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Understanding a Role of Banking Sector in Indian Financial System and Economic Growth

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ABSTRACT

In this Banking and Economic Exploration, Finance is the Life blood of Trade, Commerce and Industry Now a days Banking Sector acts as the back bone of modern business. Development of any country mainly depends on banking System. For this research we've used descriptive research design also in this we include past banking data and role of Indian Government For Financial Developments in the country.And also studied various forms of Indian Financial System and Economic Growth from Past Data. In current Faster Lifestyle peoples may not do proper transitions without developing proper bank network. The Banking system in India always denominated by Nationalized Banks. As the Findings, Performance Of the banking Sector is More closely linked to the economy than any other Sector.And even it helps the cashflow Management of any Country with its large established Network and Branches in every City.

KeyWords:- Banking, Economics, Indian Financial System, Cashflow Management.

INTRODUCTION

The Banking sector is the lifeline of any modern economy it is one of the important financial pillars of the financial sector, which plays a vital role in the important for economic development of a country that its financing requirements of trade industry and agriculture are met with higher degree of commitment and responsibility. Thus, the development of a country is integrally linked with the development of banking. In a modern economy, banks are to be considered not as dealers in money but as the leaders of Economic Development. They play and important role in the mobilization of deposits and disbursement of credit to various sectors of the economy. The banking system reflects the economic health of country. The strength of an economy depends on the strength and efficiency of the financial system, which in turn depends on a sound and solvent banking system. A sound banking system efficiently mobilized savings in productive sectors and a solvent banking system ensures that the bank is capable of meeting its obligation to the depositors.

LITERATURE REVIEW

Jain (2007) explained the reasons for the increasing level of NPAs and the prudential measures available for the same. He also stated that the problem for rising NPA is more acute in PSBs in comparison to Private sector Banks.

Sales and Saurian (2002) talk about the bank level variables which could explain the loan problem in Spain during 1985-1997, even after regulating the economicfactor like GDP growth, indebt of family and firm using the panel data.

Pain (2003) examined that, the loan problem led to a crisis in the UK bank during 1978-2000. Using Panel data regression analysis, it was found that both macro economic factors and Bank specific factor were responsible for the catastrophe. Macroeconomic factor like real GDP growth real interest rates and aggregate lending growth and Bank specific factor like the loan portfolio to be the determinants.

Karunakar (2008) Highlights the concern of lower profitability due to NPAs and the liability discrepancy among the bank and the financial sector, which is dependent upon the risk associated with the management. The study concludes by advising proper credit assessment and risk management.

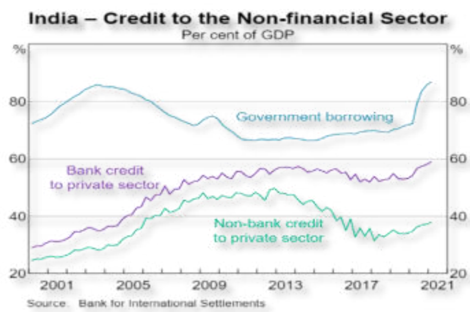
RESEARCH METHODOLOGY

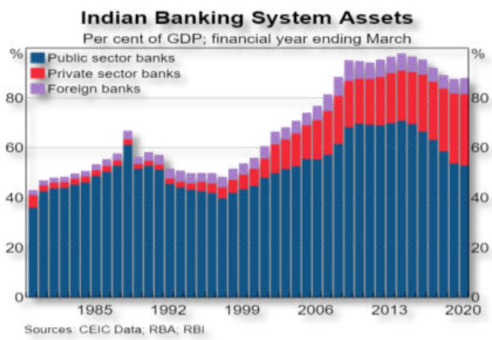
In this study we have taken descriptive design as a research design and take Eight Graphical representation of Banking Sector and its Past performance and effect on Economic Growth.

Also, the We includes Current Market Size of Economy and Indian Banks for Calculate the best comparisons between both interlinked channels.

