ROLE OF COMMERCIAL BANKS IN THE ECONOMIC DEVELOPMENT OF INDIA

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Abstract - Banks have always played an important position in the country's economy. They play a decisive role in the development of the industry and trade. They are acting not only as the custodian of the wealth of the country but also as resources of the country, which are necessary for the economic development of a nation. The general role of commercial banks is to provide financial services to general public and business, ensuring economic and social stability and sustainable growth of the economy. Commercial Bank in India comprises the State Bank of India (SBI) and its subsidiaries, nationalized banks, foreign banks and other scheduled commercial banks, regional rural banks and non-scheduled commercial banks. The total numbers of branches of commercial banks are more than 50,000 and the regional rural banks are approximately 8,000 covering 280 districts in the country. Commercial banks mostly provide short term loans and in some cases medium term financial assistance also to small scale units. Most of the commercial banks have got specialized units in their administrative structure to take care of the financial needs of the small scale industrial units. As we know that the Agriculture is the backbone of economy of any country like India. Research is based upon the secondary data. Which provide the findings on commercial banks and how it helpful in economic development. The main objective of the study is to critically examine and analyze the role of commercial banks on economic growth in India. The study portrays how loans and credit affect the GDP and consequently the level of economic growth of India.

Keywords - social stability, rapid, realized, tax, GDP.

I. INTRODUCTION

Activities of the commercial banks in India are expanding at a rapid space during the period after Independence. There is territorial as well as functional. Expansion of the activities of the bank. Banks which are conservative and conventional in their approach have come out from their shell and face the challenges of planned economic growth. In recent years non-conventional sectors are receiving the attention of commercial banks in India. A better understanding of the implications of financing non-conventional sector by commercial banks is possible only if one looks back the position of commercial banks during the pre-nationalization era. Banking in India before nationalization.

Commercial Banks are is the institutions that ordinarily accept deposits from the people and advances loans. Commercial Banks also create in India; such banks alone are called Commercial Banks which have been established in accordance with the provisions of the Banking Regulation Act, 1949. Commercial Banks may be Scheduled Banks of Non-Scheduled Banks.

Banking Regulation Act, (BR Act), 1949. According to Section 5(c) of the BR Act, 'a banking company is a company which transacts the business of banking in India.

According to Reserve Banks of India Act 1934, 'A Scheduled Bank is that bank which has been included in the second schedule of the Reserve Bank'.

II. CLASSIFICATION OF COMMERCIAL BANKS

1. **Scheduled banks: -** Banks which have been included in the Second Schedule of RBI Act 1934. They are categorized as follows:
2. **Public Sector Banks**: **-** are those banks in which majority of stake are held by the government. Eg. SBI, PNB, Syndicate Bank, Union Bank of India etc.
3. **Private Sector Banks**: **-** are those banks in which majority of stake are held by private individuals. Eg. ICICI Bank, IDBI Bank, HDFC Bank, AXIS Bank etc.
4. **Foreign Banks**: **-** are the banks with Head office outside the country in which they are located. Eg. Citi Bank, Standard Chartered Bank, Bank of Tokyo Ltd. etc.
5. **None scheduled commercial banks**: **-** Banks which are not included in the Second Schedule of RBI Act 1934.

III. THE OBJECTIVES OF THE STUDY

(a) The central objective of the study is to empirically investigate the role of Indian banks in Capital formation and economic growth.
(b) To analyze the impact of banks' deposit mobilization on capital formation and economic growth in India
(c) To determine the association existing between capital formation and economic growth in India.

IV. IMPORTANCE OF BANKS IN THE DEVELOPMENT OF THE COUNTRY

Banks are one of the most important parts of any country. In this modern time money and its necessity is very important. A developed financial system of the country ensures to attain development. A modern bank provides valuable services to a country. To attain development there should be a good developed financial system to support not only the economic but also the society. So, a modern bank plays a vital role in the socio economic matters of the country. Some of the important role of banks in the development of a country is briefly showing below.

4.1 PROMOTE SAVING HABITS OF THE PEOPLE:

Bank attracts depositors by introducing attractive deposit schemes and providing rewards or return in the form of interest. Banks providing different kinds of deposit schemes to its customers. It enable to create banking habits or saving habits among people.

4.2 CAPITAL FORMATION AND PROMOTE INDUSTRY:

Capital is one of the most important parts of any business or industry. It is the life blood of business. Banks are increase capital formation by collecting deposits from depositors and convert these deposits in to loans advances to industries.

