

Banking in India

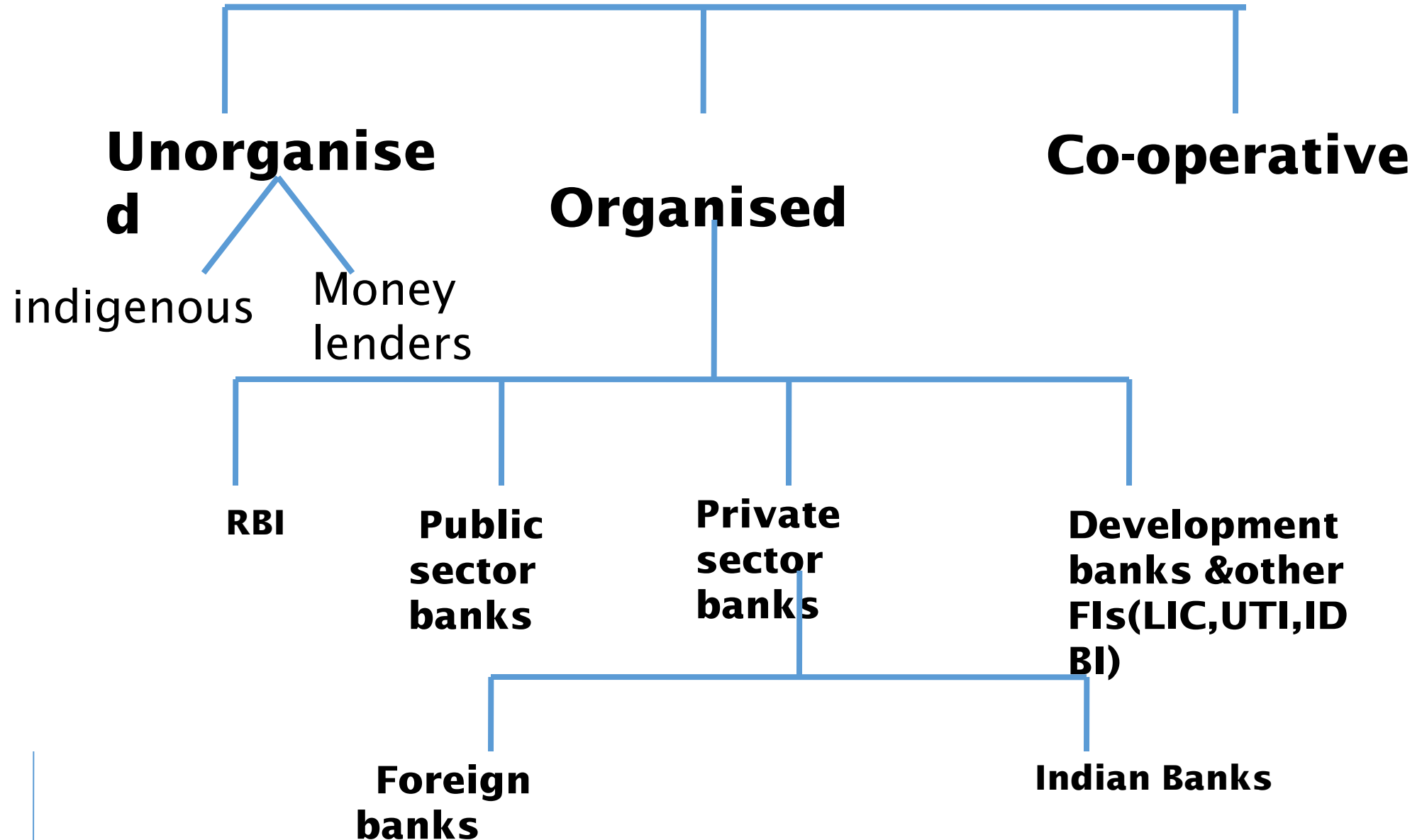
- First banking activities had developed by Babylonians.
- Bank is said to have derived from the French word Banco or Bank or Banque which means a Bench.
- So Jews transacted their banking business by sitting on the benches.
- In German bank can be derived from the word Back which means a joint stock fund.
- In England, banking had its origin with the London Goldsmiths who in the 17th century began to accept deposits from and others for safe keeping money and other valuables.
- As public enterprise , banking made its first appearance in Italy in 1157 when the bank of Venice was founded

Continue.....

