about a year finally came to a head. In July that year, the party split into two factions — one led by Indira Gandhi, projecting herself as a revolutionary saviour of the masses, and the other by the Syndicate, portrayed as anti-people and pro-rich.

To press her advantage, Indira Gandhi assumed the Finance portfolio, rightly calculating that she could strike at her opponents far more effectively. Just how determined she was to win the political battle was brought home to the nation when she presented the budget for 1970–71 on February 28, 1970. It put India on a course from which it has still not been able to steer away completely, the *History of the RBI* says.

Setting the stage for nationalisation

At the Congress Working Committee meetings in May 1967, economic policy — especially the meaning of “democratic socialism” — was intensely debated. Bank nationalisation emerged as the central issue. The Committee ultimately endorsed increased state participation in banking, insurance, foreign trade, and food distribution.

It recommended tighter RBI control and reoriented bank lending toward weaker sectors, especially small farmers and enterprises. Leaders like Y B Chavan, Jagjivan Ram, and K Kamaraj pushed for swift action, while Morarji Desai urged caution, citing inefficiencies in public sector banks and administrative challenges in taking over numerous private banks. Meanwhile, Indira Gandhi quietly shaped developments. Desai also met leading bankers in

June 1967, urging them to expand credit to priority sectors and warning of stricter control, the *RBI History* says.

Bankers, represented by the Indian Banks' Association, resisted further intervention, arguing that RBI powers were already extensive. They proposed limited reforms and defended their record, but their concerns were largely dismissed. Public sentiment and political momentum increasingly favoured stronger state control, setting the stage for eventual bank nationalisation.



Prime Minister Smt. Indira Gandhi at meeting of Central Board of State Bank of India in April 1970. (Express Archives)

Gandhi apparently did not consult RBI Governor LK Jha, knowing fully well that he was a strong advocate of social control and not in favour of nationalisation. Unnamed senior officials of the time recounted that when Gandhi called Jha to go over to New [Delhi](#) on July 17, he arrived with a comprehensive note in support of social control. She is said to have told him that he could leave the note on her table and proceed to the next room to help draft the legislation on bank nationalisation.

It is difficult to know exactly what happened in those three days, but one thing was certain: Gandhi had decided to go ahead with immediate nationalisation.

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According to the History of the RBI, a day before the announcement on July 19, she informed IG Patel, Secretary for Economic Affairs, that she had taken the decision to nationalise banks on “political” considerations and that he should prepare a speech within the next 72 hours. Patel is said to have offered two suggestions to Gandhi: first, that foreign banks should not be nationalised; and second, that there was no need to nationalise all banks, and it would be better if only the major banks, which accounted for 85–90 per cent of the total banking business, were nationalised, the *RBI history* says.

Gandhi, it seems, had apprehensions about the support she would receive from officials of the Finance Ministry and the Law Ministry. From most oral accounts, it appears that she asked DN Ghosh, Deputy Secretary in the Finance Ministry, on July 17, to draft the legislation within 72 hours. He was helped by RK Seshadri, Executive Director, who had previously had the experience of preparing the draft legislation in 1965 when TT Krishnamachari was Finance Minister. Jha oversaw the entire drafting process, which was carried out in the RBI offices in Delhi. Many believe that only three or four people were involved in it, the volume says.

Nationalisation set in motion

Initially, banks with deposits of Rs 100 crore were listed for nationalisation. It then emerged that some important banks, like Dena Bank, with deposits of Rs 98 crore, would be left out. The limit was thus lowered to Rs 50 crore. “Raghunatha Reddy, a senior Congressman, wanted that Andhra Bank too should be nationalized but its deposit level was below Rs 50 crore and it had to be left out. The criterion of Rs 50 crore deposits was itself based on the then prevalent RBI classification of banks into two categories—banks with deposits of Rs 50 crore and above, and banks having deposits of less than Rs 50 crore,” the book says.

On July 19, 1969, an Ordinance was promulgated to nationalise 14 major banks with deposits exceeding Rs 50 crore with immediate effect. The Ordinance was signed by the Vice President, VV Giri, who was then also the acting President, with President Zakir Hussain having died a few months earlier.

In a broadcast to the nation that evening, Indira Gandhi said: “As early as December 1954, Parliament took the decision to frame our plans and policies within a socialist pattern of society. Control over the commanding heights of the economy is necessary, particularly in a poor country where it is extremely difficult to mobilise adequate resources for development and to reduce inequalities between different groups and regions”, the *History of the RBI* says.

On July 27, the Sarvodaya Leader Jayaprakash Narayan described the takeover of banks as “wrong and unwarranted”, while addressing a public meeting in Rajkot. He said the step

would not solve the economic ills of the country but would only enhance the power of those in power and the bureaucracy, the book says.

Within the Reserve Bank, the first discussion on nationalisation took place on July 23, at a meeting of the Committee of the Central Board. The proceedings were not recorded except for a cryptic remark: 'There was a brief discussion on the implications of bank nationalization ordinance, the RBI History says. Atal Bihari Vajpayee raised the issue on July 21 by asking about the propriety of promulgating an Ordinance of such significance when the Parliament was to meet within two days, says the book.

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