4.3 SMOOTHING OF TRADE AND COMMERCE FUNCTIONS:

In this modern era trade and commerce plays vital role between any countries. So, the money transaction should be user friendly. A modern bank helps its customers to sent funds to anywhere and receive funds from anywhere of the world. A well developed banking system provides various attractive services like mobile banking, internet banking, debit cards, credit cards etc. these kinds of services fast and smooth the transactions. So, bank helps to develop trade and commerce

4.4 GENERATE EMPLOYMENT OPPORTUNITY:

Since a bank promote industry and investment, there automatically generate employment opportunity. So, a bank enables an economy to generate employment opportunity.

4.5 SUPPORT AGRICULTURAL DEVELOPMENT:

Agricultural sector is one of the integral part of any economy. Food self sufficiency is the major challenge and goal of any country. Modern bank promote agricultural sector by providing loans and advances with low rate of interest compared to other loans and advances schemes.

4.6 APPLYING OF MONITORY POLICY:

Monitory policy is a important policy of any government. The major aim of monitory policy is to stabilize financial system of the country from the dangerous of inflation, deflation, crisis etc.

4.7 BALANCED DEVELOPMENT:

Modern banks spreading its operations throughout the world. we can see number of big banks like citi bank, Baroda bank etc. It helps a country to spread banking activities in rural and semi urban areas. With the spreading of banking operations around the country, helps to attain balanced development by promoting rural areas.

Modern bank plays vital role in the socio- economic development of the country. A developed banking system enables the country to attain balanced development without any special consideration of rich and poor, cities and rural areas etc.

V. FUNCTIONS OF COMMERCIAL BANKS

The commercial banks serve as the king pin of the financial system of the country. They render many valuable services.

Commercial banks provide banking services to businesses and consumers through a network of branches. These banks are in business to make a profit for their owners and they are usually public limited companies managed by shareholders. In India, however, most of the top commercial banks are owned by the government. But many private commercial banks have been established in the recent years. Commercial banks are all-purpose banks that perform a wider range of functions such as accepting demand deposits, issuing cheques against saving and fixed deposits, making short-term business and consumer loans, providing brokerage services, buying and selling foreign exchange and so on.

The functions of commercial banks are explained below:

Primary functions

- Collection of deposits
- Making loans and advances

7.1 Collection of deposits: The primary function of commercial banks is to collect deposits from the public. Such deposits are of three main types: current, saving and fixed.

7.2A current account is used to make payments. A customer can deposit and withdraw money from the current account subject to a minimum required balance. If the customer overdraws the account, he may be required to pay interest to the bank. Cash credit facility is allowed in the current account.

7.3 Savings account is an interest yielding account. Deposits in savings account are used for saving money. Savings bank account-holder is required to maintain a minimum balance in his account to avail of cheque facilities.

7.4 Fixed or term deposits are used by the customers to save money for a specific period of time, ranging from 7 days to 3 years or more. The rate of interest is related to the period of deposit. For example, a fixed deposit with a maturity period of 3 years will give a higher rate of return than a deposit with a maturity period of 1 year. But money cannot be usually withdrawn before the due date. Some banks also impose penalty if the fixed deposits are withdrawn before the due date. However, the customer can obtain a loan from the bank against the fixed deposit receipt.

7.5 Loans and advances: Commercial banks have to keep a certain portion of their deposits as legal reserves. The balance is used to make loans and advances to the borrowers. Individuals and firms can borrow this money and banks make profits by charging interest on these loans. Commercial banks make various types of loans such as:

1. Loan to a person or to a firm against some collateral security;
2. Cash credit (loan in installments against certain security);
3. Overdraft facilities (i.e. allowing the customers to withdraw more money than what their deposits permit); and
4. Loan by discounting bills of exchange..

Secondary functions

- Agency services
- General utility services

7.6 Agency Services: The customers may give standing instruction to the banks to accept or make payments on their behalf. The relationship between the banker and customer is that of Principal and Agent. The following agency services are provided by the bankers:

1. Payment of rent, insurance premium, telephone bills, installments on hire purchase, etc. The payments are obviously made from the customer's account. The banks may also collect such receipts on behalf of the customer.
2. The bank collects cheques, drafts, and bills on behalf of the customer.
3. The banks can exchange domestic currency for foreign currencies as per the regulations.
4. The banks can act as trustees / executors to their customers. For example, banks can execute the will after the death of their clients, if so instructed by the latter.

