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Study of Financial Institution for Financial Growth

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Abstract:

The financial development is stated as the method which is helpful in improving the quality, quantity and other related proficiency of monetary transitional services. It is very well known fact that each and every country of the world is found to be determined between the strong and strength economies entirely. It is found to be difficult and challenging to acquire the limited long time funds in the capital markets and hence there present no other institutions to support and provide long-standing finance. The financial system work as intermediate and hence simplifies the course of fund with constituting numerous units of system as well. Every individual country's economic growth highlight on the part of financial institutions and hence focused on the eventual financial development. It was very firmly and knowingly discussed that the policymakers and related economists usually decide that the financial development basically focused on the financial institutions like investment and commercial bank and other related markets. Also covers the different characteristics which was followed for the purpose of knowing the financial system and hence dealing with the overall development of the nation. The present study focused on the study of growth and development of different aspects of financial institutions and how it is going to be helpful in the aspects of financial growth of the nation.

Keywords*- Financial Development, Economic Growth, Financial institutions, Policymakers*

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Introduction

The development of any country is measured by the growth of economy in the country within the period of time. This economic growth is shown by the investment and production, also covers the Gross Domestic Product in the nation. When these factors grow, the people think that the growth is being improved in the form of living, called the development of economy.

An essential role is played by the financial sector in all the development of the nation. In this sector, financial institution is considered as a major and important constituent. These financial institutions work as a channel to transfer the resources to new borrowers from net savers. These financial institutions have been become an important source of funds for the economy. The needs of the commercial sector are fulfilled by the varieties of financial products, provided by these institutions. Along with the commercial areas, they help to new initiatives, small and large organizations as well as the industries located in the backward zones. Hence, it can be said that they assisted in decreasing the regional inequalities.

Financial Institutions of India

There are many institutions in India which support the Indian economy. In these institutions, these are some with their roles:

Finance Corporation of India (I.F.C.I) – This institution was developed in 1948 which come under IPC Act 1948. This corporation give the financial assistance only to the limited sectors which are manufacture, processing and then preservation of goods, Shipping business, Mining Industry, Hotel Industry, and the last one is the generation and supply of electricity.

National Industrial Development Corporation (N.I.D.C) – In 1954, Central Government developed N.I.D.C which was considered as the device to attaining the stability among the industries that may be of private or public sector. The main aims of this corporation is to promote the industries, not the finance support. It helps to modernize the industries.

Industrial Credit and Investment Corporation of India – Developed under Companies Act in 1955 as public limited company. The approach to ICICI for taking help in finance for establishment, renovation or growth of the company.

Industrial Development Bank of India (I.D.B.I.) – In 1964, Government of India developed it under IDBI Act. This corporation provide the credit and other amenities for the expansion of industrial sectors. It also organizes the other financial institutions and banks which offer the financial help to industries.

Unit Trust of India (U.T.I.) – It was set up under Unit Trust Act of 1963 in 1964. The central aim of UTI is inspiration and mobilization of exchangeable of the corporations and also to create expanded share for the growth of economy in the country.

Life Insurance Corporation of India – it was came into known in 1956 in the Life Insurance Corporation Act. The industry gains the long term finance through this LIC Corporation. This Corporation also provides the financial support to the desirable sectors like housing, electricity, water supply and private sector industries.

State Financial Corporations (S.F.C.) – after the independence, the government recognized that there is need of financial corporation at the level of state. Then, in 1951, 'The State Financial Corporation Act' was approved by Government of India. The main objective of this corporation is to fulfill the need of small and medium sector of industry. This corporation provides the financial assistance to the limited companies, cooperative societies and organizations.

Characteristics of Financial System

- The financial system basically help to give the ideal connection among the investors and deposits and hence promising in both the investments and savings.
- The financial system also helpful in enabling the expansion of the financial markets with time and space.
- This system encourages the well-organized distribution of financial resources for generally required and economically useful determinations.
- The financial system effects the pace and quality of the growth of economy.

Development Financial Institutions

This is a defined as the institution maintained or recognized by the Indian government which primarily give the growth and finance to more than one sectors and sub-sectors of the economy. It basically underlines the long term financing of the project and not focused on the guarantee dependent financing and different from the establishment of equity capital, underwriting functions and many more.

Purpose and determinants of Financial Growth

The financial growth is very strongly connected with the monetary development as well as monetary development among the country and hence being a pointer and indicator as the development of the nation. The economic growth is examined by the numerous factors and hence analyzing the financial development. These different determinants that can be helpful in providing the information regarding the purpose of financial growth i.e.