The research includes mainly secondary data for better understanding the role played by banks in every economy of the world. There are 8 Graphical Representation Are as Follows :-

- Credit to the Non-financial Sector
- Indian Banking System Assets
- Emerging Markets – Banking sector
- Health of Indian Banking sector
- Ownership of Indian Government Securities
- Indian bank leverage ratios
- Indian bank credit Growth
- Indian Bank and NBFC Credit





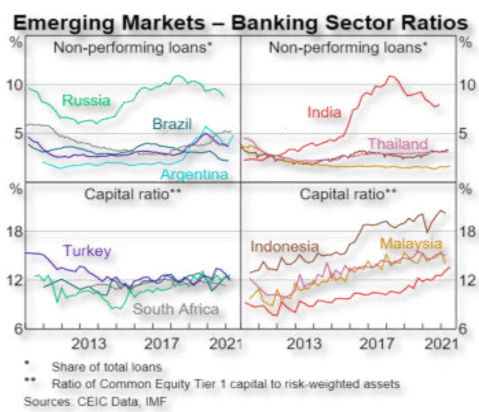
OBJECTIVE OF THE STUDY

- To understand Banking Industry effect on Economy.
- How Banks are Important for Maintain The Cashflow in a country.
- To understand the Government borrowing from banks.

DATA INTERPRETATION

India - Credit to the Non-financial Sector
Indian Banking System Assets

Banks are the main providers of credit within India's financial system and account for around half of India's financial assets that are interpreted in graph 1.Beyond financing private and state owned firms banks are also a significant funding source for governments, through direct loans and buying bonds issued by the central and state governments.

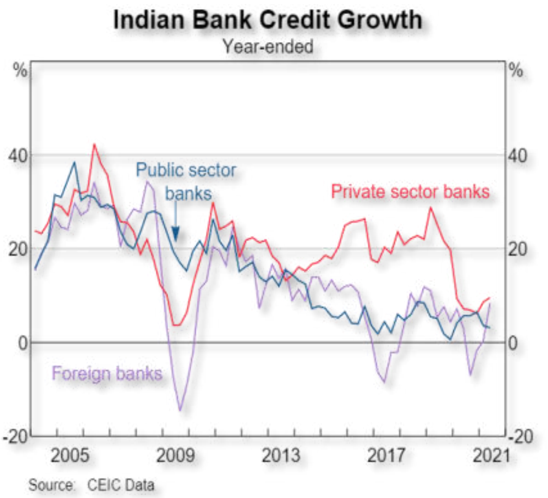


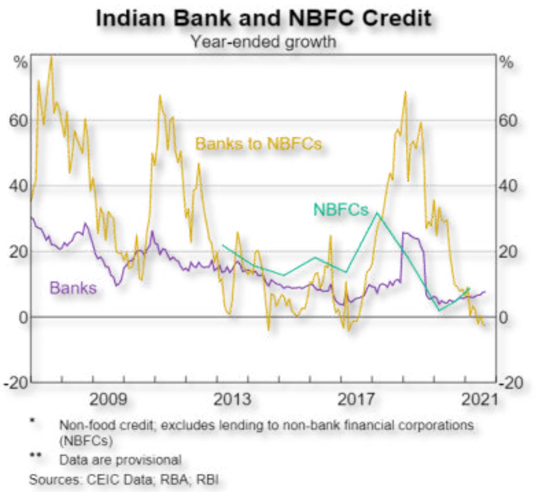
India's banking system is dominated by government owned public sector banks which account for around 60 percent of commercial banking system assets. These banks have been beset by problems with Non-Performing Loans NPLs and low capital levels that interpreted in graph 2. Credit to the non-financial sector in India is equivalent to around 165 percent of GDP.

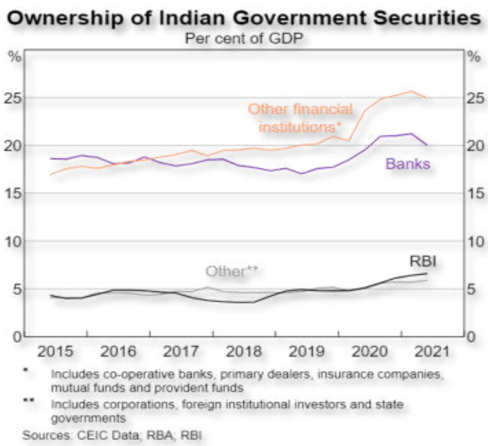
Non-Performing loans and Low capital levels
Health of Indian Bank Balance Sheets

