RESEARCH REVIEW JOURNALS
Volume-04
Issue-01
January -2019

ISSN: 2455-3085 (Online)
RESEARCH REVIEW International Journal of Multidisciplinary
www.rrjournals.com [UGC Listed Journal]

A study on the contribution of Banks in Capital Formation through Small and Medium- Term Credits in the Indian Economy

Abhilash V. S.

Assistant Professor, CET School of Management, Thiruvananthapuram (India)

ARTICLE DETAILS

Article History
Published Online: 20 January 2019

Keywords
Capital Formation, Gross Capital Formation, Small and Medium-Term Credits, Agricultural Credit, SSI Credit, MSME Credit

***Corresponding Author**
Email: abhilash746[at]gmail.com

ABSTRACT

This study examines the role of banks in capital formation and economic growth for the period 2001-2016. All market-oriented countries economies depend on the effective functioning of complex and carefully adjusted financial and credit frameworks. In these organizations, banks are a fundamental part. The research used linear and multiple linear regression in this study. The independent variables include Commercial Bank Deposit, Fund-based Lending Rate (MCLR) marginal cost, Credit, NPA and Investment by India's planned commercial banks. The dependent variables are Gross Domestic Product (GDP) and Gross Fixed Capital Formation (GFCF), which in this case is a measure of the country's economic performance–economic growth. In addition, the regression result shows that Commercial Bank Credits have a positive impact on the GFCF. It is therefore recommended that the financial authorities make efforts to manage the maximum lending of the banks effectively. This policy thrust will most likely result into increased investment activities which will enhance capital formation in India needed for its real sector investments and industrial growth.

1. Introduction

The recent investment decline in India is more concerned about a continuing fiscal slowdown. There seem to be components of both the industry cycle and the slowdown in the trend. We see a repeated post-financial crisis decline affected by external and local characteristics. The economy of India was part of the global slowdown because of its trade and financial ties with the rest of the world. In addition to external and domestic periodic reasons, investment plans have also been stalled due to strategic decisions or in some cases the inaction of proposals in the face of regulatory sprints and severe blocks in the market of factors. Savings therefore flow into investment. The business analysts agree that the accumulation of capital causes ineffective accumulation. Every saving is not profitable. In fact, capital in the sense of a productive tool is provided by two separate financial demonstrations: saving and investing. Both are isolated from time to time and are regularly completed by different people or communities. The last few decades have shown an important change in the idea of capital. Capital adds to the economy's dynamic capacity and subsequently to the provision of products and services.

Productive capacity can also be expanded by improving innovation and revealing new resources. Without such improvements or disclosures, the productive capacity of the economy is fully controlled by the development of capital. When capital formation occurs either due to exogenous or endogenous components, the process accumulates energy and ends up aggregating and feeds on itself, leading to higher salaries, savings and improvements. This process of increasing income, saving and investing gives rise to certain powers that create such a situation in the economy that further development ends up supporting itself and driving itself until the economy is put on the more ethical path of economic development. Capital formations have special significance in immature countries. Such nations have an overwhelming population weight. The banks play a very important role in every nation's economic growth. The Indian banking industry is well-regulated, according to the Reserve Bank of India (RBI). The fiscal conditions in the country are far better than in the rest of the world. Banks help the country to eliminate capital deficiencies by accumulating savings and investment. Banks can switch the cash supply circulating throughout the nation so that they can promote the nature of production in the nation.

Capital occupies a vital position in any economic expansion plan. If public savings are made, the result may be inadequate capital and thus an immature economy. Commercial banks continually played a dynamic role in the economy of the nation. They play a key role in the growth of commerce and industry. They are not only the custodian of the nation's capital but also the country's assets and resources, which are fundamental to the financial advancement of a nation. Banks play an important role in capital formation, which is vital to a nation's economic growth. They bring together the small public savings distributed across a wide area through their network of offices across the country and make them accessible for creative purposes. Nowadays, banks are proposing very attractive arrangements to invite the community to save its money and mobilize the savings to the structured market. If banks do not perform this function, savings are either futile or used as part of creating resources that are low in plan priorities.

