20CSE1030

Economics Term Assignment

Topic: Role of Commercial Banks in Economic Development Introduction:

Without a sound and effective banking system, no country can have a healthy economy. A well organized banking system is a necessity for the economic development of a country. Banks being a fundamental components of financial system are the most effective way to generate the credit flow of money in markets:

A commercial bank is a financial institution which accepts deposits from the public and lends leans for the purposes of consumption and investment to make profit. The essential role of a bank is to connect those who have capital with those who seek capital. It is necessary to encourage people to deposit their surplus funds with the banks. These funds are used for providing leans to the industries thereby making productive investments. A bank is therefore a financial intermediant that accepts deposits and channels those deposits.

Role of banks in development of economy

1. Mobilizing savings for Capital formation

Banks mobilize the small savings of the people

scattered over a wide area through their notworks

of branches all over the country and make it available

for productive purposes. Banks offer attractive schemes

to attract the people to save their money with them

and bring the savings mobilized to the organized

money market By mobilizing savings, the bank

channelize them into productive investments. Thus

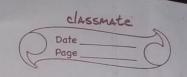
they help in the capital formation of a developing country.

2. Creation of Credit

Banks create credit for the purpose of providing more

Banks create credit for the purpose of providing more punds for development projects. Credit creation leads to increased production, employment, sales and prices and thereby they cause paster economic development. Activities like inventions and innovations, research and development and initiatives are impossible due to insufficiency of funds in few poor countries. Banks remove the deficiency of apital by providing different types of funds that I lead to

The commercial banks finance the industrial sector in a number of ways. They provide short tom, medium term and long term loans to industry. Commercial banks provide an incentive for the entrependents to take risks and to use idle resources for more and better production. Banks provide loans to develop the various economic sectors.



exports. Accordingly, banks are very important to achieve self Sufficiency.

In India, the commercial banks undertake short term and medium term financing of small scale industries and also provide hire-purchase finance. Besides, they underwrite the shares and debentures of large scale industries. Thus they not only provide finance for industry but also help in developing the capital market which is underveloped in Such countries.

The commercial banks help in financing both internal and external trade. The bank provide I loans to retailer and wholesalers to stock goods in which they deal They also help in the movement of goods from one place to another by providing all type of facilities such as discounting and accepting bills of exchange, providing overdraft facilities, issueing drafts etc. A well developed banking system of provides various attractive services like mobile banking, internet banking, adebit cards, credit cards etc. I these kind of services fast and smoothen the transactions. So'; bank helps in developing trade and commerce.

Today international trade, without involving banks is so difficult and international trade is necessary for economic development. Commercial banks are helpful in sincreasing international trade through ways like provision of Occedit facilities, low rate of interest for the exporters, opening of letter of oredit arrangement of foreign exchange.

5. Development of Agriculture Sector

Commercial banks provide loans to traders in in rural areas to provides agricultural credit. They provide finance directly to Dagriculturists for Othe marketing of their produce, for the modernisation and mechanisation of their farms, for providing irrigation facilities, for developing land, etc.

They also provide financial breeding, poultry faming pisciculture and horticulture the small and providence of the small and providenc marginal farmers and landless argricultural workers, artisang and petty shopkeepers in rural areas are provided thanks the regional rural banks in India. These regional banks Operate under a commercial Obank. Thus the commercial bant meet the credit requirement of all types of rural 6. Implementation of Monetary Policy of any govt.
Monetary policy is a important policy of any govt.
The major Jaim of monetary policy is to: stabilize financial System Of the Country from The dangerous of inflation, deflation, crisis, lete.
The Ocommercial banks help the economic development of a country by faithfully following the monotary policy of the central bank In fact, the central bank depends on the commercial banks for the success of its policy of monotary management in keeping with regularements of a Odereloping economy.
Thus the Commercial banks contributed much the growth of a developing economy by granting loans

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agriculture, trade and industry, by helping in physical and human apital formation and by following the monetary policy of the country.

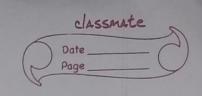
Economists are of the view that by changing the bank rates, changes can be made in the money supply of a country. In India, RBI regulates the rate of interest of to be paid by banks for the deposits accepted by them and also the rate of interest to be charged by them on the loans granted by them.

The commercial banks provide loans for the education of young persons studying in engineering, medical and other vocational linstitutes of hister learning.

They advance loans to young entrepenents, medical and engineering graduates, and other technically trained persons in establishing their own business.

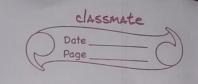
Such loan facilities are being provided by a number of commercial banks in India. Thus the banks and other help in human capital formation but also in increasing entrepeneurial activities in developing countries.

Nowadays, government has to face budget defects because of increased expenditures and falling revenues. Here in this situation, the government has to depend upon defect financing to meet the budget deficits. Government is acting as the promoter of industries in underdeveloped countries for which finance is needed. Banks provide long-term credit



and short term ofinance by purchasing Treasury bills.

Encouraging right type of industries & Arbiters of Kist. The banks help in development of right type of industries by extending loan to right type of persons they grant loans and Jadvances I to manufacturers whose products are in great demand. The manufacturers in turn increase their products by introducing new method of production and assist in raising the national income the country. Most significant role of commercial banks in economic development is as arbiters of risk. This occurs primarily when banks make leans to business or individually. Bank examines the borrower's finances including () income credit score and dept level, among other factors before landing a loan to individual By weeding out risty borkwers, commercial banks lessen the risk of financial losses.



II) Conclusion:

The commercial banks not just features deposit, withdraw and borrow of money but also play a vital role tin the economic development. It is difficult to see how, in the absence of banks, could Ismall savings be stimulated or even made possible. It is also difficult to see who would distribute these saving among entrepeneurs. It is through the agency of the (banks) that the community's Barings automatically flow into channels which are Oproductive. O Thus the banks have come to play a dominant and useful role in promoting beconomic development. by - mobilising the financial resources of the community . Dand by making them flow into the