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Banks Is a Powerful Instrument of the Indian Economy a Case Study in Philosophical Way

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ABSTRACT

"An Institution, such as the banking system, which touches and should touch the lives of millions, has necessarily to be inspired by a larger social purpose and has to sub serve national priorities and objectives." A well-developed banking system provides a firm and durable foundation for the economic development of the country. Banks play an important role in development of Indian economy. After liberalization, the banking industry underwent major changes. The economic reforms totally have changed the banking sector. RBI permitted new banks to be started in the private sector as per the recommendation of Narasimham committee.

Key words Economy, Philosophical, and Banking

INTRODUCTION

The Indian banking industry was dominated by public sector banks. But now the situations have changed. New generation banks with used of technology and professional management has gained a reasonable position in the banking industry. In this paper we look at the type of banks, their role and functioning, Establishment and Role of India's Central Bank.

RBI and the recent banking reforms .We perform a comparative data analysis between GDP and total advances & deposits .We also check whether the Credit Deposit Ratio has any relationship with the GDP. We then perform a regression analysis to check whether there is any relationship between GDP and Bank lending interest rates. We also compare the Flow of credit to Agricultural Sector with the Growth of Agriculture Sector. We conclude the analysis by an overview and analysis of the sectorial deployment of gross bank credit over the last two financial year.

Banking system plays a very significant role in the economy of a country. It is central to a nation's economy as it caters to the needs of credit for all the sections of the society. Money-lending in one form or the other has evolved along with the history of mankind. Even in the ancient times, there are references to the money-lenders, in the form of sahukars and zamindars who lend money by mortgaging the land property of the borrowers.

Towards the beginning of the 20 century, with the onset of modern industry in our country, the need for government-regulated banking system was felt. The British government began to pay attention towards the need for an organized banking sector in the country and the Reserve Bank of India was set up to regulate the formal banking sector in the country. Ever since they were nationalized in 1969, banks have been playing a major role in the socio-economic life of the country. They have to act not only as purveyors of credit, but also as harbingers of social and economic development through a variety of enterprises, many of which may tiny and yet capable of generating productive energies.

IMPORTANCE OF STUDY

India is not only the world's largest independent democracy, but also an emerging economic giant. Without a sound and effective banking system, no country can have a healthy economy. For the past three decades, India's banking system has several outstanding achievements to its credit. It is no longer confined to only the metropolitans, but have reached even to the remote corners of the country. This is one of the reasons of India's growth process.

Agriculture in India has a significant history and it is demographically the broadest economic sector and plays a significant role in the overall socio-economic fabric of India. Finance in agriculture is an important as development of technologies. A dynamic and growing agricultural sector needs adequate finance through banks to accelerate overall growth. Most of the credit-related schemes of the government to uplift the poorer and the under-privileged sections have been implemented through the banking sector. With the passing of the Reserve Bank of India Act 1934, there were improvements in agricultural credit. Earlier, the co-operative banks were the main institutional agencies providing finance to agriculture. But after nationalization of 14 major commercial banks, it was mandatory for them to provide finance to agriculture as a priority sector. Thus, agricultural credit acquired multi-agency dimension.

The government has allocated `10000 crore to the National Bank for Agriculture and Rural Development (NABARD) for refinancing Regional Rural Banks (RRBs) to disburse short term crop loans to small and marginal farmers. The short-term crop loans scheme offers credit to farmers at 7 per cent interest rate. Besides, in order to reduce post-harvest losses, farmers are eligible to get post-harvest loans up to six months at 4 per cent interest rate provided they keep their produce in warehouses. The rural sector in a country like India can growth only if cheaper credit is available to the farmers for their short-and medium-term loans. In addition, the farmers get loans for purchase of electric motors with pump, tractors and other machinery, digging wells or boring wells, purchase of dairy animals and for many other allied enterprises.