2. Problem Statement

Capital is the nation's core and it stimulates economic growth. Capital means only that it is a component of production used to deliver goods or services. The rate of capital formation in India is low compared to that in the developed world. Capital formation depends primarily on the savings and investments achieved in the country, which are unfortunately also low in

India. The Bank's main function is to mobilize savings and lending from the community. A surplus amount is invested, and it helps to create capital. It is therefore important to understand how much banks contribute to the economic development through the formation of capital. It is usually found in countries that are immature, like India, that although they have very little ability to save, whatever they save, they engage in most unsavvy methods, such as the purchase of precious metals and jewelry, luxury households and foreign exchange holdings. The bank can contribute to the formation of capital by mobilizing and distributing resources in the form of loans and investments. Increasing the volume of real savings, a sound credit mechanism and investment will help the country's capital development. The formation of capital refers to the cash moved from financially unproductive exercises and made available to companies. Higher capital formation rate helps to achieve a higher domestic product.

3. Objectives

The aim of the study is to investigate the role of Indian banks in the formation of capital and economic growth. The main objectives are as follows:

- To identify the significance of banks in capital formation through Agricultural Credit, SSI Credit, MSME Credit
- To identify and evaluate the different elements related to capital formation by banks

4. Literature Review

Karthikeyan,S. Vadivel Raja (2014) studied the trend and growth of government bank deposits in India. Accumulation of capital is crucial to economic growth and development. Deposits are the bank's main source of income. The study considers current deposits, savings deposits and term deposits of public sector banks for 10 years. Each deposit is shown to increase every year. In the study ' Mobilization of deposits by cooperative central banks in A.P.', T Rangaraju (2003) states that membership is high in politically influenced districts and that deposit mobilization in these districts appears to be low. This shows that there is no relation between the deposit and the company's membership. They promote fixed deposits instead. From 1980 to 2014, Akani, H. W., Lucky, L. A., & Chukwuemeka (2016) conducted a study on' Banking Sector Development and Capital Formation in Nigeria: A Multivariate Analysis'. The study was conducted using multiple regression analysis and found a long-term relationship with the formation of capital and the development of the banking sector. It was found that the development of the banking sector is changing with the formation of capital. The paper suggests that strict rules should be applied against the crisis in the banking sector. It proposes reforming the financial sector's macroeconomic objectives so that they can contribute to the overall development of the Nigerian economy. Omankhanlen, A. E. (2012) examines the role of banks in the formation of capital and economic growth: the case of Nigeria between 1980 and 2009. All market-oriented nation's economies depend on the efficient functioning of complex and delicately balanced money and credit systems. In these systems, banks are an indispensable element. This study used the Ordinary Least Square method to carry out the research. The explanatory variables used are Commercial Banks Deposit Responsibility, Maximum Loan Rate, Commercial Bank Credit and Bank Investment. The dependent variables are Gross Fixed Capital Formation and Gross Domestic Product. Ila Patnaik and Madhavi Pundit (2016) using a standard growth accounting framework analyzed the sources of growth in the economy over the past three decades and to determine that capital stock and TFP are key contributors. The recent decline in investments by companies that will affect the accumulation of capital in the future has raised concerns about the long-term growth of output. We argue that in general all production factors, namely quality-adjusted labor, infrastructure capital, non-infrastructure capital and TFP, can continue to grow in the future, provided that both growth and efficient allocation of available resources are supported by the policy environment. The results confirmed the importance of the banking and stock market to Jordan's investment levels. The article by DeStefano, A. (1991) talk about the capital formation of hospitals. The main attraction of this paper is that they share in the management of debt the possibilities of capital formation. Not only investment but proper management of debt can also contribute to the formation of capital. They also mention the lease agreement asset. This paper discusses the wide chances of capital formation in hospitals.

