

Role of Banks in the Economic Growth of a Region

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SYNOPSIS

- Meaning of banking
- Importance of Banking
- Intermediation by banks
- Role of Banks in economic growth
- Contribution to GDP- As a service sector
- Retail Banking
- Rural Banking
- Micro Finance

Meaning of Banking

- The primary activity of banks is “accepting deposits, for the purpose of lending and investment, deposits of money”.
- The essence of banking is TRUST.

Importance of Banking

- Motivate people to save.
- Channelise household savings into productive capital
- Facilitate productive use of surpluses to generate employment and promote economic welfare.
- Provides risk-free income to depositors.

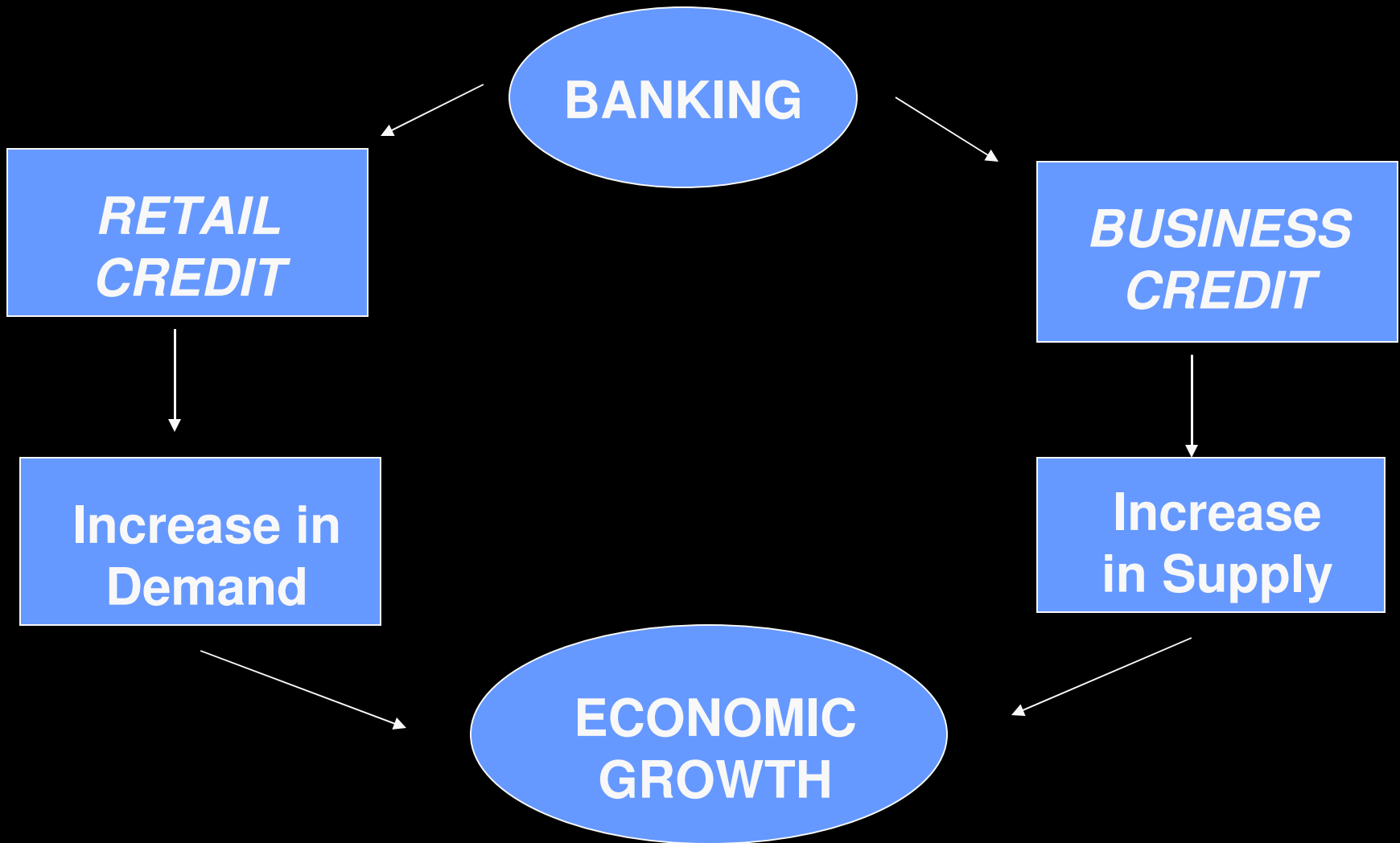


Intermediation by Banks



Banks, because of their reach & trust of people have emerged as the largest intermediary across the world.

ROLE OF BANKS IN ECONOMIC GROWTH



CONTRIBUTION TO GDP- AS A SERVICE SECTOR

- Contribution of the banking sector to GDP is about 7.7% of GDP.
- Banking sector intermediation as measured by total loan as a % of GDP is 30%.
- Banking sector has generated employment to the tune of 1.5 million

Retail Banking

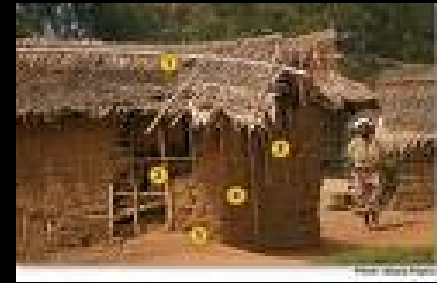


Mobilization of deposits from individuals and lending to individuals & small business.

The Indian players are bullish on retail business:

- Change in urban household income pattern resulted in change in consumption patterns.**
- Product innovation & new application of technology in delivering retail banking products.**
- Credit risk is minimized.**

Rural Banking



- High potential area of growth in Banking.
- Can provide opportunity to grow fast & make great business sense both for improving bottom-line & diversifying business portfolio.
- TRYSEM (Training of rural youth for self employment)- Banks are financing the trainees for self employment.
- Setting ATM kiosks
- Offering KISAN credit card

Aspects of Rural Banking

- Sectoral mobilization of deposits & its contribution to national income.
- Rural loan structure, default rate and distribution of rural credit.
- Leverage the understanding of rural culture & geographical advantages to bring credit counseling.

REGIONAL GROWTH THROUGH MICRO FINANCE

- Self Help supplemented with mutual help can be a powerful vehicle for the poor's effort to socio-economic upward transition
- Participative financial services management is more efficient and responsive.
- Poor can save and are bankable
- The mismatch between the expectations of the poor and capabilities of the formal banking system needs to be minimised
- Poor need not only credit support but also savings and other services

REGIONAL GROWTH THROUGH MICRO FINANCE (cont..)

- Small affinity groups of the poor, with initial outside support, can effectively manage and supervise micro credit among their members
- Collective wisdom of the group and peer pressure are valuable collateral substitutes
- SHGs could be a pre- micro enterprise stage for a majority of rural poor
- SHGs facilitate wider outreach, lower transaction cost and much lower risk costs and
- Empowerment of poor especially of poor women, is a major outcome

Specific Cases

Region-wise:

- Jammu & Kashmir
- Kerala

Sector-wise:

- IT sector





Thank you