Role of indian banks in the growth of the indian economy

[Economics]

{draw: g} {draw: custom-shape} SSUB INTRODUCTION: In the current global order, where the world has become a big village, consumers take a global look at the products and services in terms of price, quality, delivery and after-sale services. This trend has sown the seeds of competition in every sector of economy and banking sector is no exception to this event. Banking, the world over, has been changing at a spectacular pace.

This change is due to multifarious factors like the need to be efficient in functions, thirst for becomingfinancesuperpowers than mere banks, growing importance of private banking, the rise in high net worth individuals, etc. the decade of 90s has witnessed a sea change in the way banking is done in India. Technologyhas made tremendous impact in banking. " ANYWHERE BANKING" and " ANYTIME BANKING" have become a reality. Growing integration of economies and the markets around the world have made global banking a reality too.

The surge inglobalizationof finance has also gained momentum with the technology advancements, which have effectively become overcome the national borders in the financial services business. India, as we know, is one of the 104 signatories of Financial Services Agreement (FSA) of 1997. This gives Indian banks an opportunity to expand on a quid pro quo basis. BANKING IN INDIA: Banking in India originated in the last decades of the 18th century.

The oldest bank in existence in India is the State Bank of India, a government-owned bank that traces its origins back to June 1806 and that is the largest commercial bank in the country. Central banking is theresponsibilityof the Reserve Bank of India, which in 1935 formally took over these responsibilities from the then Imperial Bank of India, relegating it to commercial banking functions. After India's independence in 1947, the Reserve Bank was nationalized and given broader powers. In 1969 the government nationalized the 14 largest commercial banks; the government nationalized the six next largest in 1980.

Currently, India has 96 scheduled commercial banks (SCBs) - 27 public sector banks (that is with the Government of India holding a stake), 31 private banks (these do not have government stake; they may be publicly listed and traded on stock exchanges) and 38 foreign banks. They have a combined network of over 53, 000 branches and 17, 000 ATMs. STRUCTURE OF BANKING SYSTEM IN INDIA: The following figure represents the structure of Indian Banking System. {draw: frame} ROLE OF BANKING SECTOR IN THE GROWTH OF INDIAN ECONOMY:

Moneylending in one form or the other has evolved along with the history of the mankind. Even in the ancient times there are references to the moneylenders. Indian history is also replete with the instances referring to indigenous money lenders involved in the business of money lending by mortgaging the landed property of the borrowers. Towards the beginning of the 20th century, with the onset of modern industry in the country, the need for government regulated banking system was felt. Reserve Bank of India was set up to regulate the formal banking sector in the country.

But the growth of modern banking remained slow mainly due to lack of surplus capital in the Indian economic system at that point of time. Modern banking institutions came up only in big cities and industrial centers. The rural areas, representing vast majority of Indian society, remained dependent on the indigenous money lenders for their credit needs. Independence of the country heralded a new era in the growth of modern banking. In 1969, Indian government took a historic decision to nationalize 14 biggest private commercial banks. A few more were nationalized after a couple of years.

This resulted in transferring the ownership of these banks to the State and the Reserve Bank of India could then issue directions to these banks to fund the national programs, the rural sector, the plan priorities and the priority sector at differential rate of interest. However, after almost two decades of bank nationalization some new issues became contextual. The service standards of the public sector banks began to decline. Their profitability came down and the efficiency of the staff became suspect. Non-performing assets of these banks began to rise.

The wheel of time had turned a full circle by early nineties and the government after the introduction of structural and economic reforms in the financial sector, allowed the setting up of new banks in the private sector. The new generation private banks have now established themselves in the system and have set new standards of service and efficiency. These banks have also given tough but healthy competition to the public sector banks. MODERN DAY ROLE: Banking system and the Financial Institutions play very significant role in the economy.

First and foremost is in the form of catering to the need of credit for all the sections of society. The modern economies in the world have developed primarily by making best use of the credit availability in their systems. An efficient banking system must cater to the needs of high end investors by making available high amounts of capital for big projects in the industrial, infrastructure and service sectors. At the same time, the medium and small ventures must also have credit available to them for new investment and expansion of the existing units.

Rural sector in a country like India can grow only if cheaper credit is available to the farmers for their short and medium term needs. Credit availability for infrastructure sector is also extremely important. The success of any financial system can be fathomed by finding out the availability of reliable and adequate credit for infrastructure projects. Fortunately, during the past about one decade there has been increased participation of the private sector in infrastructure projects. The banks and the financial institutions also cater to another important need of the society i. . mopping up small savings at reasonable rates with several options. The common man has the option to park his savings under a few alternatives, including the small savings schemes introduced by the government from time to time and in bank deposits in the form of savings accounts, recurring deposits and time deposits. Another option is to invest in the stocks or mutual funds. In addition to the above traditional role, the banks and the financial institutions also perform certain new-age functions which could not be thought of a couple of decades ago.