Hshin-Yu Liang, Alan Reichert (2006) studied the link between economic growth and the development of the banking sector. The banking sector can either play a leading role in economic growth or it can play a more passive role in meeting the growing needs of the economy. He analyzed two sets of country data, developing and advanced countries. He found that the developing country has a leading supply relationship with the banking sector and that the developed country demands a leading banking relationship. This means that economic growth and the banking sector in the developed country have a weak relationship, while economic growth and the banking sector are highly correlated in the developing country. According to J. Bhosale. P. (2014), Banking is part and parcel of modern economics. Commercial banks facilitate the expansion and contraction of the overall money supply by credit creation activities. You can adjust the supply of credit to demand in different regions and economic sectors. They therefore serve to make the supply of money more elastic. The elasticity of the money supply is important for the economy to function smoothly. The role of the banking system in economic growth and development is capital formation, debt monetization, regional balance, consultancy services, business modernization, economic activity regulation, interest rate influence, elastic money supply, business promotion and trade and trade development. Commercial Bank in India comprises the State Bank of India (SBI) and its subsidiaries, Nationalized Banks, Foreign Banks and Other Scheduled Commercial Banks, Regional Rural Banks and Non-Scheduled Commercial Banks. The total number of commercial banks ' offices is more than 50,000 and regional rural banks are approximately 8,000 in 280 districts across the nation. The study shows how loans affect India's GDP and, consequently, its economic growth. Commercial banks also help fund government expenditure through the purchase of bonds issued by the Treasury Department. Both long-term and short-term treasury bonds help finance operations, programs and deficit spending. Coccorese, P., & Shaffer, S. (2018) believes that if it is accepted that banks and the financial system are closely linked to the real economy, the characteristics of the banking sector may influence economic activity and the quality of this potential impact. However, he found that the theoretical and empirical contributions seem to converge on the idea that banking is important for economic performance, although there is currently no consensus on how banks contribute to economic growth in a more competitive or concentrated context. The Indian banking sector faces many challenges, including increasing rivalry, increasing customer expectations and weakening customer loyalty. The biggest opportunity for the Indian banking system today is the opportunity of Indian consumers and other banking industries, including a growing economy, banking deregulation, increased customer borrowing, an increase in the number of banks, an increase in the supply of money, low government credit rates and larger account checks. According to Jagdeep Kumari (2017), India's banks play a very active role in developing the country's economic development. In this study, he suggests that banks can be part of the country 's development by investing more infrastructure facilities, such as irrigation facilities, processing, storage, marketing and agricultural infrastructure. He also advises that banks have played a useful role in promoting economic development by mobilizing the community's financial resources. Increasing NPAs in the banking industry can lead to difficult situations soon. RBI should therefore take the necessary steps to overcome the incremental problem of NPAs.

5. Theoretical Framework

Capital formation implies expanding the supply of real capital in a nation. As it were, capital formation includes making of more capital merchandise, for example, machines, instruments, industrial facilities, transport hardware, materials, power, and so on, which are altogether utilized for future creation of products. Saving and investment are fundamental requirements for making additions to the stock of Capital. As such, if entire of the current productive activity is utilized to create goods and no new capital products are made, production of customer products later on will enormously decrease. To cut down a portion of the present utilization and wait for more utilization later require far-sightedness with respect to the general population.

5.1 Three Stages of Capital Formation

• *Creation of savings*

Savings are done by people or families. They save by not spending every one of their salaries on consumer goods. Whenever people or families save, they discharge assets from the creation of customer goods. The level of savings in a nation relies on the ability to save and the will to save. The ability to save or saving limit of an economy fundamentally relies on the normal level of income and the circulation of national income. The higher the level of income, the more noteworthy will be the measure of investment funds. The countries having higher levels of income are able to save more. That is why the rate of savings in the U.S.A. and Western European countries is much higher than that in the under-developed and poor countries like India. Further, the larger the variations of income, the greater will be the quantity of savings in the economy. Apart from the power to save, the total amount of savings depends upon the will to save.

