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The Role of Bank in developing Economic Countries

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Abstract:

Bank play a very important role in economic development of country in modern's economy system. Bank collect the surplus saving of people and make them available for investment. It also create new demand deposits in process of granting loans and purchasing investment securities and facilitate trade both inside and outside country. As per the Reserve Bank of India (RBI), India's banking sector is sufficiently capitalized and well-regulated. In accordance with Reserve Bank of India Act 1934, Reserve Bank of India (RBI) was established in year 1935. This bank is the central bank of India that is entrusted with the multi-dimensional role. Reserve Bank of India was a private shareholder's company which was nationalized in 1949. The central bank arranged in principle approval to 11 payments banks and 10 small finance bank in February 2015-16. RBI's new measures may go a long way in helping the restructuring of the domestic banking industry. In this paper, discuss about the banks role in economic developing countries.

Keywords: *Reserve Bank, Deposit, Economic Development, Capitalized*

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Introduction

Bank play a very crucial or important role in growth and development of an economy and it is a financial institution that performs several function like accepting deposits, lending loans that helps in agriculture and rural development etc. Bank receive cash from public and also borrow money from other sources for raising Working Capital Funds. By way of interest, they have to pay cost on funds raised. To recover this cost and to meet the administrative and other expenses as also to earn profit and by either granting advances or making investments, banks have to utilize the working capital funds. No country can have a healthy economy without a sound and effective banking system. These funds are used for providing loans to industries thereby making productive investments. The most important role of bank is connect those who have capital with those who need capital. India is not only the world's largest independent democracy but also a developing economic giant. According to joint report prepared by KPMG-Confederation of Indian Industry (CII), Indian banking sector is controlled to become fifth largest by 2020. 17 percent growth rate is increase at a compound annual in coming year that is stated by reporter. There has been a significant impact on the banking industry after post economic liberalization and globalization.

The first bank that is General Bank of India was established in 1786 in country. The oldest bank that is existence in India is the State Bank of India (SBI) and government-owned bank in 1806 and SBI is the largest commercial bank in country. Reserve Bank of India was nationalized in 1935 after the independence. The Indian banking system consists of 26 public sector banks, 25 private sector banks, 43 foreign banks, 56 regional rural banks, 1,589 urban cooperative banks and 93,550 rural cooperative banks, in addition to cooperative credit institutions. Nearly 80% of market are controlled by public-sector banks, thereby leaving comparatively much smaller shares for its private peers. By using mobile phones, banks are also encouraging their customers to manage their finances. In India banking sector, credit growth would improve to 11-13 % in February from less than 10% in second half of CY14.

Nowadays, banks are diversified from their activities and are getting into new scheme and services that include opportunities in credit cards, consumer finance, life and general insurance, investment banking, mutual funds, pension fund regulation services, etc. In India, banking sector is one of the biggest service sectors. Banks have focused to shift from customer acquisition to customer retention by providing various products like internet banking, ATM services, telebanking and electronic payment etc. The facility to internet banking, ATM and credit/debit cards has also helps a lot. Banks can contribute to a country's economic development in following ways that is as follows as:

Removing the deficiency of capital formation

Economic development is not possible unless there is an adequate amount of capital formation in any economy. By banks, serious capital deficiency in developing Countries is removed. A sound banking system mobilizes small savings of the community and makes them available for investment in productive enterprises. Banks mobilise deposits by offering at attractive rates of interest and convert saving into active capital. Banks distributed this saving through loans among productive enterprises that are helpful in nation building and which is facilitates the optimum utilization of the financial resources of the community.

Helps in generating employment opportunity

Banks are provided financial resources to industries and that help in automatically generate employment opportunity. By banking sector, employment generated every year in million and revenue generation through tax and dividend collection by government invested every year. While revenue and employment generation have two important contributions that is successfully maintaining healthy credit line to industrial sector as well as overall economy is another important contribution of financial sector.

Financial assistance to Industries

In a number of ways, commercial banks finance exist in industrial sector which provide short-term, medium-term and long-term loans to industry. To industrial sector, Industrial Development Bank of India (IDBI) is the main institution in India that provided the financial assistance. It providing the direct financial assistance to industrial enterprise in the form of granting loans and advances and purchasing or underwriting the issues of stocks, bonds or debentures. IDBI have special Development Assistance Fund that is created and this 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. IDBI gives guidance to start the business and facilitates an easy access to finance by Micro and Small Enterprise, Government/RBI has launched Credit Guarantee Fund Scheme to provide guarantee cover for collateral free credit facilities extended to MSEs upto Rs1 Crore.

Promote saving Habits of the people

Banks attracts depositors by introducing deposit new scheme and providing higher rates of interest and providing the different kinds of deposit schemes to its customers due to which habitat people create saving accounts. Banks open different accounts to attract customers and these accounts are opened as per the requirements of customers such as current account, fixed deposit account, saving account and recurring account etc.

Financial assistance to Consumer Activities

Peoples are exist under developing countries being poor and having low income rates due to which they do not have sufficient financial resources to buy durable consumer goods. Customers are purchasing such items as houses, furniture, refrigerators, etc. by taking the advance loans from commercial banks due to which customers raising the standard of living in developing countries.

Helps in implementing Monetary Policy

By implementing the monetary policy of RBI, commercial banks help the economic development of country. RBI depends upon the commercial banks for success of its policy of monetary management in keeping with requirement 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, commercial banks contribute much to the growth of a developing economy.

