IJARSCT

ISSN (Online) 2581-9429

International Journal of Advanced Research in Science, Communication and Technology (IJARSCT)

International Open-Access, Double-Blind, Peer-Reviewed, Refereed, Multidisciplinary Online Journal

Impact Factor: 7.53

Volume 4, Issue 5, March 2024

Role of Commercial Bank in the Economic Development of India

Sahdik Sajid Shaikh[1] and Dr. Parizaad Bhesania[2]

Research Scholar[1] and Assistant Professor[2]

The Byramjee Jeejeebhoy College of Commerce, Mumbai, Maharashtra, India

Abstract: *Banks play an important part in the development of the Indian economy. A strong and efficient banking sector in developing countries provides the essential financial inputs to the economy. The banking industry plays an important role in the financial system. Commercial banks are a key component of the country's financial system. Commercial banks are profit-making financial institutions that accept deposits from the general public and lend to individuals such as homeowners, entrepreneurs, and business owners.*

Banks have the potential to be important players in fostering financial sustainability, reining in speculation, and preserving equilibrium between supply and demand as well as directing available visual resources through the appropriate channels. Considering that agriculture is the foundation of any nation, including India.

Commercial banks' main goal is to make money through commissions, interest, and other means. The statutory authority that controls how commercial banks operate is the Reserve Bank of India. The banking industry's performance can be used as a reliable indicator of an economy's health. The main forces and front-runners in accomplishing our economy's social goals are the public sector banks. This study sought to determine which public sector bank in India is doing better financially by concentrating on the profitability of these banks. The banking business in India has expanded dramatically as a result of technological innovation and product development. The research paper was titled The Role of Banks in the Growth of the Indian Economy. This article examines the elements that influence the Bank's participation in the growth of the Indian economy. The study is completely based onsecondary data.Secondary data is the basis of research. They present research on commercial banks and their role in economic growth.

Keywords: Bank

I. INTRODUCTION

The role of the banking industry shifted substantially as a result of liberalization, privatization, and globalization. One of the most important resources for the development of agriculture is credit. It provides farmers with the capital to make new investments and/or use new technology. Indian agriculture plays a unique function in the macroeconomic framework and contributes significantly to poverty alleviation, highlighting the relevance of agricultural loans.

The institutional framework for agricultural finance has been stressed since the planned development era in India, recognizing its role in promoting agricultural growth and development. India accounts for 22% of the world's poor. Such a high poverty rate is concerning, especially given that poverty elimination has been one of the primary goals of the development planning process. Yes, poverty is a worldwide problem. Its eradication is regarded as critical to humanity's desire for long-term development. Therefore, reducing poverty in India is essential to achieving global objectives.

A commercial bank is a kind of bank that offers services including loaning money to businesses, taking deposits, and providing simple investment products. A bank or a section of a bank that primarily handles deposits and loans from corporations or large businesses rather than from private citizens is referred to as a commercial bank. About 48% of all institutional financing to agriculture is provided by commercial banks, with co-ops accounting for 46% of the total and RRBs for roughly 6%. However, research indicates that a large number of common people lack access to institutional finance.

IJARSCT
ISSN (Online) 2581-9429
International Journal of Advanced Research in Science, Communication and Technology (IJARSCT)
International Open-Access, Double-Blind, Peer-Reviewed, Refereed, Multidisciplinary Online Journal
Impact Factor: 7.53
Volume 4, Issue 5, March 2024

In India, the growth rate of deposits in commercial banks is approximately sixteen percent. In May 2008, the RBI advised banks to categorize overdrafts up to Rs. 25,000 (per account) against "no-frills" accounts in rural and semi-urban areas as indirect finance to the agriculture sector under the priority sector advances, as stated in the announcement made in the Annual Policy statement for the year 2008-09.

Meeting the short- and long-term needs of farmers involves a vast number of formal institutional entities, such as cooperatives, Reserved Commercial Banks (SCBs),Cooperatives, Non-Banking Financial Institutions (NBFIs), Self-help Groups (SHGs), etc. A number of steps have been done to improve the rural credit system's institutional framework. These programs' primary goal was to increase farmers' access to institutional financing.