PREMIER INSTITUTION

The Industrial Development Bank of India (IDBI) is the premier institution in India purveying financial assistance to the industrial sector projects. It provides direct financial assistance to the industrial concerns in the form of granting loans and advances, and purchasing or underwriting the issues of stocks, bonds or debentures. The creation of the Development Assistance Fund is the special of the IDBI. The Fund is used to provide assistance to those industries which are not able to obtain funds mainly because of heavy investment involved or low expected rate of returns. Assistance from the Fund requires the prior approval by the government. Apart from this, the IDBI even gives guidance to start a business.

TRADITIONAL ROLES

In addition to the above traditional roles, banks also perform certain new age functions which could not be thought of a couple of decades ago. Today, the banking sector is one of the biggest service sectors in India. Availability of quality services is vital for the well-being of the economy. The focus of banks has shifted from customer acquisition to customer retention. With the stepping in of information technology in the banking sector, the working strategy of the banking sector has been revolutionary changes. Various customer-oriented products like internet banking, ATM services, telebanking and electronic payment have lessened the workload of customers. The facility of internet banking enables a consumer to access and operate his bank account without actually visiting the bank premises. The facility of ATMs and credit/debit cards has revolutionized the choices available with the customers. Banks also serve as alternative gateways for making payments on account of income-tax and online payment of various bills like the telephone, electricity and tax. In the modern-day economy where people have not time to make these payments by standing in queue, the services provided by banks are commendable.

ROLE OF COMMERCIAL BANKS IN A DEVELOPING COUNTRY

Besides performing the usual commercial banking functions, banks in developing countries play an effective role in their economic development. The majority of people in such countries are poor, unemployed and engaged in traditional agriculture

There is acute shortage of capital. People lack initiative and enterprise. Means of transport are undeveloped. Industry is depressed. The commercial banks help in overcoming these obstacles and promoting economic development. The role of a commercial bank in a developing country is discussed as under.

MOBILISING SAVING FOR CAPITAL FORMATION:

The commercial banks help in mobilising savings through network of branch banking. People in developing countries have low incomes but the banks induce them to save by introducing variety of deposit schemes to suit the needs of individual depositors. They also mobilise idle savings of the few rich. By mobilising savings, the banks channelise them into productive investments. Thus they help in the capital formation of a developing country.

FINANCING INDUSTRY:

The commercial banks finance the industrial sector in a number of ways. They provide short-term, medium-term and long-term loans to industry. In India they provide short-term loans. Income of the Latin American countries like Guatemala, they advance medium-term loans for one to three years. But in Korea, the commercial banks also advance long-term loans to industry. In India, the commercial banks undertake short-term and medium-term financing of small scale industries, and also provide hire- purchase finance. Besides, they underwrite the shares and debentures of large scale industries. Thus they not only provide finance for industry but also help in developing the capital market which is undeveloped in such countries.

FINANCING TRADE:

The commercial banks help in financing both internal and external trade. The banks provide loans to retailers and wholesalers to stock goods in which they deal. They also help in the movement of goods from one place to another by providing all types of facilities such as discounting and accepting bills of exchange, providing overdraft facilities, issuing drafts, etc. Moreover, they finance both exports and imports of developing countries by providing foreign exchange facilities to importers and exporters of goods.

FINANCING AGRICULTURE:

The commercial banks help the large agricultural sector in developing countries in a number of ways. They provide loans to traders in agricultural commodities. They open a network of branches in rural areas to provide agricultural credit. They provide finance directly to agriculturists for the marketing of their produce, for the modernisation and mechanisation of their farms, for providing irrigation facilities, for developing land, etc.

They also provide financial assistance for animal husbandry, dairy farming, sheep breeding, poultry farming, pisciculture and horticulture. The small and marginal farmers and landless agricultural workers, artisans and petty shopkeepers in rural areas are provided financial assistance through the regional rural banks in India. These regional rural banks operate under a commercial bank. Thus the commercial banks meet the credit requirements of all types of rural people.

FINANCING CONSUMER ACTIVITIES:

People in underdeveloped countries being poor and having low incomes do not possess sufficient financial resources to buy durable consumer goods. The commercial banks advance loans to consumers for the purchase of such items as houses, scooters, fans, refrigerators, etc. In this way, they also help in raising the standard of living of the people in developing countries by providing loans for consumptive activities.