Financial facilities for Trade

Commercial banks help in financial both internal and external trade. Banks provide the loans to wholesaler and retailer to purchase the good things in which they deal and it also help in movement of things 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 encouraging the trade. By providing foreign exchange facilities to importers and exporters of goods by finance both exports and imports of developing countries. In state, Exim Bank of India and the Government of Andhra Pradesh has signed a Memorandum of Understanding (MoU) to promote exports.

Foreign Currency Loans

For setting up of new industrial projects have the meaning of taking foreign currency loans. Banks also helps in providing loans for expansion, diversification, modernization or renovation of existing units. It is also helps in financing import of equipment from abroad and technical knowhow.

Promotion of New Entrepreneurs

By developing the banks in India, provided the success by creating a new class of entrepreneurs and spreading the industrial culture. To provide the equity type of assistance to new and technically skilled entrepreneurs who lack financial resources of their own by special capital and seed Capital schemes. These development banks have been actively involved in the entrepreneurship development programmes. For economic development, innovations are an essential prerequisite and these innovations are mostly financed by bank credit in developed countries. But in undeveloped countries, industries are hesitate to invest in new ventures and undertake innovations largely due to lack of funds and high chances of risk. Facilities of bank loans enable the entrepreneurs to step up their investment on innovational activities, approve new methods of production and increase productive capacity of the economy.

Balanced Development

Modern banks spreading its operation throughout the world like citi bank, SBI, PNB, Baroda bank etc. and its helps a country to developed or spread activities in rural and urban areas. It help to attain balanced regional development by promoting rural areas with the spreading of banking operations to all over country. In rural and urban areas, expanding access to financial services that is RBI granted in principle licenses to 10 applicants to open small finance banks. The developed banks transfer surplus capital from developed regions to the less developed regions, where it is scarce and most needed.

Government Spending

All banks are needed the support the role of federal government as an agent of economic. Generally, commercial banks help fund government spending by obtaining bonds issued by the Department of the Treasury. Both long and short term Treasury bonds help finance government operations, programs and support deficit spending.

Review of Literature

Epstein 2006, stated that central banks have financed governments that used allocation methods and subsidies to engage in 'sectoral policy' and attempted to manage the foreign exchange, often with capital and exchange controls of various kinds. Central banks are most effective and developed in helping to foster development in ‘late developers’ where they have been part of governmental apparatus of industrial policy.

Abubakar and Gani 2013, this study based on the Vector Error Correction Modelling (VECM) which approach to cointegration to explore the dynamic relationships between financial development in Nigerian banking sector and growth. Which result was come that reveal the credit to private, government expenditure and interest rate spread exert negative influence on growth in long run. The banks should also be encourage to lend to entire economy as against favoring some specific sectors and government should avoid excessive deficit and borrowing from the private sector that are proved to be crowding out private investment.

Petkovski and Kjosevski 2014, in Central and South Eastern Europe in the period from 1991 to 2011, examine banking sector that contribute to economic growth by using endogenous growth model and GMM dynamic panel method. To measure the level of banking sector by using three variables that is ratio of quasi money (RQM), amount of bank credit allocated to the private sector as a share of gross domestic product (GDP) and interest rate margin. The large-stock of non-performing loans and banking crises experienced by these economics at beginning of transition period and 2008 and 2010.

Rao 2014, dictated that there is need of constant innovation in retail banking and banks now need to use retail as a growth trigger. This requires product development and differentiation, innovation and business process reengineering, micro-planning, marketing, prudent pricing, customization, technological up gradation, home / electronic / mobile banking, cost reduction and cross-selling. The kind of technology used and efficiency of operations would provide much needed competitive edge for success in retail banking business.

Yakkaldevi et.al 2014, concluded that banking sector is fairly mature in term of supply, product range and reach in India. As far as private sector and foreign banks are concerned that reach in rural India still remains a challenge. A well-functioning domestic capital market is also necessary for the banking sector to raise capital and support growth and also have suitable capital adequacy ratio to mitigate risk. Bank investments are also showing an increasing trend.

Khan 2015, concluded that this study play a role of research and development in economic growth of countries around the world that is agree on significant role of different from research and development in productivity or economic growth. It is concluded that developing countries should concentrate on research and development to achieve the sustained economic growth.

Iqbal and Sami 2017, concluded that banks play an important role as work a mobilizers of savings and allocators of credit for production and investment in developing economies like India. Banks contribute to economic growth of country as financial intermediary by identifying the entrepreneurs with the best chance of successfully initiating new commercial activities and allocating credit them. India has the problem that lack of accessible, affordable and appropriate financial services and it also have effective inclusive financial system is needed for economic growth of country. RBI and government play an important role in promoting financial inclusion for economic growth to increase the banking penetration, installation of new ATM and implementation of various scheme in country.

Conclusion

Banks play a crucial and important role for developing the economic growth in developed countries. Bank invest the more infrastructure facilities such as irrigation facilities, processing, storage and marketing activities. By banks, agricultural infrastructural can be improved, as there are abundance prospects for banks to invest in activities. The above study exposes that how commercial banks are helpful in development of country. If we make comparison between rural and urban areas then, concluded that urban areas are more developed because of low credit flow and less contribution of agricultural sector in Gross Domestic Product (GDP) of India. It is concluded that modern economies of world have developed primarily by making best use of credit availability in their system.

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