"Contribution of Banking Sector in Indian Economy"

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Abstract-Finance and banking is the life blood of trade, commerce and industry. Now-days, banking sector acts as the backbone of modern business. Development of any country mainly depends upon the banking system. A bank is a financial institution which deals with deposits and advances and other related services. It receives money from those who want to save in the form of deposits and it lends money to those who need it. The banking is one of the most essential and important parts of the human life. In current faster lifestyle peoples may not do proper transitions without developing the proper bank network. The banking System in India is dominated by nationalized banks.

Keywords: Banking Systems, Banking, Indian Economy.

I Introduction-As per the Reserve Bank of India (RBI), India's banking sector is sufficiently capitalized and well-regulated. The financial and economic conditions in the country are far superior to any other country in the world. Credit, market and liquidity risk studies suggest that Indian banks are generally resilient and have withstood the global downturn well.

Indian banking industry has recently witnessed the roll out of innovative banking models like payments and small finance banks. RBI's new measures may go a long way in helping the restructuring of the domestic banking industry.

The digital payments system in India has evolved the most among 25 countries with India's Immediate Payment Service (IMPS) being the only system at level 5 in the Faster Payments Innovation Index (FPII). A bank may be defined as an institution that accepts deposits, makes loans, pays checks, and provides financial services. A bank is a financial intermediary for the safeguarding, transferring, exchanging, or lending of money. A primary role of banks is connecting those with funds, such as investors and depositors, to those seeking funds, such as individuals or businesses needing loans. A bank is the connection between customers that have capital deficits and customers with capital surpluses. Banks distribute the medium of exchange. Banking is a business. Banks sell their services to earn money, and they must market and manage those services in a competitive field. Banks are financial intermediaries that safeguard, transfer, exchange, and lend money and like other businesses that must earn a profit to survive. Understanding this fundamental idea helps you to understand how banking systems work, and helps you understand many modern trends in banking and finance.

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II. Literature Review-Review of literature has vital relevance with any research work due to literature review the possibility of repetition of study can be eliminated and another dimension can be selected for the study. The literature review helps researcher to remove limitations of existing work or may assist to extend prevailing study. Several researches have been conducted to analyse the different aspects of performance of commercial banks in India and abroad. But there are very few research and literature available on the subject related to financial reforms and its impact on Indian banks. The available literature and research are divided into four major parts according to the area of research i.e literature related to: 1. Review of Literature related to Performance Appraisal of Banks 2. Review of Literature related to Policy Framework and Recommendations for Banks 3. Review of Literature related to Impact of Reforms on Indian Banks 4. Review of Literature related to Service Quality of Indian Banks2 The above mentioned literature have been obtained from following four major sources such as (i) Ph.D. research conducted in India, (ii) The research / studies carried over by the institutions like RBI, ICRA Limited and business magazines like Financial Express, Business Today, Money Outlook, Business India, etc. and (iii) Research Studies of individual scholars published in journals and magazines and (iv) websites of RBI, Govt. of India and websites of various banks. The present study is undertaken in the light of the methodology adopted and conclusions emerged in the earlier studies relating to the performance evaluation, financial reforms and their impact on the Indian banking sector. and a comparison between the two.

Zacharias Thomas(1997)Ph D Thesis, 'Performance effectiveness of Nationalized Bank- A Case Study of Syndicate Bank', submitted to Kochin University (1997), Thesis studied the performance effectiveness of Nationalized Bank by taking Syndicate Bank as case study in his Ph.D thesis. Thomas has examined various aspects like growth and development of banking industry, achievements of Syndicate Bank in relation to capital adequacy, quality of assets, Profitability, Social Banking, Growth, Productivity, Customer Service and also made a comparative analysis of 'the performance 34 effectiveness of Syndicate Bank in relation to Nationalized bank. A period of ten years from 1984 to 1993-94 is taken for the study. This study is undertaken to review and analyze the performance effectiveness of Syndicate Bank and other Nationalized banks in India using an Economic Managerial Efficiency Evaluation Model (EMEE Model) developed by researcher. Thomas in this study found that Syndicate Bank got 5th Position in Capital adequacy and quality of assets, 15th in Profitability, 14th Position in Social Banking, 8th in

Growth, 7th in Productivity and 15th position in Customer Service among the nationalized banks. Further, he found that five nationalized banks showed low health performance, seven low priority performance and eleven low efficiency performance in comparison with Syndicate Bank.

