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ROLE OF FINANCIAL INSTITUTIONS IN ECONOMIC GROWTH

PRIYA RANA
Assistant Professor in Commerce, Sanatan Dharma College, Ambala Cantt

BHAVISHA VERMA
Assistant Professor in Commerce, Sanatan Dharma College, Ambala Cantt

BHARTI SUJAN
Assistant Professor in Commerce, Sanatan Dharma College, Ambala Cantt

ABSTRACT

The main purpose of this study is to examine the impact of financial sector to boost the economy of the country. A questionnaire was distributed to bankers and customers based on their perceptions of financial institutions. Many factors affect economic growth and one such reason is the proper use and circulation of funds. A country's monetary policy and fiscal policy will work efficiently only when the funds are properly maintained and recorded by financial institutions. The present study has addressed various issues related to economic growth.

INTRODUCTION

In any country a financial system is the engine to development hence, it is of paramount importance in policy implications. Financial institutions not only help in the mobilisation and collection of scattered savings from different sections of the population, but they also help to increase the overall level of savings and investment and allocate scarce savings more efficiently among the most desirable and productive investments in accordance with national priorities. In financial economics, a financial institution is an institution that provides financial services for its clients or members. Broadly speaking, there are three major types of financial institutions:

1. Deposit-taking institutions that accept and manage deposits and make loans, including banks, building societies, credit unions, trust companies, and mortgage loan companies.
2. Insurance companies and pension funds; and
3. Brokers, underwriters and investment funds.

Financial sector plays an indispensable role in the overall development of a country. The most important constituent of this sector is the financial institutions, which act as a conduit for the transfer of resources from net savers to net borrowers, that is, from those who spend less than their earnings to those who spend more than their earnings. The financial institutions have traditionally been the major source of long-term funds for the economy. These institutions provide a variety of financial products and services to fulfil the varied needs of the commercial sector. Besides, they provide assistance to new enterprises, small and medium firms as well as to the industries established in backward areas. Thus, they have helped in reducing regional disparities by inducing widespread industrial development. First and foremost is in the form of catering to the requirement of credit for all the sections of society. The recent economies in the world have developed mostly by making best use of the credit availability in their systems. An efficient banking system must accommodate to the needs of high end investors by making available high amounts of capital for vast projects in the industrial, infrastructure & service sectors. At the same time, the medium and small projects must also have credit available to them for new investment and extension of the existing units.Rural sector in a country like India can grow only if inexpensive credit is available to the farmers for their short and medium term needs. This expected potential support the investors for the introduction of more financial institutions in the country.

With the existence of different organizations, development and support services in the form of grants and loans to different agencies working for the promotion and development of industries like associations and chambers are available. Generally, financial institutions will only use their resources for the benefit of their own interests, i.e., to help to make profits, either directly or indirectly. The considerations are important because, with the help of the development of institutions, there is a rise in the investment business in the country. With the presence of more institutions, there will be motivation in the financial area to perform better and take steps for the strengthening of the country. This will lead to more prosperity in the country by removing the risk. Credit is the key input for sustained growth in the small-scale sector, and its availability is thus a matter of great importance. The provision of short-term credit or working capital to small businesses for their day-to-day requirements for purchasing raw materials and other inputs like water, electricity, etc. and for payment of salaries and wages; and long term credit for creation of fixed assets like building, land, plant and machinery help the SME sector to perform better. The Trade Facilitation Programme aims to foster trade in the countries of operations, both intraregional and global. Through the programme, institutions provide promises to confirm banks, taking the political and commercial payment risk of international trade transactions on banks in the countries of operations. This pioneering programme remains an important source of trade finance in many countries' operations.

Individuals have a key impact on the environment through their actions and consumption of goods and services, and in some cases, their effects are proving more intractable than commercial effects. Financial institutions can have a major effect on the activities of individuals through the provision of appropriate financial arrangements. For example, access to cheap mortgage finance is a requirement for widespread home ownership, and car ownership has been critically increased by the accessibility of car loans and hire purchase agreements. In the absence of suitable financing arrangements, products may struggle to achieve sales, mainly if they have high capital costs. Development of Financial Institutions helps in concentrating on the improvements in technology and its influence on how financial products are delivered. Funds are transferred straight from ultimate savers to ultimate borrowers. With the reduction of the trust deficit, financial innovation is possible on improved grounds. We know the stream of short-term funds is facilitated by money markets and the flow of long-term funds is facilitated by capital markets. These activities also assist in financial innovations.

OBJECTIVE OF THE STUDY

1. Assessing the impact of banking sector developments on saving, lending and investing on economic development.
2. Discussing the effects of financial activities on economic growth.
3. Determining the impact of financial institutions on customers related to the issue of economic growth.
4. Determining the impact of financial institutions on economic growth through the view point of banker.

