UGC Approved Journal
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ISSN : 2348 - 5612 | Volume : 04 , Issue : 13 | October – December 2017

ROLE OF FINANCIAL INSTITUTIONS IN THE ECONOMIC DEVOLPMENT IN INDIA

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Abstract
Coercion is more of a mystery than a reality when it comes to driving an economy forward in the proper direction. Every nation in the globe aims to be one of the world's most powerful economies. There is a distinct divide between the world's developed and developing economies. The economy of developed nations are robust when contrasted to those of emerging nations. There are several obstacles to economic progress, including overpopulation, illiteracy, and political insecurity, that prevent countries from achieving their full potential. The function of financial institutions and the eventual development of the financial system are critical to the economic progress of any country. It is largely agreed upon by policymakers and economists that financial development helps to the development of financial institutions and markets such as banks, investment firms, and bond and stock exchanges.

KEYWORDS: Financial development, Economic growth, investment, commercial etc.

INTRODUCTION

The word "financial development" refers to the process through which the number, quality, and efficiency of financial intermediary services are all increased. Many activities and institutions are involved in this process, which may have an impact on the economy in the long run. The advancement of the financial sector is critical to the economy's health. There are two ways to look at this research. Structure and expressionism are two different approaches to art.

According to the regressionists, "financial development is a result of the preservation of positive real interest rates, and it has a beneficial influence on commodities sector growth" (Arshad, Qayyum & Saeed, 2005).

As a result, the link between investment and real interest remains negative, according to the structuralism theory of financial development. Over- or under-developed financial sector may occur in certain circumstances (Colin, 2000).

Because of this, "savings may be kept like gold ornaments" if the financial sector isn't well-developed enough to facilitate their mobilisation. If the financial sector is overdeveloped, savings from the local economy may be transferred to the global capital market. Study after study shows the importance given to "maintaining a balance between real and financial sector growth" in nations such as Japan, Taiwan and China (Badi, Demitriades & Siong, 2007).

ROLE OF FINANCIAL DEVELOPMENT IN ECONOMIC GROWTH

In economics, it is widely accepted that financial development has a role in promoting growth in a variety of ways. When it comes to identifying successful initiatives, financial institutions are more equipped than individuals due to their size, which allows them to pay substantial fixed expenses for gathering information about particular projects and to evaluate this information more effectively (Cristina, Yan & Zhang, 2009). Once the project has begun, they can better supervise its management to guarantee that the resources of savers are put to good use.

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A positive, first-order link between financial development and economic growth is suggested by both theoretical logic and empirical data according to Levine (1997).

Growth in the financial markets is another way they can help. First and foremost, they aid in the collection of the money needed to fund large-scale initiatives from a wide range of savers. The second benefit is that they make it easier to aggregate and hedge the risks that come with various projects and sectors. The liquidity risk of investors is further reduced via secondary financial markets, which enable investors to sell their securities without hurting the businesses' access to the cash they invested in (David, 2006).

By expanding the supply and decreasing the risk and raising the productivity of cash transfers from savers to investment projects, well-developed financial markets and institutions may promote growth. It has been the emphasis of some economists to isolate the influence of financial development on economic growth throughout time by focusing on events that have resulted in major changes in the financial sector's size and development in a short period of time. Event studies are the most common term for these investigations (Erdal, Veli & Tuzel, 2007).

DETERMINANTS OF FINANCIAL DEVELOPMENT

A country's economic growth is a measure of the country's overall progress, according to the European Journal of Business and Management. "A number of elements which also impact financial development determine economic growth." As a result, there are a number of elements that influence a company's financial growth.

Some of them are mentioned below:

- **Gross Domestic Product**

Growth in GDP is an essential indicator of a country's entire economic production, which is an important aspect in financial development. A country's GDP is the total worth of all final products and services produced inside its borders over the course of a single calendar year. While it is frequently associated with higher living standards, the use of GDP as a proxy for living standards has come under fire in recent years, and many nations are now actively looking for alternatives. There are three techniques to calculate GDP, and each of them should provide the same answer. Approaches include product (or production) and income (or expenditure) (Claude & Aristomene, 1996).

The product method is the simplest of the three since it simply adds up the outputs of every kind of business to get at a final number. In order for the overall product value to be equal to people's total expenditures on purchasing items, this strategy relies on the notion that all of the product must be purchased by someone. A key tenet of this technique is that the incomes of producing elements (sometimes known as "producers" informally) must be equal to the value of their output, and GDP is calculated by summing the incomes of all of these producers (Francois, 1999).