In addition, savings might be done by family units as well as by business enterprise" and government. Business enterprise save when they don't disperse the entire of their benefits yet hold a piece of them as undistributed benefits. They utilize these undistributed benefits for interest in capital. The third wellspring of savings is government. The government savings constitute the cash gathered as taxes, charges and the benefits of open endeavors. The more prominent the measure of duties gathered, and benefits made, the more prominent will be the administration saving. The saving done can be used by the government for creating new capital products like manufacturing plants, machineries, motorway and so on private enterprise are also allowing to spend in capital goods.

• *Mobilization of savings*

The following stage of capital formation is that the savings of the family units must be assembled and exchanged to agents or business people who require them for speculation. In the capital market, funds are provided by the individual financial specialists, banks, insurance agencies, financial institutions, governments, and so on. The improvement of capital market is extremely fundamental. An efficient capital market will guarantee that the savings of the public will be mobilized and exchanged to the business visionaries or businesspeople who require them.

• *Investment of Savings in Real Capital*

The savings must be invested to result in capital formation. There must be a greater number of genuine and dynamic business people in the nation who can take risks and bear uncertainty of production for converting the savings into investment. Given that a nation has a great number of bold business entrepreneurs, investment will be made by them just if there is adequate inducement to contribute. Inducement to invest relies upon the efficiency of capital on one perspective and the rate of interest, on the other. Changes in assumptions with respect to profits cause fluctuations in investment. Many times, market size determines the scope for profitable investment. In this way, the essential factor which decides the level of investment or capital formation, in any economy, is the market size and products.

5.2 Importance of Banks in the Development of the Country

Banks are one of the most important parts of any country. Money and its requirement is very important in this modern period. The country's developed financial system ensures development. A modern bank offers a nation valuable services. In order to achieve development, a decent financial system should be developed to support not only the economy, but the public. A modern bank therefore plays a vital role in the country's socio- economic affairs. Some of the important role of banks in a country's development is shown below.

Promote Saving Habits Of the People: Bank attracts depositors by introducing attractive deposit schemes and providing rewards or return in the form of interest. Banks offering different types of deposit schemes to its clients. It enable to create banking habits or saving habits among people.

- *Capital formation And Promote Industry*: Capital is one of the most important parts of any business or industry. It is the life blood of business. Banks are increase capital formation by accumulating deposits from account holder and transform these deposits in to loans advances to businesses.
- *Smoothing Of trade And Commerce Functions*: In this modern era trade and commerce plays vital role between any countries. So, the money transaction should be user friendly. A modern bank helps its customers to send funds to anywhere and receive funds from anywhere of the world. A well-developed banking system provides various attractive services like mobile banking, internet banking, debit cards, credit cards etc. these kinds of services fast and smooth the transactions. So, bank helps to progress trade and also commerce.
- *Generate Employment opportunity:* Since a bank promote industry and investment, there automatically generate employment opportunity. So, a bank enables an economy to generate employment opportunity.
- *Agricultural sector* is one of the integral part of any economy. Food self- sufficiency is every nation's main challenge and objective. Modern banks support the agricultural sector by providing loans and advances with low interest rates associated with other loans and advances.
- *Applying Of monitory policy:* Monitory policy is an important policy of any government. The major aim of monitory policy is to stabilize financial system of the country from the dangerous of inflation, deflation, crisis etc.

Balanced Development: Modern banks are spreading their operations around the world. We can see many big banks such as the city bank, the bank of Baroda, etc. It helps a country to promote banking in rural and semi- urban regions. With the spread of banking operations throughout the country, balanced development can be achieved through the promotion of rural areas. Modern banks play a vital role in the country's socio-economic development. A developed banking system allows the country to achieve balanced development without a clear concern for the rich and the poor, towns and rural areas.

5.3 Role of Commercial banks in economic development of a country Capital Formation

Banks play a key role in the formation of capital, a necessity for the economic development of a country. They collect small savings from people throughout the country and make them available for other productive purposes. Banks currently offer attractive arrangements to attract common people's money and to circulate the mobilized Monet to the organized money market. If banks fail to perform this function, savings may be idle or used to create assets that are of low plan priority scale.