REVIEW OF LITERATURE

Financial Institutions and Economic Growth: An Empirical Analysis of Indian Economy in the Post Liberalized Era witnessed that there exists a bi-directional causal relationship between development of insurance institutions and economic growth in the short run. This bi-directional relationship is probably due to the role played by the insurance institutions in Indian economy.

1. The Role of Financial institutions and the Economic Growth:
2. A Literature Review
3. The Role of Financial institutions and the Economic Growth:
4. A Literature Review

Muhammad et.al. (2015). The economic growth is necessary for poverty reduction does not mean that policy-makers can limit their attention to the single target of growth maximization. The extent to which a given rate of economic growth affects poverty levels is influenced by the institutional structure and policy environment that exists in particular countries.

Simwaka, Kisu., Munthali, T., Chiumia, A. & Kabango, Grant. (2012). High interest rates, inflation rates, net domestic credit to government and fluctuating currency that have prevailed in the last four years affected the amount of real investments in the country as indicated by a very low private credit as a share of GDP. Savings have been growing at a decreasing rate as people preferred to invest in the money markets.

Dhungana, Bharat. (2014). The empirical result shows that there is a long-run association between financial institutions and economic growth of Nepal. Thus, a sound financial system helps to promote financial institutions in the country that supports for economic growth of the nation in the long run. The regulatory authority and financial institutions should accelerate financial reforms to improve the efficiency of financial system that helps to stimulate adequate capital formation and investment in the productive sectors.

RESEARCH METHODOLOGY

Data Type- Primary Data, secondary data

Data Collection Tools- questionnaire

Types of Sampling- convenience sampling

In convenience sampling, the researcher takes information through his convenient accessibility and proximity. The researcher conducts his data analysis from non-probability technique.

EXPLANATION

These are the results of the questionnaire that is to be filled by the respondents i.e. 30 customers and 30 bankers. The result is based on percentage analysis.

The economic growth of country is due to:

Table 1

Issues / domains	Customer (yes)	Customer (no)	Banker (Yes)	Banker (no)
Increased GDP due to ,increased growth of FI*	89.7%	10.3%	87.5%	12.5%
FI important role in developing	93.1%	6.9%	93.8%	6.2%
FI help in proper use of funds	86.2%	13.8%	93.8%	6.2%
FI services provides balanced growth	100%	0%	100%	0%
Saving, lending investing activities improved	89.7%	10.3%	87.5%	12.5%
Financial risk diversified	86.2%	13.8%	93.8%	6.2%
LPG plays important Role	89.7%	10.3%	93.8%	6.2%
Securities market proved to be an asset	82.1%	17.9%	87.5%	12.5%
Govt. become more active on account of FI	82.8%	17.2%	81.3%	18.8%
Financial inclusion step towards poverty eradication	78.6%	21.4%	93.8%	6.2%
No frill accounts shown tremendous growth	86.2%	13.8%	100%	0%
Underprivileged sections of society shown major growth	82.1%	17.9%	100%	0%

OPINION

1. GDP of a country plays an important role in developing a country. So, this study reveals that GDP of our country has increased due to inclusion of financial institutions.

2. Customers and bankers both believe that financial institutions play an important in developing a country.

3. People believe that a country can flourish well only when its funds are properly utilised with optimum financial services. As India is being digitalised now so it's the need of the time. We need to develop our financial services and make it fast, quick, convenient and error free.

4. Customers and bankers both believe that saving, lending and investing activities have grown more and financial risk of a common person have being diversified.

5. Liberalisation, privatisation and globalisation (LPG) played a significant role in developing a country therefore our government is also taking active steps in removing poverty and becoming more aware about financial growth for economic development.

6. People believe that vast segment of our country especially underprivileged sections of the society have provided liberty to access formal banking system.

7. Customers are benefitted a lot from the banking relaxation in opening bank accounts, i.e.number of no frill accounts has shown tremendous growth in last five years. Therefore we can say that our country is progressing due to regular support of financial institutions.

LIMITATIONS OF THE STUDY

1. The study doesn't contain any type of statistical hypothesis.
2. The study is based on opinion and inferences.
3. The study focuses on the perception of banks and customers only.
4. Data collection from bankers was a problem because they do not have enough time.

CONCLUSION

According to the data collected the customers and bankers agrees positively that financial institutions plays a major role in improving of the economy of our country. The growth of financial institutions is a relation between various sectors of banking like insurance, development banks, securities market, industrial development banks, agricultural development banks etc… our country have emerged and prosper well only because the funds are efficiently and properly maintained. The apex institution of banks RBI has made adequate monetary and fiscal policy to ensure proper growth of economy.

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