Advances in Economics and Business Management (AEBM)
p-ISSN: 2394-1545; e-ISSN: 2394-1553; Volume 5, Issue 4; April-June, 2018, pp. 198-201

http://www.krishisanskriti.org/Publication.html

Impact and Requirement of Banking Industry and Government on Economy Development

Mrs. Vinesh

Research Scholar, Commerce, D.N College Meerut,
CCS University, Meerut
E-mail: ranavini700@gmail.com

Abstract —*The development of a vibrant and active private banking system that complements existing public sector work is considered important to economic progress and key to the success of the government's "Growth and Transformation Plan," an ambitious five-year development plan to assist the country in reaching "middle income" status. Without a sound and effective banking system, no country can ever have a healthy economy. In the modern's economic system, banks play a very important role in economic development of country. They collect the surplus savings of the people and make them available for investment. They also create new demand deposits in the process of granting loans and purchasing investment securities. They facilitate trade both inside and outside the country. Commercial banks, which is an important part of the financial system of the country. As per the Reserve Bank of India (RBI), India's banking sector is sufficiently capitalised and well-regulated. The financial and economic conditions in the country are far superior to any other country in the world. Indian banking industry has recently witnessed the roll out of innovative banking models like payments and small finance banks .RBI's new measures may go a long way in helping the restructuring of the domestic banking industry. This brief considers the manner in which public and private banking systems affect the development of the national economy, with particular reference to anti–money laundering and countering the financing of terrorism vulnerabilities.*

Keyword*:- Banking in India, Economy development Programmes, Government Reforms.*

1. INTRODUCTION

Bank is a financial institution that performs several functions like accepting deposits, lending loans thus helps in agriculture and rural development etc. Bank plays an important role in the economic development of the country. Without a sound and effective banking system, no country can have a healthy economy. It is necessary to encourage people to deposit their surplus funds with the banks. These funds are used -for providing loans to the industries thereby making productive investments. The most important role of a bank is need capital. India is not only the world's largest independent democracy, but also an emerging economic giant. For the past three decades, India's banking system has several outstanding achievements. Indian banking sector is poised to become fifth largest by 2020. The report also states that bank credit is expected to grow at a compound annual growth rate of 17 per cent in coming years. After post economic liberalization and globalization, there has been a significant impact on the banking industry. The concept of Banking in India dates back to the first half of 18th century. The first bank that was established in the country was The General Bank of India founded in 1786.The oldest bank in existence in India is the State Bank of India, a government-owned bank in 1806. SBI is the largest commercial bank in the country. After the independence, Reserve Bank of India was nationalized in 1935 According to a recent cornet, India has 88 scheduled commercial banks out of these there are 27 public sector banks, 31 private banks and 43 foreign banks, 56 regional rural banks, 1,589 urban cooperative banks and 93,550 rural cooperative banks, in addition to cooperative credit institutions

2. BANKING IN INDIA

Banks have come a long way since their origin of having started out with the basic act of lending and borrowing money. The set of regulations vary according to the Government policies and other norms established by the Government of that country. Towards the last few decades of the 18^{th} century the concept of banking was introduced in India. The oldest bank in India is the State Bank of India, a PSU that was initially setup in June 1806 and is currently the largest commercial bank. Although history of Banking can be traced to ancient time's interims of gold merchants and money lenders, the history of modern Indian banking can be classified into three distinct phases. The nationalization of Banks initiated in 1969 was intended to extend the reach of banking to the masses. After India's independence in 1947, RBI was nationalized and given a wider scope to exercise its powers and judgment. A nationalization spree occurred in 1969, when 14 of the largest commercial banks were provided this status following another nationalization process of the next six largest banks in 1980. The primary goal was social banking, i.e. to provide banking services in the remotest parts of India. The Regional Rural Banks come into existence since the middle of seventies. For financing agriculture and allied activities in the rural areas, though co-operative credit societies and central co-operative banks have been participating since long, commercial banks began their active participation after the nationalization of major banks in 1969. Long and medium term credit to the agriculturists is being provided by another specialized institution, namely, the Land Development Banks which have a two-tier structure. National Bank for Agriculture and Rural Development (NABARD) is the full fledged apex institution in the field of agriculture and rural development.