- Creation of Credit: Banks give credit for the purpose of circulating more funds for development projects. Credit creation leads to increase in overall production, employment opportunities and sales and thereby aids in economic development.
- Channelizing the Funds to Productive Investment: Banks invest savings for productive activities mobilized by them. The formation of capital is not the only task of commercial banks. Mobilised funds should be distributed to different parts of the economy in order to increase the nation's efficiency. Commercial banks support economic development in the nation through their capital. The RBI controls the lending operations of commercial banks in India. This means that our banks are unable to lend as they wish.
- Fuller Utilization of Resources: Savings mobilized by banks are utilized to a greater extent for development of various regions in the country. It ensures effective utilization of resources.
- Encouraging Right Type of Industries: The banks help to develop the right kind of industry by extending loans to the right kind of people. They thus contribute not only to industrial development, but also to the country's economic development. Banks lend and advance loans to manufacturers with high demand for products. In turn, industrialists increase their yield by introducing new means of production and supports to increase the nation's national income.
- Bank Rate Policy: Economists believe that money supplies can be controlled by changing bank rates. The RBI regulates the interest rate to be charged by banks in our country. To a large extent, the banking industry grew.
- Bank Monetize Debt: Commercial banks convert the loan to be repaid after a period of time into cash, which can be used immediately for business. Manufacturers and wholesalers can not increase their sales on a credit basis without selling goods. But credit sales could lead to capital lock- up. As a consequence, production can be reduced. Since banks give money by discounting exchange bills, industries can carry out their financial activities without interruption.
- Finance to Government: Government is playing the role of promoter of industries in underdeveloped countries for which finance is needed. Banks offer long-term credit to Governments over investing there in Government securities and short-range finance by procuring Treasury Bills.
- Bankers as Employers: The banking industry grew to a large extent following the nationalization of large banks. Branches of the bank operate in almost all villages, creating new opportunities for employment. Banks also train and improve people to occupy different positions in their office.
- Banks are Entrepreneurs: In recent days, banks have played a role in developing entrepreneurship, in developing countries such as India in particular. The development of entrepreneurship is a complex process. It includes the design of project concepts, the identification of projects suitable for local conditions, the inspiration of budding businesspeople to take up these plans and the provision of technical and managerial consulting services.

6. Research Methodology

- *Research Design:* Descriptive and analytical research design is used for this study.
- *Sources of Data:* Data used for this study is collected from website of Reserve Bank of India (RBI Bulletin).
- *Secondary data:* The study is entirely based on secondary data. The data was collected from RBI Bulletin.
- *Sample Design and Sample size:* Scheduled commercial banks are consider for the study for 15 years from 1997 to 2016
- *Method of data collection:* The data is secondary and collected from RBI Bulletin.
- *Data analysis techniques:* The techniques used for data analysis are ANOVA, Linear Regression and Multiple Linear Regression

7. Data Analysis

Relationship between Banking Elements identified and Gross Capital Formation are being analysed using the data analysis, where the identified Banking Elements are Gross Agricultural Credit, SSI Credit and MSME Credit.

7.1 Relationship between Gross Capital Formation and Gross Agricultural Credit

To find if there any relationship between Gross Agricultural credit and GCF of the commercial bank in India. Linear regression is the test that used for this analysis with significance level 0.05.

Hypothesis

H_0= There is no significant relationship between Gross Agricultural credit and GCF of the commercial bank in India.

H_1= There is significant relationship between Gross Agricultural credit and GCF of the commercial bank in India.

