Role of banking in restructuring the Indian economy:

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Abstract

A modern economy cannot function without a strong financial system. As a financial sector pillar, it plays a critical role in the economy's overall health and development. There must be greater accountability and dedication to the financial demands of trade, industry, and agriculture if a country's economy is to grow. In other words, the development of a country is a direct result of the development of banking. Instead of serving as just money changers, banks in the modern economy serve as catalysts for progress. They play a critical role in attracting deposits and disbursing loans to a wide range of businesses and industries. As the economy improves, so does the health of the country's banking sector. The strength and efficiency of an economy's financial system is dependent on a sound and solvent banking system, which in turn depends on the strength and efficiency of the financial sector. Solvency in the banking system ensures the bank's ability to meet its obligations to depositors and the efficient mobilisation of funds in productive sectors. A country's economic progress is impossible without a well-functioning banking sector. The most efficient way to create credit in markets is through banks, which are essential elements of the financial system. People's lives aren't complete without banking. People in today's faster-paced society may be unable to make necessary transformations without a strong banking infrastructure is in place. In India, the financial system is dominated by state-owned institutions. Unlike any other sector, the banking industry's performance is directly tied to the overall economy. Financial services in general are dealing with a constantly changing market, new technology and economic fears as well as severe competition and much increased client expectations. Examining Indian banks' involvement in capital formation and economic growth is the primary objective of this study.

Keywords: Banking, Credit Facility, Economic Growth, Indian Economy capital formation.

Introduction:-

There are many activities that a bank can fulfil, including receiving deposits and lending money, as well as providing services for agriculture and rural development. The bank has a major impact on the country's economic progress. Banks must make it easier for individuals to deposit their extra money in their accounts. Using these cash, businesses are able to take out loans and invest in their operations. A bank is a type of financial institution that acts as a go-between, taking deposits and then lending those funds out. They are the market's most active participants. Those who have money and people who are looking for money are two of the most important functions of a bank. The banking industry has been significantly impacted by the post-economic liberalisation and globalisation.

Both governmental and private banking has long been a part of the Indian economy. In the late 1700s and early 1800s, banking began in India. The General Bank of India and the Bank of Hindustan, the country's first two banks, have since closed their doors. Indian banking began in June 1806 with the renaming of the Bank of Calcutta as the Bank of Bengal and the subsequent renaming of the Bank of India. The British East India Company established three Presidency Banks, two in Bombay and one in Madras. The Presidency Banks and their predecessors have historically acted as quasi-central banks. The Imperial Bank of India was established in 1921 and was renamed the State Bank of India in 1955, the year of India's liberation from British rule.

When India's banks were nationalised, they became the largest and most diverse banking industry on Earth. Mass engagement in Indian banking has been astoundingly successful. In 1980, another six commercial banks were nationalised. For the stated purpose of giving the government more control over loan supply, nationalisation was cited. Around 91% of Indian banking was now under the hands of the government after the second nationalisation. In 1993, the New Bank of India and the Punjab National Bank combined to become Punjab National Bank, which is now known as Punjab National Bank. In the lone merger involving nationalised banks, the number of institutions was lowered from 20 to 19. As a result, the nationalised banks grew at an average rate of about 4% throughout the 1980s and the 1990s.

After the Indian banking system was nationalised, it saw a massive increase in volume. When it comes to banking, no matter how many advantages nationalisation brought about, it must be remembered that the most major financial institutions were all state-owned and led by a single authority. Until the end of the 1980s, banks had little freedom to set their own lending and deposit rates. Banks were inefficient and financially unsound in the country's financial system as of 1991. Several variables had a role in this, including the following: (1) increased demand for back-up supplies, (2) interest rates set by the government, (3) directed credit, and (4) There is also a lack of competitiveness. Bank reserve requirements were lowered and interest rates deregulated after the Narasimham Committee Report (1991) recommended it. Prudential criteria for banks were also imposed, as was increased bank oversight and private sector banking was established. Since the economy was opened to the outside world in 1991, the Indian banking sector has grown enormously. Securities and Exchange Board of India (SEBI) and other regulators have played a critical role in establishing an international standard for financial regulation in India. Indian government's central bank

Banking in India has seen a major shift during the past several years. India's remotest regions have become more accessible and economical because to the rollout of new technologies. Despite the ongoing COVID 19 pandemic scenario, the RBI's latest banking trends and progress report (for the year 2019-20) shows numerous major developments in the banking sector. Recapitalization and capital raising by both public and private sector banks helped boost the CRAR ratio from 14.7% to 15.8% in March 2020, while the GNPA ratio of SCBs declined from 9.1% in March 2019 to 8.2% in March 2020, then further to 7.5% in September 2020. (September, 2020). It will be (September, 2020).

