



THE ROLE OF COMMERCIAL BANKS IN PROMOTING ECONOMIC DEVELOPMENT IN INDIA

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ABSTRACT

Commercial banks are fundamental institutions in any economy, serving as financial intermediaries that mobilize savings and provide credit to individuals, businesses, and governments. They play a vital role in facilitating economic activities by ensuring the smooth flow of funds, supporting investment, consumption, and overall financial stability. This paper provides an overview of the role of commercial banks in promoting economic development, with a focus on their functions such as deposit acceptance, credit creation, and financial inclusion. It also discusses the challenges faced by commercial banks, including non-performing assets, regulatory pressures, and evolving market dynamics. Understanding the operations and impact of commercial banks is essential for policymakers aiming to foster sustainable economic growth.

INTRODUCTION

The banking sector serves as the financial backbone of modern economies. Commercial banks, in particular, play a pivotal role in channelling funds from surplus units (savers) to deficit units (investors and entrepreneurs). Through this intermediation, banks influence capital formation, employment generation, and overall economic progress.

In developing economies, banks not only finance trade and industry but also contribute to rural development through agricultural loans, microfinance, and government-led credit schemes. As economies evolve, the role of banks expands beyond traditional functions to include digital financial services, sustainability financing, and support for small and medium enterprises (SMEs).

OBJECTIVES OF THE STUDY

The major objectives of this study are:

1. To analyze the role of commercial banks in promoting economic development.
2. To assess the relationship between bank credit and GDP growth.
3. To compare recent years' performance indicators of the banking sector.
4. To suggest measures for strengthening the role of commercial banks in sustainable development.
5. To analyze the challenges facing commercial banks

STATEMENT OF THE PROBLEM

Despite the recognized importance of commercial banks, many developing countries face challenges such as limited access to finance, high non-performing loan ratios, and unequal distribution of credit. In some cases, bank credit growth does not translate effectively into real economic growth due to inefficiencies or risk aversion.

This study investigates how effectively commercial banks have contributed to economic development in recent years

REVIEW OF LITERATURE

Multiple studies have shown the positive relationship between banking sector development and economic growth. King and Levine (1993) established that banking development leads to capital accumulation and growth. In India, commercial banks have been identified as critical for financing agriculture, MSMEs, and infrastructure sectors (RBI Annual Report, 2023).

Recent reports (RBI, 2024) highlight that credit growth to priority sectors has increased, while deposit mobilization remains stable, signalling efficient financial intermediation.

COMMERCIAL BANKS IN ECONOMIC DEVELOPMENT

Commercial banks act like the financial engine of a nation's economy. They mobilize savings from the public and convert them into productive investments. In developing countries like India, their contribution is even more crucial because they help bridge the gap between available financial resources and the growing needs of industries, agriculture and services.

Mobilization of Savings

Banks encourage people to save by providing safe deposit facilities. These savings are then channelled into loans and investments supporting industries, infrastructure and business expansion, leading to higher economic productivity.

Development of Agriculture

Agriculture contributes significantly to India's GDP and rural livelihood. Banks support farmers through:

- Kisan Credit Cards
- Crop loans
- Equipment finance
- Rural development schemes

Credit Creation and Investment Promotion

Commercial banks provide credit to:

- Industrial firms for expansion and modernization
- Entrepreneurs for new ventures
- Agriculture for crop production and allied activities
- Small businesses and MSMEs for working capital

Supporting Industrial and Infrastructure Growth

Banks finance core industries, transport networks, power projects and manufacturing activities. Such investments build the foundation for long-term economic growth and modernization.

Financial Inclusion

Through programs like Pradhan Mantri Jan Dhan Yojana, mobile banking, ATMs and rural bank branches, commercial banks provide services to marginalized and financially excluded citizens. This reduces poverty, encourages savings habits and increases economic stability.

