

“ROLE OF BANKING IN ECONOMIC GROWTH OF INDIA”

Minakshi Gupta*

Abstract

Banks have always played an important role in the economy of country. They also played a key 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 Banks provides funds for an organization as well as personnel needs of an individuals and sustainable growth of the economy. 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 are those banking institutions that accept deposits and grant short term loans, and advances to their customers. They are not only giving short term loans, but also provide medium term and long term loans to a business organization. Not even these kind of term loans but also provide housing loans on a long term basis to individuals. Some commercial banks have some specialized units in their administrative structure to take care of the financial needs of the small scale industrial units. Agriculture plays a backbone of economy of any country like India. The main objective of the study is to critically examine and analyze the role and functions of commercial banks. The study portrays the types of banks and their functions

Keywords - Social stability, Rapid, Realized, Advances

I. INTRODUCTION

Activities of the banks in India are expanding at a rapid space during the period after Independence. There is territorial as well as functional. Banks which are conservative and conventional in their approach and nature 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 nonconventional sector by commercial banks is possible only if one looks back the position of commercial banks during the pre-nationalization era. Commercial banks are those banking institutions that accept deposits and grant short term loans, and advances to their customers. 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. 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.

II. Meaning of Banking

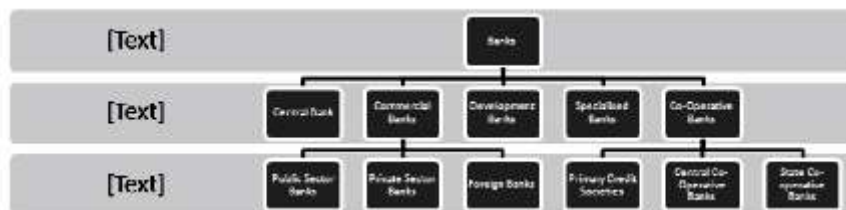
Bank is a lawful organization, which accepts deposit that can be withdrawal on demand of their depositors. It also lends money to an individuals and business organization that need it.

*Assistant Professor Department of Computer Science and Application,
SD College, Ambala Cantt | E-mail: swt.minaxi@gmail.com |

III. Role of Banking

Banks provide funds for an organization as well as personnel needs of an individuals. They play a significant role in the economy of nation. Let us discuss more about the role of banking.

- **Savings:-** it encourages the saving habit amongst people and thereby makes funds available for productive use.
- **Intermediator:-** It acts as an intermediary between people having surplus money. Anyone need money for various business activities they acquire it from bank.
- **Transaction:-** It always facilitates to business to make their business transactions through receipts and payments by cheques instead of currency.
- **Loans:-** It provides loans and advances to businessmen for short term and long term purposes.
- **Import and Export:-**It also helps in import export transactions.
- **National development:-**it provides in national development by providing credit to farmers, small scale business and self employed people as well as large scale organization which lead to balanced economic development in the country.
- **Standard of living:-**By providing loans for purchase of consumer durable goods, houses, automobiles etc leads to raise in the standard of living of people.



IV. Types of Banks

There are various types of banks which operate in our country to meet the financial requirements of people belong to different categories engaged in agriculture business, profession etc. On the basis of their functionalities, the banking institutions in India may be divided in to the following types:-

Discuss in Detail:-

i) **Central Bank**

A bank which is entrusted with the functions of guiding and regulating the banking system of a country is known as its central bank. These kind of banks does not deal with the general public. It acts as essentially as Government's banker, maintain the various activities of bank like deposit accounts, advances money to other banks, when needed Central Bank of India acts as a guide for other banks whenever they face any problem. Therefore CBI known as Banker's Bank.

“The Reserve Bank of India is the central bank of our country.”

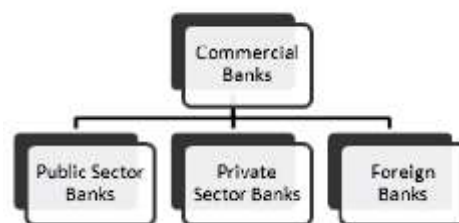
This bank maintains the records of government revenue and expenditure under various heads.

It also advises the government on monetary and credit policies and also decides the interest rates for bank deposits and loans. The foreign exchange rates also determined by the central bank. The currency notes also issuance by the central bank which further circulates in the country. No other bank than the central bank can issue currency in country.

ii) **Commercial Banks**

Commercial banks are those banking institutions that accept deposits and grant short term loans, and advances to their customers. They are not only giving short term loans, but also provide medium term and long term loans to a business organization. Not even these kind of term loans but also provide housing loans on a long term basis to individuals.