Literature Review

The following are two of the most frequently accepted theoretical frameworks for explaining the relationship between banking sector issues and economic development.

1. In Sri Lanka, **Pisedtasalasai and Edirisuriya (2020)** evaluated the diversification of commercial banks and their performance. Diversification and performance have been found to be linked in this study. Diversification has led to an increase in bank profitability.

2. As a result of the panel VECM (Vector error correction model) model developed by **Saeed et al. (2018)**, the most major drivers of economic growth are new innovations and bank investment.

3. **Liu and Zhang (2018)** examined endogenous growth in relation to the financial system and economic growth. Panel data from 29 Chinese provinces was used in the study. There is an optimal financial structure that can suit the needs of the economic development process, according to the study's theoretical conclusions.

4. **Hou and Cheng (2017)** used the generalised method of moments to examine the effect of bank performance indicators on economic development in the short and long run (GMM). Impact of the metrics was found to be influenced by bank growth and national GDP development over time, according to the study. ' Many financial activities are strongly recommended by the study in order for economies to maintain sustainable growth.

5. In 1961 to 2013, **Mushtaq (2016)** did a causal and cointegration study for Pakistan.

6. When **Sharma and Ranga (2014)** examined the Indian economy, they discovered that bank savings accounts have a considerable beneficial effect on GDP growth.

7. **Emecheta and Ibe (2014)** established a statistically significant positive relationship between bank economic development, private sector lending, and wide money in Nigeria.

8. **Tahir (2008)** conducted study in Pakistan and discovered a one-way causal association between economic and financial industries' short- and long-term success.

9. In addition, **Awdeh (2012)** found a link between both the expansion of the financial industry and the growth of the economy in Lebanon. This corresponds to the concept of growth-driven finance.

10. **Aurangzeb (2012)** asserts that the banking industry has a major impact on Pakistan's economic growth via time series and causal analysis.

Recent Technological and Other Developments in Banking Sector:

During the past two decades, India's economic growth and liberalisation of the financial sector have resulted in a banking sector revolution in the country. The system's asset quality and profitability have risen significantly, and it has become more commercially focused. Banks in India avoided major damage from the financial crisis because of their isolation and Reserve Bank of India countercyclical policies, but asset quality degradation forced some proactive loan restructuring. Banks' growth and inclusivity are greatly bolstered by advances in information technology (IT). This supports inclusive economic growth. Improved front-end operations and lower transaction costs for customers are only two ways that IT helps the banking sector compete more effectively. Because small-ticket retail transactions are now easier and faster for both banks and customers, it has the potential to enhance financial inclusion. Over the years, the Reserve Bank of India has taken a leading role in developing India's banking system through the use of technology. Internet banking, phone banking, ATMs, electronic funds transfer (EFT), electronic clearing houses (ECS), and electronic data exchange have all been adopted as a result of India's economic information technology revolution (EDI). Electronic fund transfers have simplified and expedited the transfer of money from paper-based methods to a faster and more efficient electronic one.

Bank Computerization:

The Indian banking sector saw a major technological transformation as a result of computerization. Banks in the public sector have been pushed to be more proactive in recent years in terms of computerization as a result of the rise of new private sector banks and foreign banks equipped with cutting-edge banking technology. Even as opposition from labour unions has waned, the rate of computerization has remained modest. The Central Vigilance Commission desires complete computerization of Indian banks in order to combat fraud, delays, and other irregularities.

Core Banking Solutions (CBS):

The adoption of Core Banking Solutions is a technological development that is directly tied to computerization in bank branches. Core banking is a broad phrase that refers to the services offered by a network of connected bank branches. Core banking is a networking procedure that connects the servers of a bank's many branches to a central server, allowing an account holder to access, deposit, and withdraw funds from his or her account from any of the bank's branches. Bank customers can conduct routine transactions and access their funds at any of the member branch offices. To put it another way, the bank's information technology platform is built on top of core banking systems.