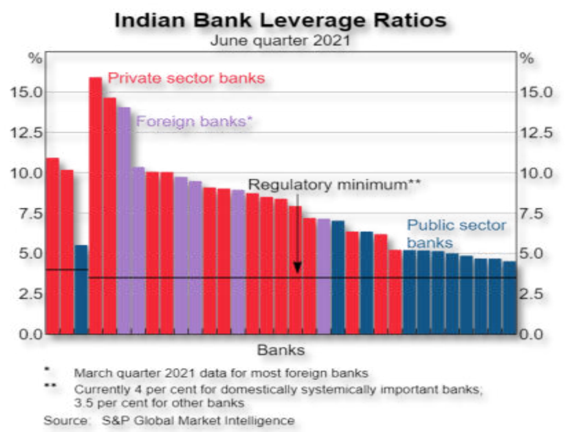
Since the Mid 2010s, the Indian Banking system has experienced NPL ratios far higher the other Asian banking system and Indian banks have had far lower levels of capitals that shown in graph 3.this has weighed on banks ability to extend credit because NPLs has reduced banks profitability and risk depleting already low capital buffers.
The RBI may also begin gradually raising the countercyclical capital buffer, which

would further raise capital requirements. PSBs remain most at risk, given their high levels of NPLs and lower capital levels however some private banks are also under significant stress that shown in graph 4.









Government borrowings from banks Ownership of Indian Government Securities Indian Bank Leverage Ratios

At the same time as Indian banks have been addressing their weak balance sheets, they have continued to be an important source of funding for the Indian Government. The Indian government has significantly increased its bond issuance to fund response measure. This increase in issuance has been largely absorbed by banks and other domestic financial institution which increased their government bond holdings by 159 percent and 17 percent that shown in graph 5 Authorities efforts f to improve banks capital levels through the crisis have helped to improve the leverage ratios of some banks however many banks remain close to regulatory minimums shown in graph6.

Government measures to increase and influence credit allocation

Indian Bank Credit Growth

Indian Bank and NBFC Credit

Credit growth at private banks remain will below pre COVID 19 levels and PSB credit growth remans historically weak that are in graph 7.while banks have attributed this to subdued demand for credit their net interest margins remain slightly higher than before the Pandemic.

From 2015 NBFC expanded credit at around twice the pace of banks with an associated increase in risk that light at graph 8 this rapid expansion occurred at the same time that lending by PSBs was constrained.

RESULTS AND FINDINGS

In this Exploration of Banking and Economy we can see that both sector is interlinked and performs according to each other. We can see that India is the 6th to 5th Largest economy behind the U.S, China, Japan,Germany, and U.K. "India's nominal GDP is forecast to rise from $2.7in 2021 to $8.4 Trillion by 2030"

This rapid race of economic expansion would results in the size of Indian GDP exceeding Japanese GDP by 2030 making India the second largest economy in the Asia pacific region by 2030.

There are some situations that despair the banks and economy that are follows: -

- ✓ The COVID 19 Pandemic had hindered progress and, in some cases, exacerbated existing issues.
- ✓ Higher NPA Ratios affect the cashflow of the banks.
- ✓ High deposit interest rate are affecting the banks.

This are mainly Findings which are taken from study –

- Government borrowing from Indian banks for country's development and infrastructure.
- Some Foreign Investors found That they are Great source of funding for Indian Government.
- Indian Credit Growth are Declining Since 2005 to Present.
- NBFCs grown in past some ears and become alternative source for businesses and households.
- By encouraging inducement to save and also mobilising savings from the public.
- Also, we realized that banks help to increase the aggregate rate of investment in the Economy.

LIMITATION OF STUDY

- In this study we do not take any particular banks or mentioned any Bank Name.
- We take only sector wise differentiation
- Any Government Name or Party Did not mention.
- Historical data and year wise growth and fall of banking sector is Mentioned.

CONCLUSION

The Financial Stability of the banking sector plays a significant role in the policy making and identifying the key factors to resolve in case of any discrepancy. Financial Stability is a phase or situation, where the banking systems attains maximum efficiency and develop the capacity to absorb any economic shocks. The current banking developmental policies are paving their ways to strengthen and Broaden the Pathway for a more transparent system. As far Soundness, measured by capital adequacy ratio and leverage ratio. The Mount improved from the year 2015-2018 due to the implementation of capital conservation buffer, which reduced the credit growth the asset quality, measured by different ratios, has deteriorated over period of time during the study period profitability is the third measure of stability in banking system. There is a drastic decline in the profitability of scheduled commercial banks in the later stage of study period because of increase in NPAS and fall in return on assets. The fourth parameter of stability is liquidity which is satisfactory except the minor change.In 2016 due to demonetization. The last pillar of checking stability is efficiency which is measured by various means like staff expenses, business per employees and cost to income. Overall efficiency is satisfactory but needs improvement to perform better.

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