- **M2**

The entire quantity of money in circulation at a given moment in time is referred to as the "money supply" or "money stock" in economics. "Financial development is influenced by M2." Definitions vary, but common ones include the amount of money in circulation and demand deposits. A country's government or central bank typically collects and publishes statistics on the country's money supply. Analysts in both the public and commercial sectors have been

keeping an eye on changes in the money supply for a long time because of their potential impact on the price level, inflation, and the economy. Monetary value is represented by M2, and "near replacements" are also represented by M2. In contrast to M1, M2 is a more expansive categorisation of money. If you're attempting to figure out how much money there is in circulation, economists utilise M2 to do so. Using M2 to predict inflation is a critical economic indicator (Harris & Martin, 2000).

- **Savings**

In other words, saving is keeping money safe. Investing in a savings account or a pension plan is one way to save money. Reducing recurrent expenses, such as rent or utilities, is another way to save money. To put it another way, saving in the context of personal finance is keeping money in a safe place, like a savings account, rather than risking it in an investment.
It is vital to note that "savings are a significant predictor of financial growth because as an economy grows, the incomes of individuals rise, which in turn raises savings, which results in financial development within the nation" (Luca, 2000).

- **Advances to deposits ratio**

Development of financial institutions is heavily dependent on advances and deposits. To distinguish between deposits and advances, banks and other financial organisations make loans to individuals and companies. Deposits in banks rise in a developing economy because individuals have more money to save and earn. Bank advances grow when deposits in the banks rise, resulting in an increase in the amount of money available in the economy (Paul & Vassili, 2001).

- **Exports/ Imports**

The term "export" in economics refers to any product or commodity that is legally carried from one nation to another, often for commercial purposes. Exported products and services are produced in the nation and sold to overseas customers, whereas imported goods and services are brought into the country's ports. Importers in the nation of import are referred to as "exporters," whereas abroad sellers are referred to as "importers." As a result, an import is any product or service that is brought into a nation from another country in a legal manner, often for commercial purposes. Imported goods are sold in the United States. Products and services that originate outside of the United States are referred to as imports. "An export to the sending nation is an import to the receiving country" (Nourzad, 2002).
International commerce relies on both imports and exports to function. Customs officials in both the nation of import and the country of export are usually involved in the importation of commodities and are often subject to import limits, taxes, and trade agreements. In this context, the term "imports" refers to the total amount of products and services imported, as well as the monetary worth of such imports. 'The European Journal of Business and Macroeconomics' variable normally represents the value of these imports over a certain time period, usually one year. When a country's exports exceed its imports, it indicates that its economy is expanding and financial progress is underway (Dawson, 2003).

DISCUSSION

Financial progress is divided into three parts. A third consideration is to use correlation regression to control all other factors associated with financial development in order to measure financial development's relationship to other socioeconomic variables that reflect varying

levels of development and also human capital. The first two considerations are related (Nikolaos & Adamopoulos, 2004). The development of an economy's financial system is critical to its success. But not every financial system expansion is accompanied by an increase in the overall economy. "The history of repeated financial crises and the fact that even in nations with a well-developed financial system, a major share of company investment is funded domestically" show that developing a financial system is a challenging process. This is based on Erdal (2007).

The four indices of financial development should serve as the starting point for an investigation of the relationship between financial system development and economic growth. "The first two indicators, the amount of liquid liabilities in the banking system and the level of lending by the banking system to the private firms, indicate the degree to which an intertemporal, inter-personal resource transfer is taking place in an economy" (Bena & Jurajda, 2007). Two major economic development theories have emerged in the previous two decades. As a result of financial intermediaries, inputs are better used since they are less expensive to acquire. As a result, "this is particularly true in those cases in which the gathering of knowledge on the most effective manufacturing method includes large fixed expenditures" (Patricia, 2007).

These marketplaces also enhance efficiency using technology. Financial markets that are well-developed redirect resources away from dying sectors and into emerging ones (Indrani, 2008). Latin America and East Asia both experienced financial crises after a wave of financial deregulation and a spike in capital inflows in the late 1980s and early 1990s. As a result, new study on the role of financial Intermediation in economic development and a reassessment of the legislative alternatives for making sure that the financial sector's contribution to economic growth and development is completely achieved has been sparked by these events" (Vally, 2008).

CONCLUSION

Throughout the history of economics, financial development and economic expansion have been central concerns. It is possible to expedite the transfer of money to the most effective use by connecting the financial superstructure to its physical infrastructure. This link accelerates economic development and enhances economic performance. Financial intermediation's contribution to economic growth and development has been reexamined as a result of these events, which has sparked renewed academic interest and policy alternatives for the financial industry. It is a fallacy to believe that policymakers can focus just on increasing economic development in order to reduce global poverty. A country's institutional structure and policy environment determine the amount to which a given pace of economic development influences poverty levels.

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ISSN : 2348 - 5612 | Volume : 04 , Issue : 13 | October – December 2017

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