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Contribution of Commercial Banks towards the GDP

[1]Sara Kapur, [2]Dr. D. Sathish Kumar

[1] Spring dales school

[2]Assistant Professor, Department of MBA, Sree Chaitanya College of Engineering, Karimnagar

ABSTRACT

A critical part in the development of a nation's economy, business banks are essential to the improvement of industry and exchange. They go about as watchmen of the nation's abundance and assets and empower money to move to useful resources at the suitable time. Business banks assume an exceptionally urgent part in India since they fuel the country's monetary development while likewise giving critical experiences into monetary cycles. Banks have long been India's success engine because they provide low-cost financial services to a large population and meet the short- and medium-term credit needs of thousands of industries, particularly MSMEs. As indicated by the key construction of the Reserve Bank of India Act 1934, all enormous banks are named business. According to the fundamental structure of the Reserve Bank of India Act 1934, all large banks are classified as commercial. However, under the scheduled bank category, there are additional banking categories such as Small Finance bank, payments bank, and Co-operative bank. The banks are further divided according to ownership into public sector, private sector, foreign, and regional rural banks.

Keywords: GDP, Commercial bank, RBI, finance, industry.

Introduction

Commercial banks are a part of the financial system that forms the backbone of our economy. These financial institutions offer services, including opening bank accounts, cash deposits, loans, and many other banking services to individuals, small businesses, and corporations.

Commercial banks are the foundation of a strong economy that indicates an extensive financial system in the country. These banks aid the financial activities of Government bodies and boost investment across sectors in the country, thereby helping in the country's growth.

Impact of Commercial Banks

Here are a few major impacts of commercial banks on the economy-

Handling Financial Assets

One of the core banking operations is to handle the money deposited by bank account holders and ensure they can withdraw the money any time they want. This includes timely disbursal of interest on savings accounts. And to have sufficient funds to finance loans and other debt products.

Capital Formation

Commercial banks collect money from bank account holders as deposits and use it as capital. The banks invest this capital in several safe investments for maximum returns. This helps the banks to pay interest on the depositors' money.

Help Inculcate a Saving Habit

One of the major attractions for a bank account holder is the stable returns that banks offer as interest income. Various deposit schemes that are linked to rewards and interest make people deposit their money in banks.

This helps inculcate a saving habit, which is advantageous for the economy.

Financing Businesses

Capital is highly crucial across businesses and industry sectors. It is one of the prerequisites for sustaining a business. It is here that commercial banks jump to the rescue of businesses lending loans. These include entrepreneurs, agriculturists, and small and medium-sized enterprises.

Increase Consumer Spending

The middle-class and the lower middle-class groups have reaped immense benefits of lucrative consumer loans like home loans, car loans, 2-wheeler loans, gold loans, and personal loans.

The EMI structure of repayment has made the capital easily accessible for many people who can now take a loan at minimal interest rates. This has led to an increase in consumer spending, which drives the demand in the economy.

Capital Formation

Banks play an important role in capital formation, which is essential for the economic development of a country. They mobilize the small savings of the people scattered over a wide area through their network of branches all over the country and make it available for productive purposes.

Now-a-days, banks offer very attractive schemes to attract the people to save their money with them and bring the savings mobilized to the organized money market. If the banks do not perform this function, savings either remains idle or used in creating assets, which are low in scale of plan priorities.

Simplifying Trade and Commerce

Commercial banks help streamline transactions and help funds exchange hands quickly. It particularly benefits foreign trade transactions where the transactions may be in foreign currencies that can be exchanged in a commercial bank.

Today, trade and commerce are heavily reliant on modern banking features, which allow sending and receiving money in different currencies via the click of a button.

Channelizing the Funds to Productive Investment

Banks invest the savings mobilized by them for productive purposes. Capital formation is not the only function of commercial banks. Pooled savings should be distributed to various sectors of the economy with a view to increase the productivity of the nation. Then only it can be said to have performed an important role in the economic development of the nation.

