

THE ROLE OF COMMERCIAL BANKS IN ECONOMIC GROWTH IN INDIA: A PERSPECTIVE STUDY

Dr. Mritunjay Kumar Manish*

ABSTRACT

Banks have always played an important role in the national economy. They play a crucial role in the development of industry and trade. They are not only supporting the country's wealth but also acting as the country's resources, which are essential for a nation's economic development. The general role of commercial banks is to provide financial services to the general public and businesses while ensuring economic and social stability and sustainable economic growth. Commercial Bank in India consists of State Bank of India (SBI) and its subsidiaries, nationalized banks, foreign banks and other scheduled commercial banks, regional rural banks and unscheduled commercial banks. The total number of branches of commercial banks is more than 50,000 and there are about 8,000 regional rural banks covering 280 districts in the country. Commercial banks mostly provide short-term loans and, in some cases, medium-term financing to small-scale units. To take care of the financial needs of small commercial units. Most commercial banks have got special units in their management structure. As we know, agriculture is the backbone of the economy of any country like India. The research is based on secondary data, which provides results about commercial banks and how they help in economic growth. The main purpose of this study is to critically analyze the role of commercial banks in economic growth in India. This study presents how loans and credit affect Gross domestic product (GDP) and consequently the level of economic growth in India.

Keywords: *Economic Growth, Commercial Bank, Gross Domestic Product (GDP).*

Introduction

In the post-independence period, the activities of commercial banks in India have been expanding rapidly. Both regional and active. Expansion of bank activities. Banks that are conservative and conventional face the challenges of planned economic growth. In recent years, non-traditional sectors have been gaining the attention of commercial banks in India. A better understanding of the implications of financing the non-traditional sector through commercial banks is possible only if one looks at the position of commercial banks in the pre-national era. Banking in India before nationalization. Commercial banks are institutions that generally accept deposits from people and extend loans. Commercial banks are also formed in India. Such banks are called commercial banks only if they are established in accordance with the provisions of the Banking Regulation Act, 1949. Commercial banks can 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 that conducts banking business in India.* According to the Reserve Banks of India Act, 1934, *a scheduled bank is a bank which has been included in the second schedule of the Reserve Bank.*

Objectives of the Study

- To study the primary and secondary function of Bank
- To study the role of banking sector in economic development
- To study the commercial banks its impact on economic growth

Research Methodology

This paper is based on the secondary data and drained from annual reports of RBI and from various articles, reports, and websites.

* Faculty of BBA, Marwari College, Bhagalpur, Bihar, India.

Functions of Commercial Banks

Commercial banks act as the kingpin of the country's financial system. They offer many valuable services. Commercial banks provide banking services to businesses and customers through a network of branches. These banks are in the business of making profits for their owners and they are usually public limited companies managed by shareholders. In India, however, utmost of the top commercial banks is maintained by the govt. But many private commercial banks have sprung up in recent years. Commercial banks are all-purpose banks that perform a wide range of tasks such as accepting demand deposits, issuing cheques against savings and fixed deposits, making short-term business and consumer loans, providing brokerage services, buying and selling foreign exchange, etc. The functions of commercial banks are described below:

Primary Functions

- Collection of deposits
- Making loans and advances

Collection of Deposits

The prime function of commercial banks is to collect deposits from the public. Such deposits fall into three main categories: current, savings and fixed.

- **Current account** is used to make payments. A user can deposit and withdraw money from the current account subject to a minimum required balance. If the user overdraws on the account, he may need to pay interest to the bank. Cash credit facility is permitted in the current account.
- **Savings account** is an interest-bearing account. Save money deposited in the savings account. The savings bank account holder needs to maintain a minimum balance in his account to avail the cheques facility.
- **Fixed or term deposits** for 7 days to 3 years or more and used by customers to save money for a specified period. The interest rate is related to the Friday period. For example, a fixed deposit with a maturity of 3 years will yield a higher rate of return than deposits with a maturity of 1 year. But usually the money cannot be withdrawn before the due date. Some banks have also imposed fines if the deposit is withdrawn before the due date. However, the customer can get a loan from the bank as opposed to a receipt of a fixed deposit.