7.7 General Utility Services: The commercial banks also provide various general utility services to their customers. Some of these services are discussed below:

1. **Safeguarding money and valuables:** People feel safe and secured by depositing their money and valuables in the safe custody of commercial banks. Many banks look after valuable documents like house deeds and property, and jeweler items.
2. **Transferring money:** Money can be transferred from one place to another. In the same way, banks collect funds of their customers from other banks and credit the same in the customer's account.
3. **Merchant banking:** Many commercial banks provide merchant banking services to the investors and the firms. The merchant banking activity covers project advisory services and loan syndication, corporate advisory services such as advice on mergers and acquisitions, equity valuation, disinvestment, identification of joint venture partners and so on.
4. **Automatic Teller Machines (ATM):** The ATMs are machines for quick withdrawal of cash. In the last 10 years, most banks have introduced ATM facilities in metropolitan and semi-urban areas. The account holders as well as credit card holders can withdraw cash from ATMs.
5. **Traveler's cheque:** A traveler's cheque is a printed cheque of a specific denomination. The cheque may be purchased by a person from the bank after making the necessary payments. The customer may carry the traveler's cheque while travelling. The traveler's cheques are accepted in banks, hotels and other establishments.
6. **Credit Cards:** Credit cards are another important means of making payments. The Visa and Master Cards are operated by the commercial banks. A person can use a credit card to withdraw cash from ATMs as well as make payments to trade establishments.

VI. ROLE OF COMMERCIAL BANKS IN ECONOMIC DEVELOPMENT

Commercial banks are one source of financing for small businesses. The role of commercial banks in economic development rests chiefly on their role as financial intermediaries. In this capacity, commercial banks help drive the flow of investment capital throughout the marketplace. The chief mechanism of this capital allocation in the economy is through the lending process which helps commercial banks.

6.1 Risk:

One of the most significant roles of commercial banks in economic development is as arbiters of risk. This occurs primarily when banks make loans to businesses or individuals. For instance, when individuals apply to borrow money from a bank, the bank examines the borrower's finances, including income, credit score and debt level, among other factors. The outcome of this analysis helps the bank gauge the likelihood of borrower default. By weeding out risky borrowers, commercial banks lessen the risk of financial losses.

6.2 Small Business:

Commercial banks also finance business lending in a variety of ways. A business owner may solicit a loan to finance the start-up costs of a small business. Once funded, the small business may begin operations and embark on a growth plan. The aggregate effect of small business activity generates a significant portion of employment around the country.

6.3 Wealth.:

Commercial banks also offer types of accounts to hold or generate individual wealth. In turn, the deposits commercial banks attract with account services are used for lending and investment. For example, commercial banks commonly attract deposits by offering a traditional menu of savings and checking accounts for businesses and individuals. Similarly, banks offer other types of timed deposit accounts, such as money market accounts and certificates of deposit.

6.4 Government Spending:

Commercial banks also support the role of the federal government as an agent of economic Development. Generally, commercial banks help fund government spending by purchasing bonds issued by The Department of the Treasury. Both long and short term Treasury bonds help finance government Operations, programs and support deficit spending.

VII. STATISTICS AND FACTS

Industry-wise Deployment of Gross Bank Credit

Industry	Credit Deployed (Rs crore)		Y-o-Y % Change	
	Mar-16	Dec-16	Dec-15	Dec-16
Mining & Quarrying (incl. Coal)	39,021	34,152	-1.95	-6.39
Food Processing	150,088	128,899	-2.22	-13.42
Beverage & Tobacco	18,146	17,112	-3.48	-5.00
Textiles	205,796	186,577	1.79	-7.79
Leather & Leather Products	10,498	10,079	-1.12	-1.96
Wood & Wood Products	9,494	9,941	2.78	-0.15
Paper & Paper Products	35,505	33,942	4.91	-4.81
Petroleum, Coal Products & Nuclear Fuels	51,230	49,031	-11.64	2.80
Chemicals & Chemical Products	164,533	144,447	3.10	-6.23
Rubber, Plastic & their Products	37,365	36,289	-1.62	-2.91
Glass & Glassware	8,890	7,951	-0.69	-9.30
Cement & Cement Products	54,325	53,146	-1.32	-3.03
Basic Metal & Metal Product	416,016	412,669	8.70	2.97
All Engineering	154,167	147,021	5.42	-5.87
Vehicles, Vehicle Parts & Transport Equipment	68,989	71,507	-1.75	6.90
Gems & Jewellery	72,731	68,568	0.10	-2.88
Construction	74,538	79,086	0.45	6.60
Infrastructure	964,811	896,221	8.37	-7.66
Other Industries	194,536	192,485	8.30	0.40
Total	2,730,679	2,579,123	4.93	-4.31

Source: RBI

CONCLUSION

Over a significantly long period of time, countries embarking on a process of development within. The framework of mixed, capitalist economies have sought to use the developing banking function, Embedded in available or specially created institutions, to further their development goals. The role of these institutions in the development trajectories of late industrializing, developing countries cannot be overemphasized. However, as noted above, with financial liberalization of the neoliberal variety transforming financial structures; some countries are doing away with specialized development banking institutions on the grounds that equity and bond markets would do the job. This is bound to lead to a shortfall in finance for long-term investments, especially for medium and small enterprises. Fortunately, there are some countries such as Brazil that have thus far not opted for this trajectory.

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