Types of Commercial Banks



There are three types of commercial banks:

- a) **Public Sector Banks:** These type of banks are those where majority stake is held by the government of India or Reserve Bank of India. There are some examples of Public Sector Banks are : State Bank of India, Corporation Bank, Bank of Baroda and Dena Bank, etc.
- b) **Private Sector Banks:** In case of these type banks majority of share capital of the bank is held by private individuals. These type of banks are registered as companies with limited liability. For example: Bank of Rajasthan Ltd., Lord Krishna Bank Ltd. Etc.
- c) **Foreign Banks:** These banks are registered and have their head quarters in a foreign country but they operate their branches in our country. Some examples are Citibank, American Express Bank etc. According to a report by RBI there are **45 foreign banks** with total 286 branches operating in India As of November 2018.

iii) **Development Banks**

Most of the organization requires medium and long term capital for purchase of asset for using latest technology, or for expansion and modernization of business. These kind of financial assistance is provided by Development Banks. Some examples are – Finance Corporation of India (IFCI), and State Financial Corporation's (SFCs).

iv) **Co-Operative Banks**

People who come together to jointly serve their common interest form a co-operative society under the Co-operative Societies Act. When this society engage itself in Banking business then it is known as Co-operative Bank.

Before starting this banking business the society has to obtain license from Reserve Bank of India. These type of societies must follow the guidelines set which is issued by Reserve Bank of India.

Types of Co-Operative Banks

There are three types of Co-Operative Banks in our country.



- a) **Primary Credit Societies:** These are formed at the villages or at town level borrower and non-borrower members residing in one locality. The operations of these societies are restricted to small area so that the members know each other and able to communicate with each other. They even watch over all activities of all members to prevent funds.
- b) **Central Co-Operative Banks**

These banks are operate at district level some primary credit societies belonging to same district are appointed as their members. These banks provide loans to their members and function as a link between primary credit societies and state co-operative banks.

- c) **State Co-operative Banks**

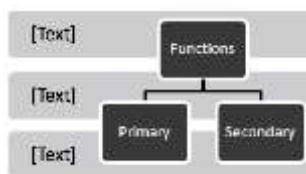
These are the most elevated amount co-usable banks in every one of the conditions of the nation. They convey their assets and help in its legitimate channelization among different parts. The cash achieves the individual borrowers from the State Co-usable Banks through the Central Co-Operative Banks and Primary Credit Societies

- v) **Specialized Banks**

There are some banks, which serve as per the requirements and provide overall support for setting up business in specific areas of activity. They engage themselves in a specific area or activity so these banks are called Specialized Banks. Some examples are: EXIM, NABARD etc.

V. Functions of Commercial Banks

There are two types of Functions



- i) **Primary Functions:** It includes
 - a) **Accepting Deposits:** this is the most important activity of commercial banks is to mobilize deposits from the public. People who have surplus income and savings have deposit some

amount of income with banks. Depending upon the nature of deposits, public earn some interest on their deposits from the bank. If the interest rates is higher, public gets motivated and deposits more and more funds with the bank.

b) **Granting Loans and advances:** this is an important function of commercial bank is to grant loans and advances. These kinds of services are given to customers or businesses on higher rate of interest than the deposit account. The interest rate of slab varies according to purpose and period of loan and also the mode of repayment.

• **Loans:** A loan is allowed for a particular timeframe. Generally commercial banks are provided short term loans. But loan whose period is more than a year is also granted by commercial banks. It depends on the borrower whether they had given the entire amount in lump sum or in installments.

• **Advances:** An advance is a credit facility provided by the bank to its customers. Generally advances are given to customers to meet the day-to-day requirements.

These two terms are interrelating with each other but with a minor difference is loan is given for longer period and advances are given for short period.

ii) **Secondary functions:** It includes

In addition to the primary functions like accepting deposits and granting loans and advances, bank perform some other functions which is categorized as secondary functions. These are as follows:-

- Issuing letters: Banks are issuing letters of credit, traveler cheque, etc.
- Locker facility: Banks provides locker facility for their customers to safe their valuables, important documents and securities, etc
- Foreign exchange dealings.
- Money transfer: a customer can transfer money from one account to another, from one branch to another branch.
- Collecting and supplying information.
- Educational loans are also given to students at a reasonable rate of interests.
- Automated taller machine(ATM): This facility is used for quick withdrawal of cash. Over the most recent 10 years, Most banks have presented ATM offices in metropolitan and semi-urban territories. Individuals can pull back money from ATM it is possible that they are account holders and Mastercard holders.

CONCLUSION

As we discussed above our main objective of this study is to know the role of Indian banks in capital formation and economic growth of India. On the basis of their functionality the types of banking institutions in India are determined.

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