FINANCING EMPLOYMENT GENERATING ACTIVITIES:

The commercial banks finance employment generating activities in developing countries. They provide loans for the education of young person's studying in engineering, medical and other vocational institutes of higher learning. They advance loans to young entrepreneurs, medical and engineering graduates, and other technically trained persons in establishing their own business. Such loan facilities are being provided by a number of commercial banks in India. Thus the banks not only help inhuman capital formation but also in increasing entrepreneurial activities in developing countries.

HELP IN MONETARY POLICY:

The commercial banks help the economic development of a country by faithfully following the monetary policy of the central bank. In fact, the central bank depends upon the commercial banks for the success of its policy of monetary management in keeping with requirements of a developing economy. Thus the commercial banks contribute much to the growth of a developing economy by granting loans to agriculture, trade and industry, by helping in physical and human capital formation and by following the monetary policy of the country development of a country. The "Industrial Revolution" in Europe in the 19th century would not have been possible without a sound system of commercial banking.

In case of developing countries like India, the commercial banks are considered to be the backbone of the economy. Commercial banks can contribute to a country's economic development in the following ways:

ACCELERATING THE RATE OF CAPITAL FORMATION

Capital formation is the most important determinant of economic development. The basic problem of a developing economy is slow rate of capital formation. Banks promote capital formation. They encourage the habit of saving among people. They mobilise idle resources for production purposes. Economic development depends upon the diversion of economic resources from consumption to capital formation. Banks help in this direction by encouraging saving and mobilising them for productive uses.

MONETISATION OF ECONOMY

An underdeveloped economy is characterised by the existence of a large non-monetised sector. The existence of this non-monetised sector is a hindrance in the economic development of the country. The banks, by opening branches in rural and backward areas can promote the process of monetisation (conversion of debt into money) in the economy.

INNOVATIONS

Innovations are an essential prerequisite for economic development. These innovations are mostly financed by bank credit in the developed countries. But in underdeveloped countries, entrepreneurs hesitate to invest in new ventures and undertake innovations largely due to lack of funds. Facilities of bank loans enable the entrepreneurs to step up their investment on innovational activities, adopt new methods of production and increase productive capacity of the economy.

ENCOURAGEMENT TO RIGHT TYPE OF INDUSTRIES

Banks generally provide financial resources to the right type of industries to secure the necessary material, machines and other inputs. In this way they influence the nature and volume of industrial production.

REGIONAL DEVELOPMENT

Banks can also play an important role in achieving balanced development in different regions of the country. They transfer surplus capital from the developed regions to the less developed regions, where it is scarce and most needed. This reallocation of funds between regions will promote economic development in underdeveloped areas of the country.

PROMOTE INDUSTRIAL DEVELOPMENT

Industrial development needs finance. In some countries, commercial banks encouraged industrial development by granting long-term loans also. Loan or credit is a pillar to development.

In underdeveloped countries like India, commercial banks are granting short-term and medium-term loans to industries. They are also underwriting the issue of shares and debentures by industrial concerns. This helps industrial concerns to secure adequate capital for their establishment, expansion and modernisation. Commercial banks are also helping manufacturers to secure machinery and equipment from foreign countries under instalment system by guaranteeing deferred payments. Thus, banks promote or encourage industrial development.

PROMOTE COMMERCIAL VIRTUES

The businessmen are more afraid of a banker than a preacher. The businessmen should have certain business qualities like industry, forethought, honesty and punctuality. These qualities are called “commercial virtues” which are essential for rapid economic progress. The banker is in a better position to promote commercial virtues. Banks are called “public conservators of commercial virtues.”

CONCLUSION

To conclude, we can say that the modern economies of the world have developed primarily by making best use of the credit availability in their systems. India is on the march; far reaching socio-economic changes are taking place and Indian banks should come forward to play this role in the process. The role of banks has been important, but it is going to be even more important in the future.

Thus, banks in a developing country have to play a dynamic role. Economic development places heavy demand on the resources and ingenuity of the banking system. It has to respond to the multifarious economic needs of a developing country. Traditional views and methods may have to be discarded.

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