ROLE AND IMPORTANCE OF COMMERCIAL BANKS IN ECONOMIC GROWTH AND DEVELOPMENT

Yuldasheva Umida Bakhrom kizi
2nd year student, group 208, Faculty of Economics
at the National Research University "Tashkent Institute of Irrigation and Agricultural Mechanization Engineers"

Annotation: This article describes in detail the positive impact of commercial banks on meeting the unlimited needs of limited resources in a rapidly growing society and the operations and services of commercial banks in the development and sustainable growth of the economy.

Key words: Commercial bank, banking system, economic growth, macroeconomic environment.

A key component in the growth of a country's economy, commercial banks are vital to the development of industry and trade. They act as guardians of the country's wealth and resources and enable capital to move to productive assets at the appropriate time.

Commercial banks play a specially crucial role in India since they fuel the country's economic growth while also giving significant insights into financial processes. Banks have long been the engine of India's success, offering financial services to a large population at low costs and satisfying the short- and medium-term credit needs of lakhs of industries, particularly medium and small enterprises (MSMEs).

According to the fundamental structure of the Reserve Bank of India Act 1934, all large banks are classified as commercial. However, under the scheduled bank category, there are additional banking categories such as Small Finance bank, payments bank, and Co-operative bank. The banks are further divided according to ownership into public sector, private sector, foreign, and regional rural banks.

Functions of a commercial bank

Here are some of the reasons why a well-organized banking system is essential for any country's economic success, especially a fast-growing one like India.

1. Capital formation - Commercial banks promote savings and investment, which help to eliminate capital deficiency. They then put these resources to productive use, boosting capital formation in the country.
2. Credit creation - Apart from increasing the money in circulation, bank deposits also make their way to industries, to help them create productive assets. This credit has a multiplier effect on the economy.
3. Trading functions - Commercial banks are permitted to operate as market makers for municipal, government, and corporate bonds. Banks can provide issuers with counseling, advisory, and technical direction through their market-making activities.
4. Growth of entrepreneurship - By providing capital to entrepreneurs and investing in productive purposes, banks encourage self-sufficiency, reduce joblessness and promote the right industries.
5. Financialization of savings - Commercial banks are a safe place to save money in the form of deposits.
6. Funds transfer - With the help of commercial banks, sending funds to anywhere in India or abroad has become very easy.

7. Wealth creation - By providing consulting and advisory services, bank experts can direct investors to mutual funds or direct investments. The bank can operate as custodian for all investment securities, and provide safety deposit boxes, letters of credit for investment opportunities, as well as act as a trustee for wills and investment funds.

Role of commercial banks today

Even in today's digital age and tough macroeconomic context, the role played by commercial banks continues to be a vital one. While risk and regulatory protection remain a top priority, banks are also searching for innovative methods to address financial performance and rising consumer and investor expectations as they reorganize and optimize operational and business models to generate long-term profitability. Undoubtedly, banks will need to embrace innovation and business-led transformation to stay relevant in the age of digital money.

At **IDFC FIRST Bank**, we wholeheartedly believe in the transformative power of technology when used for the greater good. When combined with our principles of integrity, trust and transparency, it gives rise to a people-focused bank that enables economic growth in a socially-responsible manner.

The direct value of industry sales or employment is an important measure of an industry's strength. However, an industry's sales or employment figures alone fail to capture the full economic contribution of an industry or an event. When a business makes a sale to a final consumer, a portion of production expenses are paid to the business's local suppliers and wages are paid to employees. Business owners and employees also spend part of their profits and wages on the local economy. As money circulates through the local economy, it multiplies the original direct expenditure to a larger total economic output. Economic impact analysis (or economic contribution analysis) is based on the idea that a dollar spent in a region stimulates additional economic activity, or multiplies as it circulates through the economy.

It is well acknowledged in economics literature that deposit taking banking institutions play a major role in promoting economic development through channelling of funds from those with excess to those in need for investment purposes. However, for banks to be effective in fostering economic growth, it is important that they lend to the right sectors of the economy that are essential and can act as catalysts to stimulate growth. Furthermore, it is fundamental that banks effectively manage various risks that they are exposed to, in order to remain solvent in the long run and be in a position to provide long term capital which is more essential for economic growth and development. In this regard, for an economy to grow, it should have a well developed and stable banking system that is resilient to external shocks to effectively play the role of financial intermediation.

Commercial banks' duties

Here are some of the explanations for why any nation, but particularly one with rapid economic growth like many developed countries, needs a well-organized financial sector.

Commercial banks encourage investing and saving, which removes capital shortages. They then effectively use these resources, encouraging capital development across the nation.

Credit Creation: Bank deposits assist companies generate productive assets in addition to boosting the quantity of money in circulation. The economy is positively affected by this credit.

Commercial banks may perform the trading role of serving as market makers for municipal, governmental, and corporate bonds. Through their market-making operations, banks may provide technical guidance, counsel, and direction to issuers.

Entrepreneurship Growth - Banks promote self-sufficiency, lower unemployment, and strengthen industries by lending money to entrepreneurs and investing in profitable endeavors.

Financialization of Savings: Saving money in the form of deposits is secure in commercial banks.

Money Transfer - Sending money to any location, in India or overseas, has never been easier thanks to commercial banks.

Wealth creation - Banking professionals may steer clients toward mutual funds or direct investments by offering advising and advisory services. The Bank may serve as custodian for all investment assets, and it can also provide safe deposit boxes, lines of credit for business ventures, and fiduciary services for wills and other legal documents. investing capital.

What banks do nowadays?

Commercial banks still play a crucial role in today's challenging macroeconomic environment and digital era. In addition to reorganizing and optimizing their operational and business models to achieve long-term profitability, banks are also searching for novel approaches to address the financial performance and rising expectations of customers and investors. Without a question, for banks to remain relevant in the era of digital money, they will need to embrace business-led innovation and change.

REFERENCES:

1.World Bank, (2006). Measuring banking sector development. Financial Sector Operations and Policy, Financial Sector Indicators, Note 1. Retrieved from http://siteresources.worldbank.org/INTTOPACCFINSER/Resources/Banking.pdf
2.World Bank, (2009). Measuring banking sector development. Financial sector operations and policy. Retrieved from http://siteresources.worldbank.org/INTTOPACCFINSER/Resources/Banking.pdf
3.World Bank. (2016, September). World Bank list of Economies. Retrieved from http://www.ispo2017.org/wp-content/uploads/2016/11/World-Bank-List-of-Economies.pdf
4.Basel Committee on Banking Supervision (2014): Basel III: the net stable funding ratio, October.
5.Bank for International Settlements (2014): 84th Annual Report, Chapter IV, pp 65–83.