- According to the Crowther ,modern banking has three ancestors.
- 1.The merchant
- 2.The gold smith
- 3.The money lender
- In India as early as the Vedic period, banking in the most crude form existed.
- The books of Manu contain references regarding deposits,pledges,policy of loans rates of interest.
- Banking in those days largely meant money lending,and the complicated mechanism of modern banking was not known to them

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Banking system in India



•**Meaning and features of Bank:**

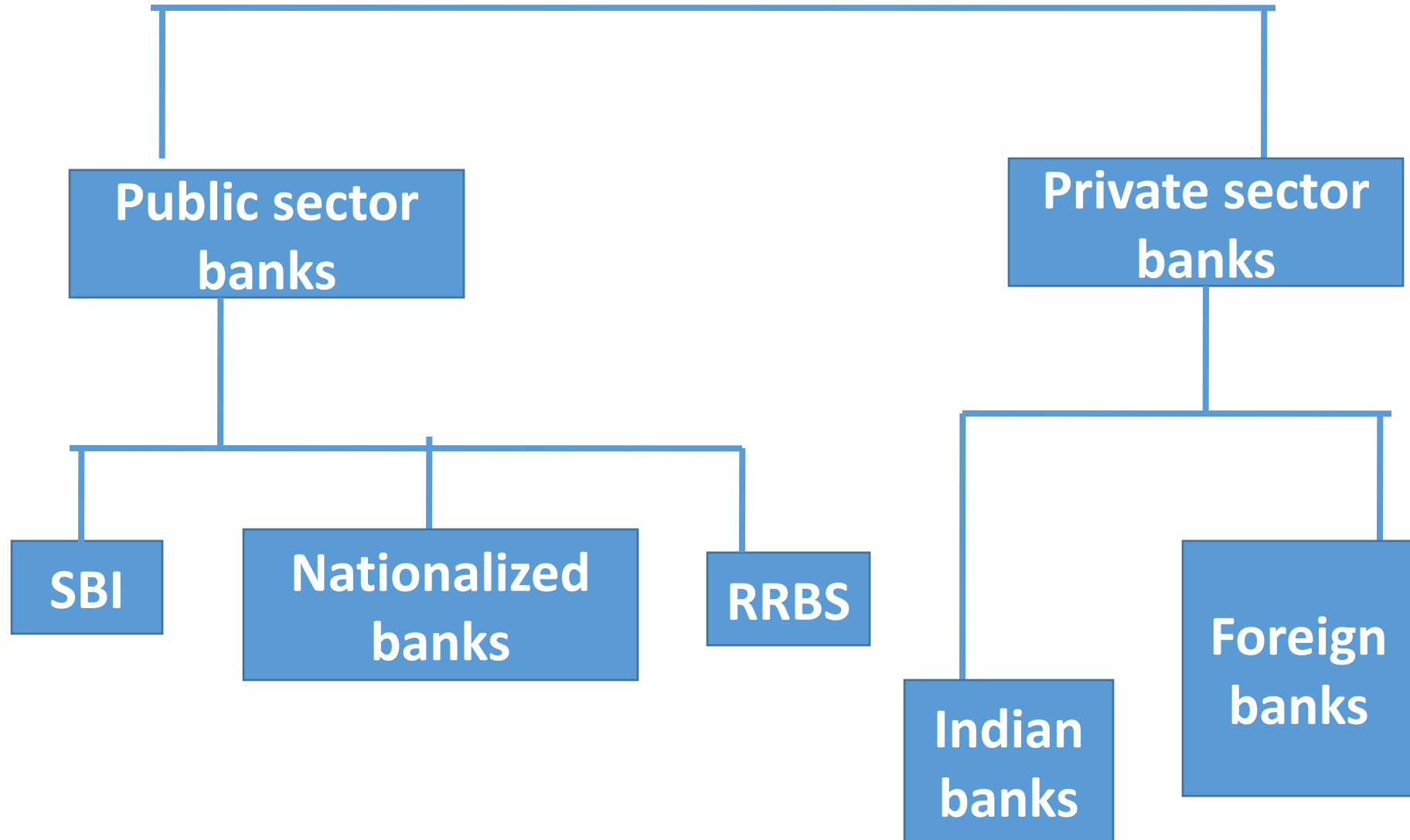
- A bank is an institution which deals with money and credit. It accepts deposits from the public, makes the funds available to those who need them and helps him the remittance of money from one place to another.
- The term bank in the modern times refers to an institution having the following features.

- It deals with money.
- It accepts deposits and advance loans.
- It also deals with credit. It has the ability to create credit.
- It is a commercial institution. It aims at earning profit.
- It is a unique financial institution that manage the payment system of the country.

COMMERCIAL BANKS

Among the banking institution in the organized sector, the commercial banks are the oldest institution having a wide network of branches commanding utmost public confidence and having the lion's share in the commercial banking operations.

