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BANKS ARE CATALYST OF GROWTH: AN ANALYSIS OF NATION AND STATE OF GUJARAT

Nasheman Bandookwala

Banks are catalyst of Growth: An analysis of Nation and state of Gujarat.

Abstract:- Theoretical and empirical research has shown that a sound and effective financial system is inevitable for economic growth and eventually development. Initially, politicians and economists emphasized the importance of the financial system for the rise of capitalism, industrialization, and economic development. Smith (1776) pointed out the role of money in lowering transaction costs, thus permitting greater specialization, and fostering technological innovation. Alexander Hamilton (1781), argued that “banks were the happiest engines that ever were invented” for spurring economic growth. Joseph Schumpeter (1911) argued that financial intermediaries play a pivotal role in economic development because they choose which firms get to use society’s savings. On the other hand, development economists for many decades have ignored the financial system and focused on other policy areas. Lucas (1988) described the role of finance in the growth process as overstated, and Robinson (1952) argued that financial development primarily follows economic growth. However, theoretical and empirical literature has related financial development to the economic growth process. Empirical studies have found a positive impact of finance in deepening economic growth.

The present paper attempts to evaluate role of banks in economic growth. Growth at both national and state level will be scaled by growth of GDP viz GDP at national level and state GDP (GSDP). By role of bank here means percentage of population using banking services. As popularly known, increase in banking habits among masses will certainly mobilize funds which will result into more capital formation and thereby growth rate would enhance. The paper begins with interstate comparison of banking habits and growth in GDP at both state and national level. This will be followed by increase in banking habit in districts of Gujarat to have overall idea of role of banking in the state. However, district level gross domestic product is not available hence growth will be scaled at state level only.

Data Source:

- 1.Statistical Abstract of Gujarat various volumes
- 2.Internet

Keywords: banking habit, economic growth

1.INTRODUCTION :

1.INTERSTATE COMPARISON OF BANKING HABITS:

The banking sector has been instrumental in bringing revolutionary change in financial sector of the country. The sound financial sector has always been the backbone of economic growth and stability, infact any financial doldrums would translate into slow growth and collapse of economy. Banking habits in state of India has shown marked growth over years. The present paper depicts improvement in banking habits among masses by increase in number of bank offices and steady increase in deposits in these banks. However, the study undertakes

increase in number bank offices and deposits of scheduled commercial bank only as a measuring stick to growth. Table1 depicts increase in number of bank offices and deposits during year 2006-7, 2007-8, 2009-10 and 2010-2011. All the states of India have recorded increase in both the parameter. The maximum increase in number of offices has been recorded at Sikkim with growth of 18.64% in 2007-8 over 2006-7 and minimum for the same period is at Manipur with negative growth of(- 3.7%) as numbers of offices have been reduced to 76 as against 79. The state of Gujarat records average increase of 5.56%. The deposits for the same period has increased for all the state but Arunachal Pradesh exhibits marked increase of 54% as against average increase of 10%to 20% in other states. Gujarat records increase of 28.07%.Moreover number of offices in year 2010-11 has also recorded increase, the highest increase of 13.55 at Andaman Nicobar whereas lowest is at Mizoram of 25 only. During this period banking habit has improved the most at Manipur with deposits rate increasing to 28% and lowest is recorded at Sikkim of 5.2%. The state of Gujarat has remained on steady growth path 7.1% and 20.7% increase in number of offices and deposits respectively. The growth in terms of change in percentage has been depicted in Table 2. The mere increase in number of schedule commercial bank office in each state and deposit amount indicates awareness among people to mobilize funds through banking sector which will certainly result into growth. Improvement in banking habits in eastern and smaller states is more as compared to bigger states (in terms of geographical area and population), further guarantees and proves our hypothesis that improved banking habits results into economic growth. However, after checking growth in bank deposits with growth in Gross state domestic product the picture would be more crystal clear.

Table: 1 Number of Branches and Deposits of schedule commercial banks by states, 2010,and 2011

States	No of Offices (2006-2007)	Deposits (2006-2007) (Rs. Cr)	No of Offices (2007-2008)	Deposits (2007-2008) (Rs Cr)	No of Offices (2009-2010)	Deposits (2009-2010) (Rs. Cr)	No of Offices (2010-2011)	Deposits (2010-2011) (Rs. Cr)
AndamanNicobar	37	999	37	1110	37	1614	42	37
Andhra Pradesh	5616	141966	5990	177567	6949	249467	7265	5616
Arunachal Pradesh	72	1813	74	2807	80	4442	86	72
Assam	1262	25757	1317	31666	1434	49545	1504	1262
Bihar	3606	56916	3676	68597	4029	101452	4203	3606
Chandigarh	213	19841	239	23952	270	31758	281	213
Chhattisgarh	1067	24427	1117	30967	1295	48417	1382	1067
Delhi	1778	336278	1939	435983	2324	567099	2491	1778
Goa	363	17664	375	18925	418	29497	446	363
Gujarat	3826	119224	4039	152691	4572	216470	4893	3826
Haryana	1817	60669	1973	74367	2361	109577	2623	1817
Himachal Pradesh	847	17000	890	18781	1000	27258	1090	847
Jammu & Kashmir	867	21956	914	25148	985	34233	1015	867
Jharkhand	1531	37196	1599	43565	1804	64826	1927	1531
Karnataka	5165	171898	5390	210349	6050	291655	6291	5165
Kerela	3673	95282	3836	109103	4227	150619	4527	3673
Madhyapradesh	3535	65498	3681	821502	4133	119335	4315	3535
Maharashtra	6657	655402	6912	832063	7928	1224329	8413	6657
Manipur	79	1440	76	1830	81	2763	83	79
Meghalaya	187	3877	188	4811	208	7814	217	187
Mizoram	84	1208	88	1499	97	2453	99	84
Nagaland	77	2248	80	2611	88	4244	93	77
Orissa	2376	41638	2501	53732	2818	83446	2968	2376
Pondicherry	95	3932	104	4722	135	6170	152	95
Punjab	2848	84621	3043	101046	3460	133571	3777	2848
Rajasthan	3537	58973	3694	73020	4090	107021	4352	3537
Sikkim	59	1543	70	2073	74	3137	82	59
Tamil Nadu	5070	163166	5441	199949	6214	285337	6601	5070
Tripura	186	3993	194	4792	222	7643	239	186
Uttar Pradesh	8565	181006	8983	213594	10191	314778	10767	8565
Utranchal	922	29318	970	36337	1176	42395	1250	49180
West Bengal	4649	150412	4847	187610	5200	276704	5497	313348
INDIA	70711	2598823	74326	3228817	83997	4601926	89110	70711