3. REVIEW OF LITERATURE

D. Sounder Raj in an article 'People's Participation in Rural Development' suggests that the rural development programmes should be based on the felt needs of the people in order to achieve greater people's participation and sustainability in development. He further adds that rural development programmes should motivate people to participate by making them aware of the benefits they receive from these programmes.

The RBI (1999)[1] provides the Central Banks' perspective on how deregulation had impacted on bank performance. The RBI review covers all categories of Banks, not just PSBs.

Vijaya and Little observed that on the eve of banking reforms Indian Banking Sector was financially unsound, unprofitable and inefficient. They made a critical examination of the changes that have taken place in the banking sector after reforms. Further, what remains to be done with respect of re-emption of bank resources, directed credit deregulation of interest rates etc. in the field of banking sector were also elaborately discussed.

4. RESEARCH METHODOLOGY

Descriptive research design was implemented because firstly, the study involve a one-time interaction with the respondents and secondary data was collected from journals, online reports, published articles, RBI, NABARD, census, surveys newspapers etc. the study was planned with the following objectives:

- To break the ownership and control of banks by a few business families;
- To prevent the concentration of wealth and economic power;
- To mobilize savings from masses from all parts of the country; and
- To cater the needs of the priority sectors.
- To provide banking services in the remotest parts of India.

Banks can contribute to a country's economic development in the following ways.

1. Removing the deficiency of capital formation

In any economy, economic development is not possible unless there is an adequate amount of capital formation. The serious capital deficiency in developing Countries is removed by banks. A sound banking system mobilizes small savings of the community and makes them available for investment in productive enterprises. Banks mobilize deposits by offering attractive rates of interest and thus convert savings into active capital. Otherwise that amount would have remained idle. Banks distribute these savings through loans among productive enterprises which are helpful in nation building. It facilitates the optimum utilization of the financial resources of the community.

2. Helps in generating employment opportunity

Banks helps in providing financial resources to industries and that helps in automatically generate employment opportunity. Especially employment generated by banking sector every year runs in millions. Equally revenue generation through tax and dividend collection by the government invested every year. While revenue and employment generation are two very important contributions, successfully maintaining healthy credit line to industrial sector as well as to overall economy is another important contribution of financial sector.

3. Financial assistance to Industries

The commercial banks finance the industrial sector in a number of ways. They provide short-term, medium-term and long-term loans to industry .The Industrial Development Bank of India is the main institution in India providing financial assistance to the industrial sector. It provides direct financial assistance to the industrial enterprises 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.

4. Promote saving Habits of the people

Bank attracts depositors by introducing attractive deposit schemes and providing higher rates of interest. Banks providing different kinds of deposit schemes to its customers. It enables to create saving habits among people. Bank open different accounts to attract customer. These accounts are opened as per the requirements of customers such as current account, fixed deposit account, saving account and recurring account etc.

5. Financial assistance to Consumer Activities

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

6. Helps in implementing Monetary Policy

The commercial banks help the economic development of a country by implementing the monetary policy of the RBI. RBI 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 capital formation and by following the monetary policy of the country.

7. Financial facilities for Trade

The commercial banks help in financing both internal and external trade. The banks provide loans to retailers and wholesalers to purchase goods in which they deal. They also help in the movement of goods from one place to another. Banks provide all types of facilities such as discounting and accepting bills of exchange, providing overdraft facilities, issuing drafts, etc. for promoting the trade. Moreover, they finance both exports and imports of developing countries by providing foreign exchange facilities to importers and exporters of goods. Exim Bank of India and the Government of Andhra Pradesh has signed a Memorandum of Understanding (MoU) to promote exports in the state.

8. Foreign Currency Loans

Foreign currency loans are meant for setting up of new industrial projects. Banks also helps in providing loans for expansion, diversification, modernization or renovation of existing units. Banks also helps in financing import of equipment from abroad and/or technical knowhow.

9. Balanced Development

Modern banks spreading its operations throughout the world. We can see number of big banks like citi bank, SBI, PNB, Baroda bank etc. It helps a country to spread banking activities in rural and semi urban areas. With the spreading of banking operations all over the country, helps to attain balanced regional development by promoting rural areas. The Reserve Bank of India (RBI) has granted in-principle licenses to 10 applicants to open small finance banks, which will help expanding access to financial services in rural and semi-urban areas. IDFC Bank has become the latest new bank to start operations with 23 branches, including 15 branches in rural areas of Madhya Pradesh. Modern bank plays important role in the 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. 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 different regions will promote economic development in underdeveloped areas of the country.