Table 7.1.1 Regression Statistics of Gross Capital Formation and Gross Agricultural Credit

Regression Statistics	
Multiple R	0.991253
R Square	0.982583
Adjusted R Square	0.981244
Standard Error	1893.543
Observations	15

(Source: Secondary Data, RBI bulletin, Central Statistics Office (CSO))

Table 7.1.2 ANOVA table of Gross Capital Formation and Gross Agricultural Credit

	Df	*SS*	*MS*	*F*	*Significance F*
Regression	1	2.63E+09	2.63E+09	733.4145	8.06E-13
Residual	13	46611546	3585504		
Total	14	2.68E+09			

(Source: Secondary Data, RBI bulletin, Central Statistics Office (CSO))

Table 7.1.3 Statistics Table of Gross Capital Formation and Gross Agricultural Credit

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*
Intercept	3518.472	875.008	4.021074	0.001453	1628.132	5408.812
Gross Agricultural Credit	5.155199	0.190358	27.08163	8.06E-13	4.743956	5.566442

(Source: Secondary Data, RBI bulletin, Central Statistics Office (CSO))

Multiple R denotes correlation coefficient between the variables, namely GCF and Agricultural credit. The value of R=0.991253 shows a strong positive correlation between the variables. As $R^{2}=$0.982583, the interpretation is 98.25% of the variations in GCF explained by agricultural credit 1.75% is explained by error or residual term. So the model is fit.

Here significance of P value for agricultural credit is 8.06E-13, this is less than the level of significance 0.05. Reject the null hypothesis. The conclusion is that GCF is linearly related to agricultural credit of commercial banks in India.

7.2 Relationship between Gross Capital Formation and Gross SSI Credit

To find if there any relationship between Gross SSI credit and GCF of the commercial bank in India. Linear regression is the test that used for this analysis with significance level 0.05.

Hypothesis

H_0= There is no significant relationship between Gross SSI credit and GCF of the commercial bank in India.

H_1= There is significant relationship between Gross SSI credit and GCF of the commercial bank in India.

Table 7.2.1 Regression Statistics of Gross Capital Formation and Gross SSI Credit

Regression Statistics	
Multiple R	0.981621
R Square	0.96358
Adjusted R Square	0.960778
Standard Error	2738.194

Observations	15

(Source: Secondary Data, RBI bulletin, Central Statistics Office (CSO))

Table 7.2.2 ANOVA table of Gross Capital Formation and Gross SSI Credit

	Df	*SS*	*MS*	*F*	*Significance F*
Regression	1	2.58E+09	2.58E+09	343.9453	9.82E-11
Residual	13	97470217	7497709		
Total	14	2.68E+09			

(Source: Secondary Data, RBI bulletin, Central Statistics Office (CSO))

Table 7.2.3 Statistics Table of Gross Capital Formation and Gross SSI Credit

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*
Intercept	1234.3	1378.026	0.895702	0.386697	-1742.74	4211.345
Gross SSI Credit	11.72773	0.632367	18.54576	9.82E-11	10.36158	13.09387

(Source: Secondary Data, RBI bulletin, Central Statistics Office (CSO))

Multiple R denotes Correlation Coefficient (CC) among the variables, namely GCF and Gross SSI credits. The value of R=0.981621 shows a strong positive correlation among the variables.

As R^2 = 0.96358, the interpretation is 96.35%of the variations in GCF explained by Gross SSI credits and 3.65% is explained by error or residual term. So the model is fit.

Here significance of P value for Gross SSI credit is 9.82E-11, this is less than the level of significance 0.05. Reject the null hypothesis. The conclusion is that GFF is linearly related to Gross SSI credit of commercial banks in India.

7.3 Relationship between Gross Capital Formation and Gross MSME Credit

To find if there any relationship between Gross MSME credit and GCF of the commercial bank in India. Linear regression is the test that used for this analysis with significance level 0.05.

Hypothesis

H_0= There is no significant relationship between Gross MSME credit and GCF of the commercial bank in India.

H_1= There is significant relationship between Gross MSME credit and GCF of the commercial bank in India.