III. Methodology-The main objective of this research is to propose a methodology for forecasting NPAs which can thereby be used to forecast NPA of an Indian bank and gauge the crisis which Indian banking system is facing. There are many forecasting methods which can be used to predict the variable of interest. They are broadly divided into two categories:

(1) Regression models: Simple Linear Regression (SLR), Multiple Linear Regression.

(2) Time series based methods: Moving Average, Simple Exponential Smoothing, Holt, and Holt-winter method. Regression models are used for prediction purposes. Based on the trend of independent variables, they predict the trend for the dependent variable. Since we will be predicting the NPA's in 2020 based on external factors, regression models are the best fit in this particular situation. SLR could not be used because it gives the value of dependent variable (Gross NPA's) in terms of only one independent variable. NPA is often dependent on various factors so this method will never give satisfactory results. We finally conducted the analysis by MLR method. To use MLR we had to determine the factors on which NPA's in India depend on. Qualitative factors cannot be modeled in the forecasting equations and hence they were neglected for the purpose of this study. After much deliberation and thought process we came up with the following 4 quantitative variables which were used to predict NPA's in 2020 of banking sector.

(1) Repo rate:- Repo rate is the rate at which the central bank of a country (RBI in case of India) lends money to commercial banks in the event of any shortfall of funds. Repo Rate is generally related to the Bank Prime lending rate as well as reverse repo and MLR. It is an indicator of the prevailing interest rate in the country. Interest rate and inflation has a cumulative effect on the economy and ability of the borrower to pay back. Hence, repo rate is a crucial factor impacting NPAs.

(2) Gross domestic product-A country's GDP is the total market value of all final goods and services produced in a country in a given year which is equal to the total consumer, investment and government spending. GDP is a growth indicator of an economy. As GDP grows, loans and advances also grow and hence it directly impacts NPAs. Moreover, when the economy is in shambles, corporate will not be able to pay the debts which will thereby lead to an increase in NPA's.

(3) Loans and advances-Loans and advances are considered the most important factor while forecasting NPAs. As the size of loans and ad-

vances increases, the proportion of NPA's increase due to increase in risk in that case.

(4) Inflation rate -The index is a measure of the average price which consumers spend on a market-based "basket" of goods and services. Inflation based upon the consumer price index (CPI) is the main inflation indicator in most of the countries. Inflation rate in India is based upon the Indian Consumer Price Index. As inflation rises it becomes cheap for borrowers to borrow money, because of inflation purchasing power of consumer's fall resulting in a drop in profits for the companies. Combination of both these factors results in rise in NPA's

Conclusion-In all the above review of literature various review of made by various researchers, authors have made evaluation of the performance of commercial banks the earlier studies differed from one another in the selection of period, selection of banks, selection of indicators and selection of statistical tools and techniques. In contrast, the present study focuses its attention on the impact of reforms on Indian banking system in post liberalization era. The period therefore starts from the year 1991-92 i.e. the year from which reform measures were initiated up to 2010-11 twenty year period for which data are available. The study, instead of taking a large number of 55 parameters, of which some are alternative specifications, took six parameters to evaluate the efficiency of banks, five to assess profitability and health parameters, i.e. Non-performing assets and capital adequacy. Apart from quantitative aspects, this study has taken qualitative aspect, i.e., customer perceptions on service quality of selected public and private banks as an ancillary to the main study. This chapter has exhibited the studies conducted and review of literature available on the subject of research. It has been divided into four major parts according to the subject area. After this review of literature it is found that, though there are several studies conducted on the subject, most of the studies are conducted on performance appraisal studies or impact studies of financial reforms and its impact on individual banks.

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