Structure of commercial banks



- **Functions of commercial banks:**

- **Primary Functions:**

- **Accepting Deposits**

- Savings, current, and fixed deposits are all forms of deposits accepted by the bank. The corporate and individual surplus balances are lent money to cover the short-term needs of business transactions.

- **Savings Deposits**

- Customers can credit money to their accounts by savings deposits up to a specific amount. People on fixed incomes choose these deposits since they can build up money over time.

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- **Providing Loans**

- Offering loans and advances to entrepreneurs and business persons while also collecting interest is a crucial role of this bank. It is the main source of revenue for every bank.

- **Credit Creation**

- Customers are not given liquid cash when they are given credit or a loan. The customer's bank account is opened first, and then the funds are transferred to it. The bank is able to produce money through this technique.

- **Secondary Functions:**

- **Providing locker Facilities**

- Customers who seek a secure place to store their belongings can use lockers provided by commercial banks.

- **Exchange of Securities**

- Trading in bonds and securities is another duty of commercial banks. The financial institution itself is where customers may buy or sell the units, which is more convenient than other options.

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- **Bank as an agent**
- Along with completing the duty of an agent, Commercial Bank and its Function also demand them to offer customers financial services.
- **Dealing in Foreign Exchange**
- Commercial banks assist in supplying foreign currency to people and companies that export or import products from abroad.

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- **Other Functions:**

- Now it is also providing loan for agriculture and economic Development. They finance co-operative societies to enable them to expand their production credit to the farmers.
- Since 1975, the SBI and nationalized banks are sponsoring regional rural banks to expand cheap credit to small farmers, rural artisan and other.
- Kisan credit card scheme was introduced in 1998-99 to facilitate the flow of timely and adequate short term credit to the farmers.

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- Commercial banks extend financial assistance to the exporter on priority basis and relatively liberalized terms.
- It also extends general utility services like safety locker facility, transfer of funds, ATM facility, credit card facility, gift cheque, accepting bills and providing advice on financial matters to its customers.

Balance sheet of a bank

- Liabilities
- 1.Share capital
- 2.Reserve fund
- 3.Deposits(demand,time,saving)
- 4.Borrowing from other banks
- 5.Acceptance and endorsements
- 6.Other liabilities.

- **Assets**

- 1.Cash

- a. Cash in hand

- b.Cash with the central bank

- c.Cash with others banks

- 2.Money at call and short notice

- 3.Bills purchased or discounted

- 4.Investments

- 5.Loans and advances

- 6.Accestances and endorsement

- 7.Building and other fixed assets

- **Liabilities of the bank:**

- **1.share capital:** Bank initially raises its funds by issuing share Capital. It is the contributions made by the shareholders. It is the actually paid up share capital which constitute the liability of the bank.

- **2.Reserve funds:** It is the amount accumulated over the years out of undistributed Profits. Normally, all the profits of the bank are not distributed among the shareholders. some part is retained undistributed for meeting contingencies .This is reserved fund.

- Deposits:** Deposits from the public constitute the major portion of the banks working Capital. Deposits are the liabilities of a bank towards the depositors.
- Borrowing from banks:** sometimes the bank borrows loans from reserve bank of india, other banks and other institutions.
- Acceptances:** The bank also creates liabilities by accepting and endorsing the bills of exchange on behalf of its customers

- Assets of the bank:**

- Cash(cash in hand, cash with the central bank, cash with other banks)
- Money at call at short notice
- Bills purchased and discounted
- Investments
- Loans and advances
- Acceptance and endorsements
- Building and other fixed assets.

Investment policy of banks:

- Liquidity**
- Solvency**
- Profitability**

Role of Commercial Bank in a Developing Economy

- Growth of entrepreneurship
- Wealth creation
- Implementation and execution of monetary policies
- Trading functions
- Credit creation



Reserve Bank of India

India's Central Bank



Establishment

- **Established on April 1, 1935 with share capital of Five Crores on recommendation of Hilton Young Commission.**
- **RBI was Nationalised in Year 1949.**
- **Central Office was initially established in Calcutta and moved to Mumbai in 1937**



Structure

- **RBI Have 20 Directors :**
 - **The Governor**
 - **Four Deputy Governor**
 - **One Govt. Official from Ministry of Finance.**
 - **Ten Nominate Director, nominated by Govt.**
 - **Four Directors to represent Headquarters at Mumbai, Kolkata, Chennai & New Delhi.**
- **Appointed/ Nominated for period of Four Years.**



RBI Offices

- **Head office in Mumbai.**
- **24 Regional offices,**
most
of them in State Capital.