Loans and Advances

Commercial banks have to keep a certain portion of their reserves as legal reserves. The balance is used to make loans and advances to lenders. Individuals and firms can borrow this money and banks can make a profit by charging interest on these loans. Commercial banks take different types of loans such as:

- Loan to a person or a firm against a collateral contract;
- Cash credit (loan in installments against some security)
- Overdraft facilities (allowing customers to withdraw more than their deposits allow)
- Loan by discounting bills of exchange.

Secondary Functions

- Agency services
- General utility services

Agency Services

Consumers can instruct banks to accept payments on their own or to make payments. The relationship between the banker and the customer is that of principal and agent. The succeeding agency services are on condition that by the bankers:

- Payment of rent, insurance premium, telephone bill, installments on rental purchase, etc. Obviously, it has been paid from the user's account. Banks can also collect such receipts from customers.
- The bank collects cheques, drafts and bills from the customer.
- Banks can exchange domestic currency for foreign currencies as per regulations.
- Banks can act as trustees / executors for their customers. For example, banks may carry out this will after the death of their clients, if so, as directed by the latter.

General Utility Services

Commercial banks also provide various general utility services to their customers. Some of these services are discussed below:

- **Money and Valuables Security:** People feel safe and secure by depositing their money and valuables in the safe custody of commercial banks. Many banks handle valuable documents such as household chores and property, and jewelry.
- **Money Transfer:** Money can be transferred from one place to another. Similarly, banks deposit their customers' funds from other banks and similarly deposit them in the customer's account.
- **Merchant Banking:** Many commercial banks provide merchant banking services to investors and firms. Merchant Banking activities cover project advisory services and loan syndication, corporate advisory services such as mergers and acquisitions advice, equity valuation, disinvestment, identification of joint venture partners and so on.
- **Automated Teller Machines (ATMs):** ATMs are cash withdrawal machines. In the last 10 years, most banks have introduced ATM services in metropolitan and semi-urban areas. A/c holders as well as credit card holders can withdraw cash from ATMs.
- **Credit Cards:** Another important means of payment is credit cards. Visa and MasterCard are operated by commercial banks. A person can use a credit card to withdraw cash from an ATM as well as make payments at commercial establishments.

Importance of Banks in the Growth of the Our Country

Banks are one of the furthestmost important part of any country. Money and the need for it are very important in this modern age. The country's developed financial system ensures growth. A modern bank offers valuable services to a country. Achieving growth requires a well-developed financial system that can support not only the economy but also society. Therefore, a modern bank plays an important role in the socio-economic affairs of a country. The following are some of the important roles of banks in the development of a country.

- **Promoting People's Savings Habits:** The bank attracts savers by introducing attractive deposit schemes and providing returns in the form of rewards or interest. Banks offer a variety of deposit schemes to their customers. It enables people to develop banking habits or savings habits.
- **Create Employment Opportunities:** As a bank promotes industry and investment, it automatically creates jobs. Therefore, a bank enables the economy to create jobs.
- **Support Agricultural Development:** The agricultural sector is an integral part of any economy. Food self-sufficiency is the biggest challenge and goal of any country. Modern Bank promotes the agricultural sector by providing loans and promotions at lower interest rates than other loans and advance schemes.
- **Monetary Policy Application:** Monetary policy is an important policy of any government. The main purpose of monetary policy is to strengthen the country's financial system from the dangerous dangers of inflation, crisis, etc.
- **Balanced Development:** Modern banks are expanding their businesses around the world. We can see the number of big banks like Citibank, Baroda Bank etc. It helps a country expand its banking activities in rural and semi-urban areas. With the proliferation of banking operations across the country, promoting rural areas helps achieve balanced development. Modern Bank plays an important role in the socio-economic development of the country. An advanced banking system enables the country to achieve balanced development without focusing on rich and poor, urban and rural areas etc.
- **Capital Formation and Industry Promotion:** Capital is the most important part of any business or industry. This is the lifeblood of business. Banks are raising capital by accumulating reserves from depositors and will convert these reserves into loan advances in industries.
- **Facilitating Trade and Commerce:** In this modern age, trade and commerce play an important role between any country. Therefore, money transactions should be user friendly. A modern bank helps its customers to send and receive funds from anywhere in the world. A well-developed banking system provides various attractive services like mobile banking, internet banking, debit cards, credit cards etc. Such services speed up and facilitate transactions. Therefore, the bank helps to promote trade and commerce