Functions of Commercial Banks

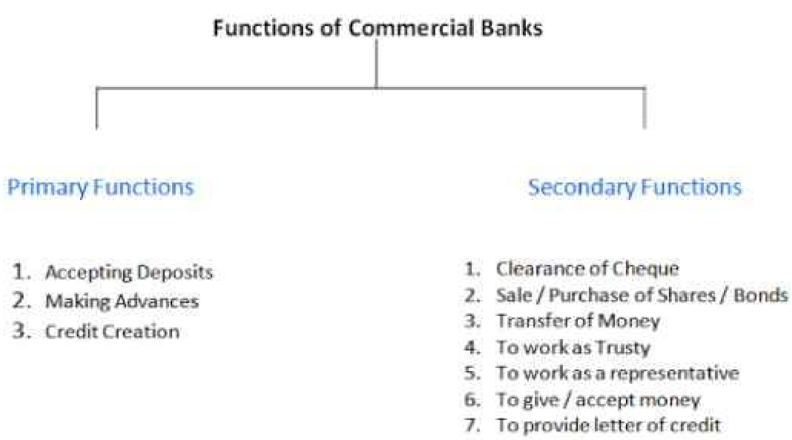
Commercial banks carry out a variety of tasks. They meet the financial demands of several sectors, including agriculture, industry, trade, and communication, and play a key role in addressing economic and social needs. Recently, banks have been expanding their functions and becoming more customer-focused in what they do. Commercial bank duties are typically separated into two groups: primary duties and secondary duties. The operations of commercial banks are made simpler in the following chart. Commercial banks carry out a number of essential tasks, some of which are listed below. Commercial banks take a variety of deposits from its clients, including savings accounts, recurring accounts, and fixed deposits.These deposits are due after a particular time period. Commercial banks offer a variety of loans and advances, including as money at call, cash credit, bill discounting, overdraft protection, and more. In addition, they offer term loans and demand and demand to all kinds of customers in exchange for suitable collateral. The primary role of commercial banks is to create credit. When approving a loan for a client, they do not provide the borrower cash. Rather, a deposit account is opened, which the borrower can then withdraw funds from. In other words, when they approve a loan, they automatically create deposits, which is known as credit creation by commercial banks. Commercial banks execute a variety of auxiliary tasks in addition to their main duties, such as numerous agency or general utility tasks. Agency functions and utility functions are the two categories into which commercial banks' secondary functions can be separated.

The agency functions are the following:

To deal in foreign exchange, buy and sell stocks, act as trustee, attorney, correspondent, and executor, and collect and clear checks, dividends, and interest warrants. To pay rent, insurance premiums, and other bills. To accept tax proceeds and tax returns.

The utility functions are the following:

To provide safety locker facility to customers and to provide money transfer facility and to issue traveller's cheque and to act as referees and to accept various bills for payment: phone bills, gas bills, water bills, etc. and to provide merchant banking facility and to provide various cards: credit cards, debit cards, smart cards, etc.



II. LITERATURE REVIEW

There were two main stages to the commercial banking sector's reforms. Following the publication of the Report of the Committee on Financial System, 1992 (Chairman: Shri M. Narasimham), the first phase of reforms was implemented, with a primary focus on enabling and strengthening measures. Two significant things happened. The first was the green revolution, which followed the new agricultural technology's adoption.The second was the July 1969 nationalization of fourteen large commercial banks, followed by the nationalization of six additional commercial banks in April 1980. With relation to agricultural and rural credit, the Multi Agency Approach (MAA) was initiated. Commercial banks start to actively participate in financing agriculture. During this time, two further organizations were established: farmers service societies and regional rural banks.

The following table shows the share of commercial banks and cooperatives in India.

Year	Commercial Banks
1970-71	-
1980-81	38.4
1990-91	47.6
2000-01	52.4
2001-02	54.1
2002-03	57.2
2003-04	60.3
2004-05	65.0
2005-06	69.7
2009-10	71.8

In order to bring Indian standards into line with best practices around the world, the second phase of reforms—introduced in response to the Committee on Banking Sector Reforms, 1998 (Chairman: Shri M. Narasimham)—placed more emphasis on structural measures and improvements in disclosure standards and levels of transparency. There have been notable advancements in banking operations over the past forty years, especially following the initial bank nationalization phase in 1969, which bolstered the financial intermediation process. As of June 2011, there were 62,607 public sector bank offices worldwide, up from just 8262 in June 1969. The percentage of agricultural credit provided by rural and semi-urban branches dropped dramatically from 83.7% in 1995 to 69.3% in 2005. 66 percent of all agricultural loans was provided by branches in rural and semi-urban areas in 2008.

The National Spot Exchange for Agriculture Produce (NSEAP), which will connect all agri-produce marketing committees with consumers and producers, was launched by the Indian government on February 10, 2005. The computerized exchange will help agro-based enterprises sell farm produce more efficiently. Farmers will be able to sell their produce to corporations directly and at better prices as a result. An MOU with Financial Technologies (India) and Multi Commodity Exchange (MCX) with NAFED has been inked by the Indian Agriculture Ministry. In this instance, SBI will serve as NSEAP's primary clearing and settlement backup, ensuring that funds can be transferred between centres across the nation.

III. METHODOLOGY

The research paper is empirical in nature and is based on descriptive analysis. We obtained secondary data for the study by examining other research publications in the same subject.