Preamble

- **“... to regulate the issue of Bank Notes and keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage.”**



The broad objectives of RBI are:

- 1.Regulating the issue of currency of India.**
- 2.Keeping the foreign exchange reserves of the country.**
- 3.Establishing the monetary stability in the country.**
- 4.Developing the financial structure of the country**



Main Functions (Act, 1934)

- **Bank of Issue (Under Sec 22)**
 - **RBI has separate Issue Department to issue currency notes.**
 - **RBI maintain Minimum Reserve in form of Gold and Foreign Exchange Reserve of which almost 55% should be in Gold.**



Main Functions (Act, 1934)

- **Banker to Government**
 - **RBI is banker, agent and advisor of Central Government**
and all State Government in India.
 - **RBI helps the Government to float new loans and to manage public debt.**
 - **RBI makes loans and advances to the States and local authorities.**



Main Functions (Act, 1934)

- **Banker's Bank & Lender of Last Resort**
 - **RBI maintains banking accounts of all schedule banks.**
 - **Every schedule bank have to keep cash reserve a fix percentage of their aggregate deposit liabilities .**
 - **Banks always expect for help from RBI in time of banking crisis.**



Main Functions (Act, 1934)

- **Controller of Credit**
 - **RBI holds the cash reserves of all schedule banks.**
 - **It holds credit operations of banks through quantities**
 - **RBI has power to ask bank or whole banking system not to lend particular group or person.**
 - **Every bank have to get license from RBI for banking operation. RBI can also cancel this license.**
 - **Every bank gives weekly return showing assets and liabilities in details .**



Agent and adviser to the govt:

The RBI acts as the agent and adviser of the govt.

a. As an agent to the govt ,it accepts loans and manage public debt on behalf of the govt.

B . It issues govt bonds and treasury bills.

C .Acts as financial adviser to the govt in all important economic and financial matters.



Main Functions (Act, 1934)

- **Custodian of Foreign Reserves**
 - **RBI responsible to maintain official rate of exchange as according terms of I.M.F.**
 - **RBI reserves the international currency.**
 - **RBI observes relationship of Indian Currency with
other International currency.**



Main Functions (Act, 1934)

- **Promotional Functions**

- **RBI ask banks and financing agencies to promote rural**

and semi-urban areas by financing (funding).

- **RBI setup directly or indirectly some institutions like :**

- **Deposit Insurance Corporation (1962)**
- **Industrial Development Bank (1964)**
- **Unit Trust of India (1964)**
- **Industrial Reconstruction Corp. of India (1972)**
- **Agricultural Refinance Corporation (1963)**