The facility of internet banking enables a consumer to access and operate his bank account without actually visiting the bank premises. The facility of ATMs and the credit/debit cards has revolutionized the choices available with the customers. The banks also serve as alternative gateways for making payments on account of income tax and online payment of various bills like the telephone, electricity and tax. The bank customers can also invest their funds in various stocks or mutual funds straight from their bank accounts. In the modern day economy, where people have no time to ake these payments by standing in queue, the service provided by the banks is commendable. While the commercial banks cater to the banking needs of the people in the cities and towns, there is another category of banks that looks after the credit and banking needs of the people living in the rural areas, particularly the farmers. Regional Rural Banks (RRBs) have been sponsored by many commercial banks in several States. These banks, along with the cooperative banks, take care of the farmer-specific needs of credit and other banking facilities. FUTURE:

Till a few years ago, the government largely patronized the small savings schemes in which not only the interest rates were higher, but the income tax rebates and incentives were also in plenty. The bank deposits, on the other hand, did not entail such benefits. As a result, the small savings were the first choice of the investors. But for the last few years the trend has been reversed. The small savings, the bank deposits and the mutual funds have been brought at par for the purpose of incentives under the income tax. Moreover, the interest rates in the small savings schemes are no longer higher than those offered by the banks.

Banks today are free to determine their interest rates within the given limits prescribed by the RBI. It is now easier for the banks to open new branches. But the banking sector reforms are still not complete. A lot more is required to be done to revamp the public sector banks. Mergers and amalgamation is the next measure on the agenda of the government. The government is also preparing to disinvest some of its equity from the PSU banks. The option of allowing foreign direct investment beyond 50 per cent in the Indian banking sector has also been under consideration.

Banks and financial institutions have played major role in the economicdevelopment of the countryand most of the credit- related schemes of the government to uplift the poor and the under-privileged sections have been implemented through the banking sector. CONCLUSION: The Indian banking system is financially stable and resilient to the shocks that may arise due to higher non-performing assets (NPAs) and the global economic crisis, according to RBI. Following the financial crisis, new deposits have gravitated towards public sector banks.

According to RBI's 'Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks: September 2009', nationalized banks, as a group, accounted for 50. 5 per cent of the aggregate deposits, while State Bank of India (SBI) and its associates accounted for 23. 8 per cent. The share of other scheduled commercial banks, foreign banks and regional rural banks in aggregate deposits were 17. 8 per cent, 5. 6 per cent and 3. 0 per cent, respectively. Withrespectto gross bank credit also, nationalized banks hold the highest share of 50. per cent in the total bank credit, with SBI and its associates at 23. 7 per cent and other scheduled commercial banks at 17. 8 per cent. Foreign banks and regional rural banks had a share of 5. 5 per cent and 2. 5 per cent respectively in the total bank credit. NRI fund inflows increased since April 2009 and touched US$ 45. 5 billion on July 2009, as per the RBI's February bulletin. Most of this has come through Foreign Currency Non-resident (FCNR) accounts and Non-resident External Rupee Accounts. India's foreign exchange reserves rose to US$ 284. 6 billion as on January 8, 2010, according to the RBI's February bulletin. The State Bank of India (SBI) has posted a net profit of US$ 1. 56 billion for the nine months ended December 2009, up 14. 43 per cent from US$ 175. 4 million posted in the nine months ended December 2008. Amongst the private banks, Axis Bank's net profit surged by 32 per cent to US$ 115. 4 million on 21. 2 per cent rise in total income to US$ 852. 16 million in the second quarter of 2009-10, over the corresponding period last year. HDFC Bank has posted a 32 per cent rise in its net profit at US$ 175. million for the quarter ended December 31, 2009 over the figure of US$ 128. 05 million for the same quarter in the previous year. Government Initiatives: In its platinum jubilee year, the RBI, the central bank of the country, in a notification issued on June 25, 2009, said that banks should link more branches to the National Electronic Clearing Service (NECS). In the Third Quarter Review of Monetary Policy for 2009-10, the RBI observed that the Indian economy showed a degree of resilience as it recorded a better-than-expected growth of 7. 9 per cent during the second quarter of 2009-10.

In its Third Quarter Review of Monetary Policy for 2009-10, the RBI hiked the Cash Reserve Ratio (CRR) by 75 basis points (bps) to 5. 75 per cent, while keeping repo and reverse repo rates unchanged. According to the RBI, the stance of monetary policy for the remaining period of 2009-10 will be to: Anchor inflation expectations and keep a vigil on inflation trends and respond swiftly through policy adjustments, Actively manage liquidity to ensure credit demands of productive sectors are met adequately, Maintain an interest rateenvironmentconsistent with financial stability and price stability.

Exchange rate used: 1 USD = 46. 29 INR (as on January 2010) 1 USD = 46. 66 INR (as on December 2009) Thus it can be concluded by saying that the role of the banks has been important, but it is going to be even more important in the future.