Role of Commercial Banks in Economic Development

Commercial banks are a source of finance for small businesses. The role of commercial banks in economic growth depends on their role as financial intermediaries. In this capacity, commercial banks help drive the flow of investment capital across the market. The main method of allocating this capital in the economy is through the lending process which helps commercial banks.

- **Risk:** The most important role of commercial banks in economic growth is to act as a risk mediator. This is mainly when banks lend to businesses or individuals. For example, when individuals apply for a loan from a bank, the bank examines the borrower's financing, among other factors, including income, credit score, and loan level. The results of this analysis help the bank determine the borrower's predetermined probability. Eliminating risky borrowers reduces the risk of financial losses to commercial banks.
- **Small Business:** Commercial banks also finance business loans in a variety of ways. A business owner can ask for a loan to finance the start-up costs of a small business. After providing financial support, small businesses can start work and implement development plans. The overall impact of small business activity creates a significant portion of employment across the country.
- **Wealth:** Commercial banks also offer different types of accounts to hold or generate individual wealth. As a result, it is used to lend and invest in commercial banks attracted with account services. For example, commercial banks typically attract deposits by offering a traditional savings menu and checking the accounts of businesses and individuals. Similarly, banks offer other types of deposit accounts, such as money market accounts and certificates of deposit.
- **Government Expenditure:** Commercial banks also support the role of the federal government as an agent of economic growth. Typically, commercial banks help fund government spending by purchasing bonds issued by the Treasury Department. Both long-term and short-term treasury bonds support government operations, programs and deficit spending.

Conclusion

For a long time, countries have been pursuing their own development. The framework of mixed, capitalist economies has sought to use the banking function embedded in available or specially created institutions to further its development goals. The role of these institutions in the development moves of the late industrialized, developing countries cannot be overstated. However, as mentioned above, changing the financial structure with the financial liberalization of the neo-liberal type; Some countries are eliminating special development banking institutions on the grounds that the equity and bond markets will work. This will reduce long-term investment, especially for medium and small businesses. Fortunately, there are some countries like Brazil that have not yet chosen this pace.

References

- ✧ Banking Statistics - Basic Statistical Returns. (Various Issues). Bombay: Reserve Bank of India.
- ✧ Chipalkatti N, Rishi M (2007), "A post reform assessment of the Indian banking sector: profitability, risk and transparency
- ✧ Govt. of India (1991) Report of the Committee on Financial System, Ministry of Finance, December.
- ✧ Kaur, Pervinder. (1995). Development Banking and Industrialization. New Delhi: Anmol Publications.
- ✧ Mathur, B. L. (1990). Indian Banking and Rural Development. Jaipur: RBSA Publishers.
- ✧ Misra&puri, "Indian Economy", Himalaya Publishing House Reserve Bank of India, Press Information Bureau, www.pmjdy.gov.in, Union Budget 2019-20
- ✧ Narasimham Committee Report on Banking Sector Reforms. (1998). Bombay: Reserve Bank of India.
- ✧ Panda, Jaganath and Dash, R. K. (1991). Development Banking in India. New Delhi: Discovery Publishing House.
- ✧ Singh, C and J. S. Brar (2016) "Stressed Assets and Banking in India," The Indian Banker, Vol. III.
- ✧ www.sicomindia.com
- ✧ <https://en.wikipedia.org>.