Commercial Banks aid the economic development of the nation through the capital formed by them. In India, loan lending operation of commercial banks subject to the control of the RBI. So our banks cannot lend loan, as they like.

Fuller Utilization of Resources

Savings pooled by banks are utilized to a greater extent for development purposes of various regions in the country. It ensures fuller utilization of resources.

Encouraging Right Type of Industries

The banks help in the development of the right type of industries by extending loan to right type of persons. In this way, they help not only for industrialization of the country but also for the economic development of the country. They grant loans and advances to manufacturers whose products are in great demand. The manufacturers in turn increase their products by introducing new methods of production and assist in raising the national income of the country.

Bank Rate Policy

Economists are of the view that by changing the bank rates, changes can be made in the money supply of a country. In our country, the RBI regulates the rate of interest to be paid by banks for the deposits accepted by them and also the rate of interest to be charged by them on the loans granted by them.

Bank Monetize Debt

Commercial banks transform the loan to be repaid after a certain period into cash, which can be immediately used for business activities. Manufacturers and wholesale traders cannot increase their sales without selling goods on credit basis. But credit sales may lead to locking up of capital. As a result, production may also be reduced. As banks are lending money by discounting bills of exchange, business concerns are able to carryout the economic activities without any interruption.

Finance to Government

Government is acting as the promoter of industries in underdeveloped countries for which finance is needed for it. Banks provide long-term credit to Government by investing their funds in Government securities and short-term finance by purchasing Treasury Bills.

Bankers as Employers

After the nationalization of big banks, banking industry has grown to a great extent. Bank’s branches are opened in almost all the villages, which leads to the creation of new employment opportunities. Banks are also improving people for occupying various posts in their office.

Banks are Entrepreneurs

In recent days, banks have assumed the role of developing entrepreneurship particularly in developing countries like India. Developing of entrepreneurship is a complex process. It includes the formation of project ideas, identification of specific projects suitable to local conditions, inducing new entrepreneurs to take up these well-formulated projects and provision of counseling services like technical and managerial guidance.

Enhances Development

With commercial banks spreading to tier-2 and tier-3 cities, banking operations witness improvements. This balanced development in semi-urban and rural areas helps in creating awareness about banks and their function. It also increases access to banking services. People who were used to cash now opt to deposit it in a commercial bank, thereby increasing liquidity.

Banks provide 100% credit for worthwhile projects, which is also technically feasible and economically viable. Thus commercial banks help for the development of entrepreneurship in the country.

Risk

One of the main jobs of business banks in monetary improvement is as authorities of chance. This happens basically when banks make credits to organizations or people. For example, when people apply to get cash from a bank, the bank looks at the borrower's funds, including pay, FICO rating and obligation level, among different variables. The result of this examination assists the keep money with measuring the probability of borrower default. By getting rid of unsafe borrowers, business banks diminish the gamble of monetary misfortunes.

Wealth

Accounts to hold or generate one's own wealth are also available from commercial banks. Thusly, the stores business banks draw in with account administrations are utilized for loaning and venture. For instance, business banks usually draw in stores by offering a conventional menu of reserve funds and financial records for organizations and people. Also, banks offer different kinds of planned store accounts, for example, currency market records and testaments of store.

Conclusion

Countries embarking on a process of internal development over a significant amount of time. The framework of mixed capitalist economies has sought to advance their development objectives by utilizing the emerging banking function embedded in existing or specially created institutions. The job of these foundations in the improvement directions of late industrializing, non-industrial nations can't be overemphasized. In any case, as verified above, with monetary advancement of the neoliberal assortment changing monetary designs; a few nations are getting rid of particular improvement banking establishments in light of the fact that value and security markets would finish the work. This will undoubtedly prompt a deficiency in finance for long haul speculations, particularly for medium and little ventures.

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