IV. FINDINGS AND POLICY IMPLICATIONS

The government and RBI are working hard to change the current state of the Indian agriculture industry. The rural impoverished can now breathe a sigh of relief from the terrifying grasp of moneylenders. As the premier source of indirect funding for agriculture, NABARD serves as a friend, mentor, and philosopher. It's impressive how far

ISSN 2581-9429 IJARSCT

NABARD has come in refinancing. According to a study, 66% of consumers still do not have access to financial services or lower-cost credit. In a situation like this, poor farmers cannot live. Numerous studies indicate that 40% of Indian farmers commit suicide as a result of their inability to repay bank loans.Poor farmers are receiving loans from commercial banks, although there are still issues with this. 43.1% of all agricultural loans are given by commercial banks (Economic Survey, 2011). In India, farmers still encounter the following privileged issues while attempting to obtain agricultural credit:

- High rate of interest on loan
- Lack of financial knowledge
- Cumbersome process of getting loan
- Bank staff is not cooperative
- Lack of security of collateral
- Fear factor about recovery process

The number of bank branches in the RRBS region has grown from 1833 in 1969 to 35850 in 2012. This is the best policy that the RBI has ever had. Thanks to the expansion of branches into rural areas, farmers may now apply for loans and comprehend the application process. Up till 2013, the banks' current challenge is to cover the 70,000 rural settlements. This procedure will effectively raise India's credit for agriculture.

Reddy's report states that just 18% of credit flow is allocated to agriculture in rural areas. Thus, the government ought to take some decisive action to boost the flow of credit into the agricultural sector. Since the majority of India's 78% population depends on the agricultural sector, its growth would undoubtedly affect all related elements, including employment opportunities and national development. The agriculture sector's most recent GDP contribution to the Indian economy was 3.4%. (Indian Economic Survey).

V. CONCLUSION

The Confederation of Indian Industry claims that high loan costs, a skewed market, intermediaries—who raise costs instead of adding value—price controls, and inadequate infrastructure are the key causes of India's agricultural problems. It has also suffered from inadequate irrigation systems, the application of antiquated technology and methods, the low economic standing of farmers, dispersed landholdings, a lack of post-harvest infrastructure, and a lack of farm extension. Banks ought to take these facts into account in order to increase their investments in infrastructure, including processing, storage, marketing, and irrigation facilities. Banks can develop agricultural infrastructure because there are numerous opportunities for them to invest in the activities listed above.The study above demonstrates how commercial banks contribute to a country's development. When comparing rural and urban areas, the thought that metropolitan areas are more developed always comes to mind. This is a result of poor credit flow and the farm sector's diminished GDP contribution in India. India's economy can only flourish if its agriculture sector expands.

REFERENCES

[1] Misra & puri, “Indian Economy”, Himalaya Publishing House Mumbai 2010, pp. 375377.
[2] Bhole L M, “Financial Institutions and Markets”, 2010 pp. 295 Tata McGraw hill publications.
[3] Sharma , R. D., “Farm financing by commercial banks—a regional study” , Bharat book depot, Bhagalpur [4] Reserve bank of India , trend and progress of banking in India .
[5] Mohan Rakesh, “Agricultural credit in India”, Economic & political weekly, March , 2006.
[6] Reserve Bank of India (2004): “Report of the Advisory Committee on Flow of Credit to Agriculture and Related Activities From the Banking System”. URL (www.rbi.org.in).
[7] Statistical Tables Relating to Banks in India (Various Issues), Reserve Bank of India, Mumbai. URL: (www.rbi.org.in)
[8] Govt. of India (1991a) Report of the Committee on Financial System, Ministry of Finance,, December
[9] Govt of India (1998) Report of the Committee on Financial System, Ministry of Finance, (Narasimham Committee-II), April

IJARSCT

ISSN (Online) 2581-9429

International Journal of Advanced Research in Science, Communication and Technology (IJARSCT)

International Open-Access, Double-Blind, Peer-Reviewed, Refereed, Multidisciplinary Online Journal

Impact Factor: 7.53

Volume 4, Issue 5, March 2024

[10] Chipalkatti N, Rishi M (2007), "A post reform assessment of the Indian banking sector: profitability, risk and transparency |

[11] Lecture delivered by Dr. Rakesh Mohan, the then Deputy Governor, Reserve Bank of India on February 5, 2004 at the 17th National Conference of Agricultural Marketing, Indian Society of Agricultural Marketing, Hyderabad. he is grateful to Dr. Y.S.P. Thorat, then Executive Director, Asha P. Kannan, A. Prasad, Partha Ray, T. Gopinath and Arun Vishnu Kumar of the Reserve Bank of India for their assistance.

[12] All India Rural Credit Review Committee (Chairman: B.Venkatappiah).

[13] Capoor, J (1999), "Structural Reforms in Agricultural and Rural Development Banks", Reserve Bank of India Bulletin, October, Vol.53 No.10, pp.1185-1190.

[14] Report of the Expert Committee on Rural Credit (V S Vyas Committee), 2001, NABARD, Mumbai, November12.