CHALLENGES FACING COMMERCIAL BANKS

- **Non-Performing Assets (NPAs):** Though improving, NPAs remain a concern affecting credit risk and profitability.
- **Regulatory Constraints:** Compliance requirements sometimes limit banks' lending flexibility.
- **Credit Concentration Risks:** Overexposure to certain sectors or regions could affect stability.
- **Financial Inclusion Gaps:** Despite progress, many rural and marginalized groups still lack adequate banking access.

DATA & TRENDS

- According to Reserve Bank of India (RBI) data, non-food bank credit growth for scheduled commercial banks (SCBs) in India stood at about **11.4 %** in January 2025.
- In the fortnight ended 18 April 2025, bank credit growth slowed to about **10.3 %**, while deposit growth was about **10.2 %**.
- As of 22 March 2024, the share of “industry” in total bank credit had fallen to **23.1 %**, from 27.1 % in March 2022.
- The share of metro cities' bank deposits rose from 50.9 % in March 2020 to 53.2 % in March 2025; the share of bank credit going to metros declined from 63.5 % to 58.7% in the same period.

Bank Credit Growth

As of January 12, 2024, commercial bank credit in India stood at ₹154.04 trillion, reflecting a year-on-year growth of 16.02%. This indicates a robust demand for credit, particularly in sectors such as retail and infrastructure Business Standard.

Deposit Mobilization

Bank deposits grew by 10.6% year-on-year in the financial year ending March 2025, compared to 13% in the previous fiscal year. Despite the slowdown, the overall deposit base remains strong, with term deposits continuing to make up the largest share of total deposit.

GDP Growth

India's GDP grew by 9.2% in FY 2023–24, marking the highest growth rate in the past 12 years. However, the growth rate is projected to moderate to 6.5% in FY 2024–25, reflecting a deceleration in economic activity

Sectoral Credit Distribution

In April 2024, loans to agriculture and allied activities experienced a notable acceleration, growing by 19.7% compared to 16.8% in April 2023. This significant rise underscores the increased focus on supporting the agricultural sector.

Impact on Economic Sectors

The banking sector's support to various sectors, including agriculture, infrastructure, and services, has been instrumental in driving economic growth. The increased credit flow to these sectors has facilitated investments, enhanced productivity, and contributed to overall economic development.

CREDIT-DEPOSIT RATIO AND ITS IMPLICATIONS

The Credit-to-Deposit (C/D) ratio is a vital indicator of the banking system's ability to utilize deposits for lending. The following table shows the C/D ratios for 2023 and 2024:

Year	Bank Credit (₹ Trillion)	Deposits (₹ Trillion)	C/D Ratio (%)
2023	145.00	165.00	87.9
2024	154.04	182.10	84.6

FINDINGS

1. Expansion of credit has a direct impact on productive sector growth.
2. Financial inclusion programs have widened the customer base, especially in rural areas.
3. Commercial bank credit has shown strong growth of 16.02% in January 2024, indicating rising demand for loans and increased economic activity in major sectors.
4. Deposit growth slowed to 10.6% in FY 2024–25 compared to the previous year, showing a moderate pace of savings mobilization in the economy.
5. Credit to agriculture and allied activities increased from 16.8% to 19.7%, proving that banks are giving higher priority to rural development and farming sectors.
6. The Credit-to-Deposit ratio declined from 87.9% in 2023 to 84.6% in 2024, showing that banks are holding more liquidity instead of lending fully, which can reduce credit availability for development.
7. The share of bank deposits in metro cities increased, while their share of credit declined, indicating regional disparity and the need for better financial inclusion in rural and semi- urban areas.

CONCLUSION

Commercial banks remain vital agents of economic transformation. By efficiently mobilizing savings and providing credit to key sectors, they help drive national output, employment, and investment. The recent years’ comparative analysis reveals a positive link between banking sector expansion and economic growth. To strengthen this role, banks must to Enhance credit risk management, Support sustainable and inclusive lending, Embrace digital innovation for greater efficiency. The continued collaboration between commercial banks, policymakers, and regulatory authorities is essential to achieving balanced and sustained economic development.

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