ATM Services:

Automated Teller Machines (ATMs) are the third significant technological development that has altered the banking sector's delivery method (ATMs). It has grown in popularity as a means of delivering banking transactions in India. ATM does not imply "avoids travelling with money," nor does it mean "anytime money," although it most emphatically indicates both. Additionally, the advent of automated teller machines (ATMs) enabled users to do banking transactions without visiting a bank branch. After HSBC's first ATMs were installed in India in 1987, the concept spread across the country. Almost every commercial bank now provides ATMs to its customers. SBI adheres to the 'ATMs in Quantity' idea. Corporation Bank has the second largest ATM network among India's public sector banks. ATMs are meant to perform the bank's primary function. It is operated using a plastic card that has unique properties. The plastic card has supplanted the cheque, the customer's personal appearance, banking hours constraints, and paper-based verification. Instantaneous access to cash is now possible in any corner of the world because of ATMs. While ATMs give customers the ability to do a variety of financial transactions, their primary use has been to withdraw cash and check their account balance.

Today, all public sector banks are serious about ATM installation in the Indian market. They are either opening their own ATMs or forming alliances with other banks. Since April 2009, access to any ATM in India is completely free. For any form of banking in India, this is a wonderful opportunity. An alternative to bank branches is provided by off-site ATMs, which give consumers the opportunity to withdraw cash at any time. As of June 2021, the National Financial Switch (NFS) network had over 252 thousand ATMs. With approximately 1,200 linked members and over 300 million transactions, the NFS is India's largest ATM network.

Table 1.1:
Branches and ATMs of Scheduled Commercial Banks (Continued)
(At end-March 2020)

Sr. No	Name of the Bank	Branches					ATMs		
		Rural	Semi-urban	Urban	Metropolitan	Total	On-site	Off-site	Total
1	2	3	4	5	6	7	8	9	10
	Public Sector Banks	**28,921**	**24,586**	**17,030**	**17,355**	**87,892**	**78,484**	**56,379**	**1,34,863**
1	Allahabad Bank	1,198	753	631	590	3,172	869	94	963
2	Andhra Bank	735	759	668	712	2,874	3,027	766	3,793
3	Bank of Baroda	2,933	2,520	1,864	2,165	9,482	9,354	3,839	13,193
4	Bank of India	1,836	1,455	802	931	5,024	2,413	3,337	5,750
5	Bank of Maharashtra	615	429	331	458	1,833	1,381	545	1,926
6	Canara Bank	1,824	2,002	1,231	1,272	6,329	4,734	4,038	8,772
7	Central Bank of India	1,606	1,336	819	890	4,651	2,752	890	3,642
8	Corporation Bank	589	793	519	531	2,432	2,267	356	2,623
9	Indian Bank	741	835	627	628	2,831	3,359	700	4,059
10	Indian Overseas Bank	909	960	671	714	3,254	2,678	354	3,032
11	Oriental Bank of Commerce	559	625	602	584	2,370	2,340	272	2,612
12	Punjab and Sind Bank	569	278	355	324	1,526	1,024	30	1,054
13	Punjab National Bank	2,585	1,720	1,211	1,046	6,562	5,430	3,738	9,168
14	State Bank of India	7,864	6,444	3,949	3,875	22,132	25,634	32,921	58,555
15	Syndicate Bank	1,256	1,157	821	830	4,064	4,172	401	4,573
16	UCO Bank	1,075	818	610	570	3,073	2,050	186	2,236
17	Union Bank of India	1,246	1,297	849	889	4,281	3,979	2,916	6,895
18	United Bank of India	781	405	470	346	2,002	1,021	996	2,017

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Table 1.2:
Branches and ATMs of Scheduled Commercial Banks (Continued)
(At end-March 2020)