Table 7.3.1 Regression Statistics of Gross Capital Formation and Gross MSME Credit

Regression Statistics	
Multiple R	0.994619
R Square	0.989266
Adjusted R Square	0.98844
Standard Error	1486.526
Observations	15

(Source: Secondary Data, RBI bulletin, Central Statistics Office (CSO))

Table 7.3.2 ANOVA table of Gross Capital Formation and Gross MSME Credit

	Df	*SS*	*MS*	*F*	*Significance F*
Regression	1	2.65E+09	2.65E+09	1198.115	3.46E-14
Residual	13	28726874	2209760		
Total	14	2.68E+09			

(Source: Secondary Data, RBI bulletin, Central Statistics Office (CSO))

Table 7.3.3 Statistics Table of Gross Capital Formation and Gross MSME Credit

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*
Intercept	4221.512	668.5976	6.313981	2.68E-05	2777.095	5665.93
Gross MSME Credit	1.711458	0.049444	34.61379	3.46E-14	1.60464	1.818276

(Source: Secondary Data, RBI bulletin, Central Statistics Office (CSO))

Multiple R denotes correlation coefficient between the variables, namely GCF and Gross MSME credit. The value of R=0.994619 shows a strong positive correlation between the variables.

As R^2 = 0.98926, the interpretation is 98.92%of the variations in GCF explained by Gross MSME credit. 1.08% is explained by error or residual term. So the model is fit.

Here significance of P value for Gross MSME credit is 3.46E-14 and this is less than the level of significance 0.05. Reject the null hypothesis. The conclusion is that GCF and Gross MSME credit are significantly related.

7.4 Relationship between Gross Capital Formation and Deposit

To find if there any relationship between Deposit and GCF of the commercial bank in India. Linear regression is the test that used for this analysis with significance level 0.05.

Hypothesis

H_0= There is no significant relationship between deposit and GFCF of the commercial bank in India.

H_1= There is significant relationship between deposit and GFCF of the commercial bank in India.

Table 7.4.1 Regression Statistics of Gross Capital Formation and Deposit

Regression Statistics	
Multiple R	0.995825
R Square	0.991667
Adjusted R Square	0.991026
Standard Error	1139.937
Observations	15

(Source: Secondary Data, RBI bulletin, Central Statistics Office (CSO))

Table 7.4.2 ANOVA table of Gross Capital Formation and Deposit

	Df	*SS*	*MS*	*F*	*Significance F*
Regression	1	2.01E+09	2.01E+09	1547.047	6.66E-15
Residual	13	16892926	1299456		
Total	14	2.03E+09			

(Source: Secondary Data, RBI bulletin, Central Statistics Office (CSO))

Table 7.4.3 Statistics Table of Gross Capital Formation and Deposit

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*
Intercept	1622.666	562.2514	2.886015	0.012745	407.9956	2837.336
Deposit	0.433047	0.01101	39.33252	6.66E-15	0.409262	0.456832

(Source: Secondary Data, RBI bulletin, Central Statistics Office (CSO))

Multiple R denotes correlation coefficient between the variables. The value of R=0.995825 shows a strong positive correlation between the variables.

As R^2 = 0.991667, the interpretation is 99.16%of the variations in GFCF explained by deposit. 0.84 % is explained by error or residual term. So the model is fit.

Here significance of P value for deposit is 6.66E-15 and this is less than the level of significance 0.05. Reject the null hypothesis. The conclusion is that GFCF and deposit are significantly related.

7.5 Relationship between Gross Capital Formation and Investment

To find if there any relationship between Investment and GCF of the commercial bank in India. Linear regression is the test that used for this analysis with significance level 0.05.

Hypothesis

H_0= There is no significant relationship between investment and GFCF of the commercial bank in India.

H_1= There is no significant relationship between investment and GFCF of the commercial bank in India.