Gross Domestic Product: The GDP or gross domestic product is utilizes for the measuring of entire output of economy of the country. It is also considered as the market value of the whole final services and goods which is made inside borders of the country in every individual year. In the gross domestic product the method of income work on the belief or principle that the incomes of the useful features must be similar with the value of their product regulates the gross domestic project by outcome the addition of entire income of product.

M2: The M2 in define as the in terms of economics as the supply of money and stock of money as the overall number of available money in the economy at a specific time. Hence M2 is considered as the significant factor of the development of finance.

Savings: The savings are considered as the conservation of money. There are different methods of saving like keeping money separately in any pension plan or bank. In the manner of personal monetary, versus investment, deposit account etc.

Imports or Exports: In terms of economics, export is basically defined as the product and good, transported from one country to another in the genuine fashion. Exports are basically services and goods which is delivered to the foreign customers by the local producers and at the same time imports is define as bring in the services and goods into the port of a country.

Review of Literature

Mushtaq (2011), stated about the financial system that connect between the investment and savings and were connected with the numerous components such as financial markets, financial institution and related services etc. The present conclusions focused on the role of Indian Financial System and it economic development in the present era of time. It also reflect on the understanding and symbiotic connection among financial system and economic development. There present a discussion about the financial institutions that can be channelize the money in a very productive and organized manner in the same way as investment and saving enhance for the monetary development by the support of GDP. These various financial system covers the growth of both the non-financial and financial institution which provide a well ease to the normal public. Hence conclusively there main focus is basically detailed about the financial system in a manner to provide a better economic growth and development.

Khan et al., (2015), discussed about the role of financial institution in relation to the economic growth as in current scenario economic growth in right way is a mystery. Each and every country is trying to improve their economic growth, so that they can stand as the strong economy of the world and this ultimately create a difference between the developing and developed countries. At the same time this economic growth depends upon the role of financial institutions and its development. According to their study, the connection between the financial structure and its real structure ultimately increase the economic growth and even improve the performance of economic up to the level, that it provide facilities to the migration of funds to the consumers. It had basically nurtured the research area in the role of financial intervention in development of economic and re-examination of the policy options, so that the contribution of financial sector's to economic sector growth and development is completely comprehended. There are several arguments regarding economic growth that it is required for poverty reduction but it doesn't mean that makers of the policy can bounds their attention to the only target of growth. The authors concluded in their paper that economic growth is influenced by the institutional structure and environmental policy in specific countries.

Kaushal and Ghosh (2016), conducted a study to examine the connection between financial institution and growth of economy in India. In their study, they found that there was enduring connection between insurance institutions and economic growth and there is two way relationship between them in short run, which is due to the significant role played by the different institutions. The study also analyzed that insurance institution development which actually promotes the banking institution development, but at the same time the reverse was not possible. At the same time, if we take a look on economic growth Granger, it basically cause development of the banking institution whereas visa-versa is not done. This clearly indicates that the banking institutional development does not affect the economic growth in India in short run, which conclude that banking institutional development demand led. According to this study, the economic growth of India depends upon the insurance institutional development, therefore the policy maker and the government make better strategy plans.

Jangra (2017), discussed about the conversion of economy of India from the past period and resembling the closed and controlled to more open and fast developing. The financial system work as an intermediate and assists the fund flow within numerous system unit. It is very nicely stated in his work that the monetary development and growth is firmly dependent on proficiency of an established financial system. It is focused in the paper that there is requirement of operational management and govern between different workings of Indian Financial System. It is also directed in the present study that if a country is developed with growing monetary system then the economic growth of the respective country is also advanced as they both shows the direct as well as positive association them.

Joshi (2017), detailed about the financial system which plays a significant role in the monetary development of the nation. The paper basically give the snapshot of the progress of Indian financial system constituting with the presentation and development by the support of numerous substitution variables of the growth of the financial. The experimental and preceding results were representing the strong connection among EG and FD. In the study she basically focused and highlighting the growing consideration to the monetary strength in India. This paper also represent the amount of financial extending of markets in comparison with other economics of Asia Pacific. The analysis give the overview of Indian financial sector and experienced alterations in every three and half period with the conclusion of monetary sector improvements.

Conclusion

The present study focused on the study of financial industries for the development of economic growth of the nation. It is highlighted the association of the monetary superstructure and its connected infrastructure which quickens the economic development and also helpful in fulfill the economic performances to the amount that it enables the migration of funds. The present study covers the review information of all the different factors and aspects of financial system which help in the economic growth and development. The financial system work as intermediate and hence simplifies the course of fund with constituting numerous units of system as well. The major purpose and objective is to provide the connection among the financial institutions which is reflected by the insurance institution or banking institutions for the long run and purpose of economic growth of the nation.

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