Sr. No	Name of the Bank	Branches					ATMs		
		Rural	Semi-urban	Urban	Metropolitan	Total	On-site	Off-site	Total
1	2	3	4	5	6	7	8	9	10
	Private Sector Banks	**7232**	**10,990**	**7,336**	**9,236**	**34,794**	**32,690**	**40,362**	**73,052**
1	Axis Bank Limited	744	1,392	1,074	1,399	4,609	5,447	12,030	17,477
2	Bandhan Bank Limited	1,569	1,645	879	462	4,555	485	–	485
3	City Union Bank Limited	103	271	137	168	679	1,110	683	1,793
4	CSB Bank Limited	37	223	87	67	414	248	51	299
5	DCB Bank Limited	66	86	82	102	336	299	205	504
6	Dhanlaxmi Bank Limited	20	106	63	58	247	201	53	254
7	Federal Bank Ltd	158	689	226	203	1,276	1,480	457	1,937
8	HDFC Bank Ltd.	1,009	1,639	1,061	1,541	5,250	6,268	7,793	14,061
9	ICICI Bank Limited	1,099	1,546	1,067	1,585	5,297	7,258	10,172	17,430
10	IDBI Bank Limited	407	586	466	428	1,887	2,207	1,476	3,683
11	IDFC First Bank Limited	43	113	167	272	595	336	21	357
12	IndusInd Bank Ltd	287	418	480	577	1,762	1,255	1,505	2,760
13	Jammu & Kashmir Bank Ltd	503	172	107	169	951	590	764	1,354
14	Karnataka	187	200	226	235	848	348	675	1,023

	Bank Ltd								
15	Karur Vysya Bank Ltd	133	300	160	225	818	744	915	1,659
16	Kotak Mahindra Bank Ltd.	253	293	341	713	1,600	1,269	1,250	2,519
17	Lakshmi Vilas Bank Ltd	108	177	124	156	565	445	528	973
18	Nainital Bank Ltd	38	32	38	32	140	–	–	–
19	RBL Bank Ltd	57	76	57	196	386	289	100	389
20	South Indian Bank Ltd	110	466	170	189	935	817	607	1,424
21	Tamilnad Mercantile Bank Ltd	106	247	80	76	509	592	729	1,321
22	Yes Bank Ltd.	195	313	244	383	1,135	1,002	348	1,350

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Table 1.3:
Branches and ATMs of Scheduled Commercial Banks (Concluded)
(At end-March 2020)

Sr. No	Name of the Bank	Branches					ATMs		
		Rural	Semi-urban	Urban	Metropolitan	Total	On-site	Off-site	Total
1	2	3	4	5	6	7	8	9	10
	Foreign Banks	**15**	**8**	**40**	**245**	**308**	**225**	**678**	**903**
1	AB Bank Limited	_	_	_	1	1	_	_	_
2	Abu Dhabi Commercial Bank (P.J.S.C.)	_	_	_	1	1	_	_	_
3	American Express Banking Corp.	_	_	_	1	1	_	_	_
4	Australia and New Zealand Banking	1	_	1	1	3	_	_	_

	Group Limited								
5	Bank of America, National Association	_	_	_	4	4	_	_	_
6	Bank of Bahrain & Kuwait B.S.C.	_	1	_	3	4	_	_	_
7	Bank of Ceylon	_	_	_	1	1	_	_	_
8	Bank of China Limited	_	_	_	1	1	_	_	_
9	Bank of Nova Scotia	_	_		2	2	_	_	_
10	Barclays Bank Plc	_	1	1	4	6	_	_	_
1 1	BNP Paribas	_	_	_	8	8	_	_	_
12	Citibank N.A	-	-	4	31	35	47	478	525
13	Co-operative Rabobank U.A.	_	_	_	1	1	_	_	_
14	Credit Agricole Corporate and Investment Bank	_	_	_	5	5	_	_	_
15	Credit Suisse Ag	_	_	_	1	1	_	_	_
16	CTBC Bank Co., Ltd.	_	1	_	1	2	_	_	_
1 7	DBS Bank India Limited	8	2	3	21	34	20	34	54
18	Deutsche Bank AG	1	_	5	11	17	13	19	32
19	Doha Bank Q.P.S.C.	_	_	1	2	3	_	_	_
20	Emirates NDB Bank (P.J.S.C.)	_	_	_	1	1	_	_	_
21	First Abu Dhabi Bank (P.J.S.C.)	_	_	_	1	1	_	_	_
22	Firstrand Bank Ltd	_	_	_	1	1	_	_	_
23	Hongkong And Shanghai Banking Corpn.Ltd.	_	_	4	22	26	46	38	84
24	Industrial and Commercial Bank of China	_	_	_	1	1	_	_	_
25	Industrial Bank of Korea	_	_	_	1	1	_	_	_
26	JPMorgan Chase Bank National Association	2	_	_	2	4	_	_	_
27	JSC VTB Bank	_	_	_	1	1	_	_	_
28	KEB Hana Bank	_	1	_	1	2	_	_	_