10. Financial assistance to agriculture sector

Agriculture is the backbone of economy of any country like India. The commercial banks help the large agricultural sector in developing countries. They provide loans to traders in agricultural commodities. They open a number 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. The share of commercial banks in total institutional credit to agriculture is almost 48 percent followed by co-operative banks with a share of 46 percent and RRBs about 6 percent. . 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. They also provide financial resources for animal husbandry, dairy farming, sheep breeding, poultry farming, 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. There are various studies which show that in India 40% farmers are committing suicide because of not able to fulfill the loan amount of banks. Commercial banks are providing credit to the poor farmers but this is not free from the other problems.

11. Government Spending

Commercial banks also support the role of the federal government as an agent of economic. 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. Recent important reforms Over past few years government has taken many steps to make banking sector even more robust, although it will take quite a few years to see positive impact of these reforms. Moreover, these reforms will open new stream of revenue and employment generation for the economy.

5. ECONOMIC DEVELOPMENT PROGRAMS AVAILABLE TO BANKERS

Many programs to support economic development have been created over the past two decades. These include federal, state, and local government and private/public partnership programs. This section is intended to identify and briefly discuss a range of programs that are available to bankers to improve their capacity to support rural economic development. The programs are discussed under three sections: regulatory programs that are required by federal or state law, a group of programs that are permissive in nature and have the capacity to strengthen the performance of banks in their support of rural economic development lending, and public policy initiatives available to banks that enable them to create special purpose development entities and state assistance programs. This section identifies and discusses the more important of these. The discussion draws, among other sources, upon a National Center for Policy

Alternatives publication, Financial Deregulation: New Opportunities for Rural Economic Development (Siegel et al. 1986)

6. SOME REFORMS PROVIDE BY GOVERNMENT

- To reduce the burden of loan repayment on farmers, a provision of Rs 15,000 crore has been made in the Union Budget 2016-17 towards interest subvention.
- Under Pradhan Mantri Jan Dhan Yojna (PMJDY), 250.5 million accounts! Have been opened and 192.2 million RuPay debit cards have been issued as of October 12, 2016. These new accounts have mustered deposits worth almost Rs 44,480 crore.
- To make banks more ‘credit friendly’, RBI has allowed banks to raise funds via long-term bonds for financing the critical infrastructure sector. This means banks no longer have to meet cash reserve ratio, statutory liquidity ratio or priority sector norms to disburse credit for big infrastructure projects.
- In July 2016, the government allocated Rs 22,915 crore as capital infusion in 13 public sector banks, which is expected to improve their liquidity and lending operations, and shore up economic growth in the country.
- Indian government started Mudra Scheme, under which Indian banks will be providing cheap and affordable credit to new & small entrepreneur

7. CONCLUSION

From the above study we conclude that Banks should invest more in infrastructure facilities like irrigation facilities, processing, storage and marketing activities. Such agricultural infrastructure can be improved by banks, as there are abundance prospects for banks to invest in the above activities. Thus, the banks have come to play a useful role in promoting economic development by- mobilising the financial resources of the community and by making them flow into the productive channels. The Indian banks are now playing a very active role in fostering economic development of the country. The above study reveals that how commercial banks are helpful in development of country. If we make the comparison between rural area and urban area then it is clear that urban areas are more developed. 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. The role of banks has been important, but it is going to be even more important in the future. In spite of all these bright projection, there is a growing concern about increasing NPAs in banking sector. Many analysts, however, feel that some tough steps by RBI coupled with ‘special financial stimulus’ to banks is necessary to overcome the incremental issue of NPAs.

REFERENCES

[1] Ruddar Dutt and KPM Sundaram, Indian Economy, S Chand And Company ltd.

[2] Misra & puri, “Indian Economy”, Himalaya Publishing House

[3] Reserve Bank of India, Press Information

[4] Bureau, www.pmjdy.gov.in, Union Budget 2016-17

[5] www.economics discussion.

[6] Dr. Debaprosanna Nandy, “Banking Sector Reforms in India & Performance Evaluation of Commercial Banks”, Dissertation.com, Boca Raton, Florida, USA. 2010.