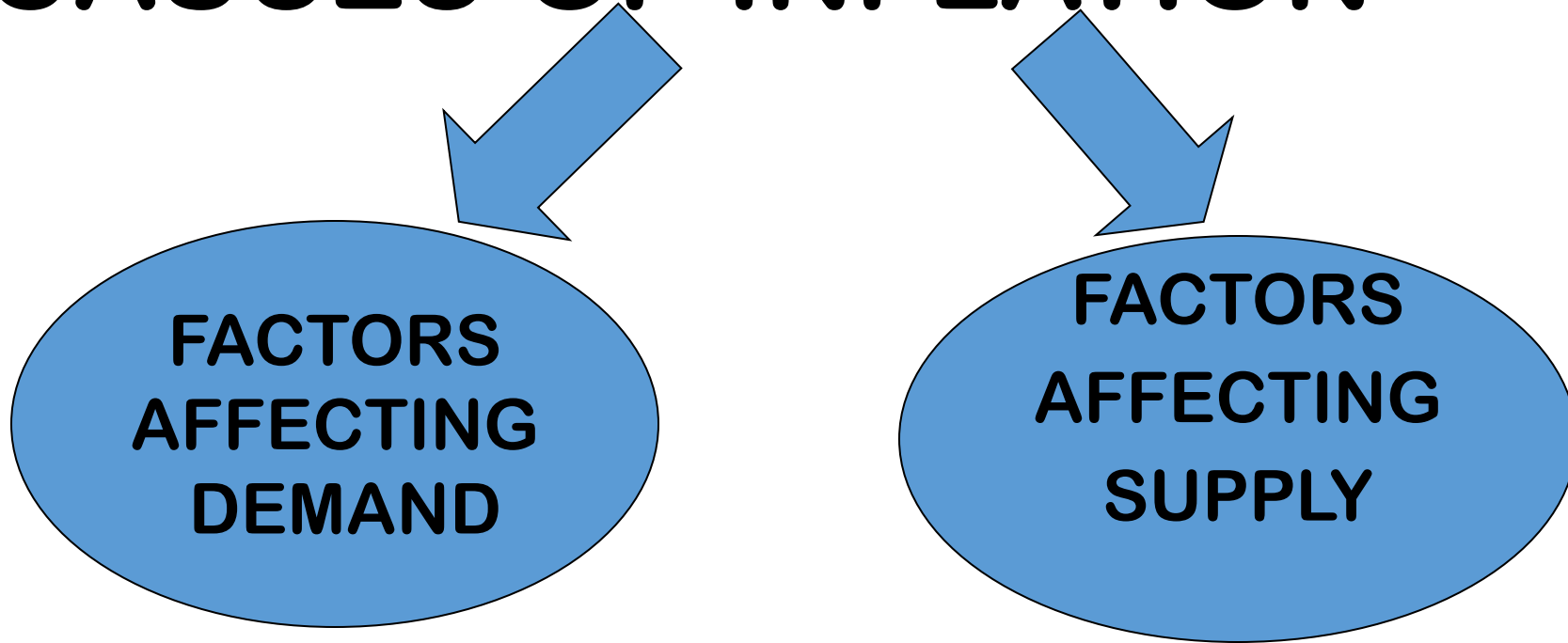
INFLATION

INFLATION:

INFLATION IS COMMONLY UNDERSTOOD AS A SUBSTANTIAL AND RAPID INCREASE IN PRICE AND CONSEQUENT DETERIORATION IN THE VALUE OF MONEY OVER A PERIOD OF TIME.

ACCORDING TO SAMUELSON: "INFLATION DENOTES A RISE IN THE GENERAL LEVEL OF PRICES."

CAUSES OF INFLATION



FACTORS AFFECTING DEMAND:

- INCREASE IN MONEY SUPPLY**
- INCREASE IN DISPOSABLE INCOME**
- INCREASE IN PUBLIC EXPENDITURE**
- INCREASE IN CONSUMER SPENDING**
- CHEAP MONEYTARY POLICY**
- DEFICIT FINANCING**
- EXPANTION OF THE PRIVATE SECTOR**
- REPAYMENT OF PUBLIC DEBT**

FACTORS AFFECTING SUPPLY

- **SHORTAGE OF FACTORS OF PRODUCTION**
- **INDUSTRIAL DISPUTES**
- **NATURAL CALAMITIES**
- **ARTIFICIAL SCARCITIES**
- **INCREASE IN EXPORTS**
- **LOP SIDED PRODUCTION**
- **LAW OF DIMINISHING RETURNS**
- **INTERNATINAL FACTORS**

EFFECTS OF INFLATION



**EFFECTS
ON
PRODUCTION**

**EFFECTS
ON
DISTRIBUTIO
N**

**•OTHERS
(NON ECONOMIC
CONSEQUENCES)**

EFFECTS ON PRODUCTION

- REDUCE SAVINGS
- ENCOURAGE SPECULATIVE ACTIVITIES
- REDUCES VOLUME OF PRODUCTION
- QUALITY FALLS

EFFECTS ON DISTRIBUTION

- **DEBTORS AND CREDITORS**
- **WAGE AND SALARY EARNERS**
- **FIXED INCOME GROUPS**
- **INVESTORS**
- **FARMERS**
- **BUSINESS COMMUNITY**

NON-ECONOMIC CONSEQUENCES

- **SOCIAL EFFECT**
- **MORAL EFFECT**
- **POLITAL EFFECT**

- SO. INFLATION IS SAID “ECONOMICALLY UNSOUND, POLITICALLY DANGEROUS, AND MORALLY INDEFENSIVE

CONTROL OF INFLATION

- MONEYTARY MEASURES
- FISCAL MEASURES
- OTHER MEASURES

MONEYTARY MEASURES

- INCREASING BANK RATE
- INCREASE IN CRR
- SELLS OF SECURITIES IN THE OPEN MARKET
- REPO RATE
- REVERSE REPO RATE
- STATUTARY LIUIDITY RATIO

FISCAL POLICY

- INCREASE IN TAXATION
- REDUCTION IN PUBLIC EXPENDITURE
- PUBLIC BORROWING
- CONTROL OF DEFICIT FINANCING

OTHER MEASURES

- EXPANSION OF OUTPUT
- PROPER WAGE POLICY
- ENCOURAGEMENT TO SAVING
- POPULATION CONTROL

- so inflation is called economically unsound, politically dangerous, and morally indefensible.

Thank You