29	Kookmin Bank	_	_	1	_	1	_	_	_
30	Krung Thai Bank Public Company Limited	_	_	_	1	1	_	_	_
31	Mashreq Bank PSC	_	_	_	1	1	_	_	_
32	Mizuho Bank Ltd	_	1	_	4	5	_	_	_
33	MUFG Bank, Ltd.	1	_	_	4	5	_	_	_
34	Natwest Markets Plc	_	_	_	1	1	_	_	_
35	PT Bank Maybank Indonesia Tbk	_	_	_	1	1	_	_	_
36	Qatar National Bank (Q.P.S.C)	_	_	_	1	1	_	_	_
37	Sberbank	_	_	_	1	1	_	_	_
38	SBM Bank (India) Limited	_	_	_	6	6	_	_	_
39	Shinhan Bank	1	_	_	5	6	_	_	_
40	Societe Generale	_	_	_	2	2	_	_	_
41	Sonali Bank	_	_	1	1	2	_	_	_
42	Standard Chartered Bank	1	1	18	80	100	99	109	208
43	Sumitomo Mitsui Banking Corporation	_	_	_	2	2	_	_	_
44	United Overseas Bank Ltd	_	_	_	1	1	_	_	_
45	Westpac Banking Corporation	_	_	_	1	1	_	_	_
46	Woori Bank	_	_	1	2	3	_	_	_

Notes:

a) The Reserve Bank of India (RBI) defines "scheduled commercial banks" (SCBs) as commercial banks that appear in the second schedule of the Act. Public & private sector banks as well as SFBs, Scheduled Payments Banks and Foreign Banks can be found.

b) In India, public sector banks include the State Bank of India (which, previous to April 1, 2017, included former associate banks and Bharatiya Mahila Bank) and nationalised banks like Punjab National Bank.

c) Reclassification from "Public Sector Banks" to "Private Sector Banks" for IDBI Bank Limited has been announced.

d) A city is classified as "urban" if it has more than one lakh residents, "urban" if it has more than one lakh citizens but fewer than ten lakhs, and "metropolitan" if it has more than ten lakhs residents. "Rural" covers cities with fewer than 10,000 residents. Statistics are based on the most recent U.S. census, which was conducted in 2011.

e) Administrative offices are not included in the data.

f) Blank cells mean nothing.

Source: The Department of Statistics and Information Management of the RBI manages a database for the Central Information System for Banking Infrastructure. (previously known as the Master Office File system). The data contained in the Banking Infrastructure Central Information System is essentially dynamic. Daily updates are made to the data based on information acquired from banks and analysed by us.

OBJECTIVES OF THE STUDY:

The study's primary objective was to ascertain the banking sector's contribution to India's economic resurgence. Specifically, the following are the primary goals:

- Determine the banking sector's role in the reorganisation of the Indian economy.
- Inquire about the relationship between economic development and regional imbalance in India.

RESEARCH METHODOLOGY:

A descriptive survey design was used in the investigation. Analytical but also exploratory in nature, this study aimed to find out how India's economic restructuring is linked to the banking industry.

CONTRIBUTION OF ECONOMIC DEVELOPMENT:

A variety of methods that banks can aid in economic development can be listed here:

1. Removing the deficiency of capital formation

Economic growth is impossible without a sufficient level of capital formation in any economy. Banks fill up the gap left by a lack of capital in developing countries. There are tiny savings in the community that are accessible for investment in productive firms when there is a well-functioning banking system A bank's ability to attract deposits is accomplished by offering competitive interest rates. It would have stayed unused otherwise. Through loans, banks disperse these savings to businesses that contribute to the well-being of society. It aids in the most efficient use of the community's financial resources.

2. Helps in generating employment opportunity:

Banks are critical in allowing the flow of cash to businesses, which results in the creation of jobs. The number of people employed annually in the banking industry alone is in the millions. Profits accrue from government investments and tax and dividend income collecting. Finance contributes more than just money; it also contributes to the wider economy by keeping industrial and commercial sectors well-insured with credit lines.