Table 7.5.1 Regression Statistics of Gross Capital Formation and Investment

Regression Statistics	
Multiple R	0.992112
R Square	0.984285
Adjusted R Square	0.983076
Standard Error	1565.421
Observations	15

(Source: Secondary Data, RBI bulletin, Central Statistics Office (CSO))

Table 7.5.2 ANOVA table of Gross Capital Formation and Investment

	Df	*SS*	*MS*	*F*	*Significance F*
Regression	1	2E+09	2E+09	814.2503	4.13E-13
Residual	13	31857056	2450543		
Total	14	2.03E+09			

(Source: Secondary Data, RBI bulletin, Central Statistics Office (CSO))

Table 7.5.3 Statistics Table of Gross Capital Formation and Investment

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*
Intercept	-1343.7	864.5809	-1.55416	0.144146	-3211.51	524.1166
Investment	1.634845	0.057292	28.53507	4.13E-13	1.511072	1.758618

(Source: Secondary Data, RBI bulletin, Central Statistics Office (CSO)) Statistical Validation

Multiple R denotes correlation coefficient between the variables. The value of R=0.992112 shows a strong positive correlation between the variables.

As R^2 = 0.984285, the interpretation is 98.42%of the variations in GFCF explained by investment 1.58 % is explained by error or residual term. So, the model is fit.

Here significance of P value for deposit is 4.13E-13 and this is less than the level of significance 0.05. Reject the null hypothesis. The conclusion is that GFCF and investment are significantly related.

8. Findings and Recommendations

Gross credit for agriculture, small and medium- sized industries and large- scale industries is highly correlated with the formation of gross capital and has a significant relationship between them.

- Given the positive correlation between the gross priority sector of bank credit and the formation of gross capital, it can be assumed that investment in this sector is very low compared to other sectors. While many industrial and agricultural development banks exist, people use commercial banks for their immediate, short- term and long- term capital needs.
- Banking functions such as the credit function, the investment function, the mobilization function of resources have an important relationship with the formation of fixed capital gross.
- The bank's NPA also has a significant relationship between the formation of gross fixed capital
- MCLR is negatively correlated with the formation of gross fixed capital and has no relationship between these two variables.
- The result of all these analyzes is that commercial banks play an important role in the formation of capital and also have the potential to improve capital formation through their fundamental functions.
- GFCF prediction variables are used as independent variables to avoid multicollinearity deposits and NPA. It shows that banking features can influence GFCF.
- Create a GDP prediction equation using the calculated GFCF, Credit and Investment Functions. In this regard, all the bank's main functions are involved in forecasting GDP. Function of resource mobilization to predict GFCF and the credit and investment function to predict GDP.
- Introduce more small- scale and agricultural credit schemes and industrial policies to promote the country's priority sector by banks.
- Banks should establish new rural branches to mobilize rural savings and gradually reduce the distance problem by contributing to capital formation and thus to economic development.
- Increase the investment portfolio for improved performance and mobilize maximum people's resources through the introduction of attractive plans. In addition to focusing on the fundamental function of the bank, the bank should take certain initiatives such as protecting investors, acting as a promising source of funds, etc.
- The management of the banking sector should ensure that the assets and liabilities of the banking segment are managed effectively and efficiently to prevent mismatch.
- The banking atmosphere should be renewed in order to meet the macroeconomic objectives of the banking sector, which will convert the overall economic growth.
- Fund lending rate marginal costs are inversely related to GFCF. This keeps the minimum lending rate at least for small and agricultural industrial loans.

9. Conclusion

The study considers the nature of the relationship between the progress of the banking sector and the formation of capital in India. The alternative assumption that there is an important link between commercial banking and capital formation functions is accepted in this study. This study shows that the marginal cost of the fund- based loan rate is not significantly related to GFCF. This study also shows that India's planned commercial banks can perform far better than the current situation by mobilizing the spread of public savings and proper debt management and structuring a profitable investment portfolio. The entire primary function of the planned commercial banks is strongly linked to the formation of capital. So that scheduled commercial banks can improve the economic growth. Multiple regression analysis used to predict the use of bank components by GFCF and GDP. This is appropriate for short and medium- term forecasts. From this study, we can understand that not only the bank's investment function, but also the credit function contribute to the formation of capital. From this we can understand that some business areas have not been sufficiently invested in their business. Trade banks should therefore take the initiative to protect investors by introducing various schemes. Better banks have a better world to build.

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