3. Financial assistance to Industries

Commercial banks provide a number of financing options for the industrial sector. Short-, medium-, and long-term loans are offered. The Industrial Development Bank of India (IDBI) is India's most important institution in terms of industrial financing. Loans and advances are given, and bonds and debentures are purchased or underwritten by the government to support industrial enterprises. The IDBI has a unique feature: the Development Assistance Fund. In order to help those industries who are unable to raise cash because of the high investment required or the poor predicted rate of return, the Fund was established. IDBI provides advice on how to start a company. The government and the RBI established the Lending Guarantee Fund Scheme to guarantee collateral-free credit for Micro and Small Enterprises (SMEs) up to Rs 1 Crore in India.

4. Promote saving Habits of the people

Depositors are lured to the bank by the bank's enticing deposit plans and higher interest rates. Customers can choose from a variety of deposit options offered by banks. It encourages people to develop a habit of saving money. To entice customers, banks create a variety of accounts. For those who prefer to keep their money in the bank rather than relying on their credit card, there are several options available.

5. Financial assistance to Consumer Activities

Because of their poverty and poor income, people in impoverished countries are unable to purchase durable consumer goods. Commercial banks lend money to consumers to buy things like homes, furniture, refrigerators, and more. With the aid of loans for consumer activities, they help to raise the standard of living in less developed countries.

6. **Helps in implementing Monetary Policy**

Commercial banks execute the Reserve Bank of India's monetary policies in order to help a country thrive economically (RBI). There is a direct correlation between the RBI's monetary policy and the commercial banks' ability to implement it. By lending money to agriculture, trade, and industry, as well as contributing in the production of capital, commercial banks play an important role in a developing economy's progress.

7. **Financial facilities for Trade**

Commercial banks play a critical role in supporting both domestic and international trade through their lending activities. In order for merchants and wholesalers to purchase the items that they deal in, banks lend them money. In addition, they aid in the transportation of products from one location to the next. Overdraft facilities, discounting and accepting bills, and draughts are all offered by banks in order to boost trade. For developing countries, they provide foreign exchange facilities to aid in both imports and exports by facilitating the movement of products. An MoU has been inked between Andhra Pradesh's government and India's Exim Bank in order to boost exports in the state (MoU).

Reforms in banking sector

Following are some of these reforms

- To make loan repayment easier on farmers, the Union Budget 2016-17 included a Rs 15,000 cr provision for interest subvention.
- Pradhan Mantri Jan Dhan Yojna has so far provided 250.5 million bank accounts and 192.2 million RuPay debit cards. (PMJDY). Deposits totaling around Rs 44,480 crore have been deposited in these new accounts.
- Priority sector lending certificates (PSLCs) can be issued by Reserve Bank of India institutions to fill gaps in agricultural credit, to lend to small and marginal farmers and micro companies, for the broader purpose of reaching their priority sector lending targets.
- By injecting Rs 22,915 crore into 13 public sector banks, the Indian government hopes to improve their liquidity and lending operations, as well as the country's economic growth,

in July 2016.

- New and small businesses in India will soon have access to inexpensive and accessible loans under the Indian government's Mudra Scheme.

CONCLUSION:

To summarise, banks should increase their infrastructure spending to include things like irrigation, processing, storage, and marketing. This conclusion is based on the findings of the aforementioned investigation. Banks are well-positioned to invest in agricultural infrastructure because of the numerous benefits they stand to gain from such an endeavour. A positive contribution to economic growth has been made by banks in mobilising community financial resources and channelling them into productive channels. To help India's economy grow, the country's banks are increasingly actively involved. These findings show how commercial banks contribute to national progress. Rural and urban areas clearly differ in terms of development, as can be seen by comparing the two. This is due to a lack of finance and a smaller contribution from the agriculture sector to India's GDP. India's economy cannot progress until the agricultural sector expands. Final thoughts: modern economies have grown mostly as a result of making the most effective use of credit available to them. India. Banks have long played an essential role, and that position will only grow in the years ahead. The banking industry is increasingly concerned about rising non-performing assets (NPAs) in spite of these optimistic predictions. NPAs are a growing problem in India, and many analysts believe that severe measures by the RBI and a "special financial stimulus" for banks will be necessary.

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