Source: Statistical Abstract of Gujarat various volumes

Table: 2 Growth in Number of Bank office and Deposits in states of India (% change)

States	Growth in No of office 2007-8/2006-7	Growth in No of office 2010-11/2009-10	Growth in deposits 2007-8/2006-7	Growth in deposits 2010-11/2009-10
AndamanNicobar	0	13.51351	11.11111	11.33829
Andhra Pradesh	6.659544	4.547417	25.07713	17.16059
Arunachal Pradesh	2.777778	7.5	54.82625	22.06213
Assam	4.358162	4.88145	22.94134	19.28752
Bihar	1.941209	4.31869	20.52323	17.44766
Chandigarh	12.20657	4.074074	20.71972	20.07683
Chhattisgarhi	4.686036	6.718147	26.77365	18.31382
Delhi	9.055118	7.185886	29.64958	13.03018
Goa	3.305785	6.698565	7.138813	8.570363
Gujarat	5.567172	7.020997	28.07069	20.79503
Haryana	8.585581	11.09699	22.57825	18.38342
Himachal Pradesh	5.076741	9	10.47647	21.08005
Jammu & Kashmir	5.420992	3.045685	14.53817	17.94759
Jharkhand	4.441541	6.818182	17.12281	17.54234
Karnataka	4.356244	3.983471	22.3685	19.66502
Kerala	4.437789	7.097232	14.50536	13.23073
Madhya Pradesh	4.130127	4.403581	1154.24	16.96066
Maharashtra	3.830554	6.117558	26.9546	20.20339
Manipur	-3.79747	2.469136	27.08333	28.01303
Meghalaya	0.534759	4.326923	24.09079	25.37753
Mizoram	4.761905	2.061856	24.0894	7.174888
Nagaland	3.896104	5.681818	16.14769	24.05749
Orissa	5.260943	5.322924	29.04558	23.70275
Pondicherry	9.473684	12.59259	20.09156	12.65802
Punjab	6.84691	9.16185	19.41008	15.09759
Rajasthan	4.43879	6.405868	23.81937	19.88021
Sikkim	18.64407	10.81081	34.34867	5.227925
Tamil Nadu	7.317554	6.227873	22.5433	20.43128
Tripura	4.301075	7.657658	20.01002	14.23525
Uttar Pradesh	4.880327	5.652046	18.00382	18.69762
Uttaranchal	5.206074	6.292517	23.94092	16.00425
West Bengal	4.25898	5.711538	24.73074	13.24303
INDIA	5.112359	6.087122	24.24151	17.91824

Source : Calculated

2.INTER DISTRICT COMPARISION OF BANKING HABIT IN STATE OF GUJARAT

The present study intends to understand banking habit at nation level in general and banking habit at state level in particular hence district wise number of bank offices and deposits for the year 2007-8 and 2011-12 is considered. as already mentioned districtwisewise GDP is unavailable and so,further analysis of economic growth is done for states of India only . Table 3 depicts districtwise number of schedule commercial bank branches and deposits.

Table :2 District wise number of offices and Deposits for schedule Commercial Bank

District	No of Office 2008	No of office 2011	Deposits 2008	Deposits 2011
Kachchh	197	245	998514	1425941
Banaskath	94	111	132761	35215
Patan	68	76	102027	185741
Mahesana	149	169	273549	530601
Sabarkatha	128	147	159770	342940
Gandhinagar	109	136	565311	1160595
Ahmedabad	665	813	4408342	7700710
Surendranagar	101	125	155105	288033
Rajkot	269	334	884518	1483458
Jamnagar	162	192	488494	748750
Porbandar	52	60	230887	303652
Junagadh	156	191	334178	553158
Amreli	94	121	139639	244532
Bhavnagar	162	192	454785	747322
Anand	175	206	802954	1178703
Kheda	147	162	369877	573125
Panch Mahals	89	110	153303	306059
Dohads	66	173	92639	165853
Vadodara	377	452	1967251	3419492
Narmada	26	34	30721	59763
Bharuch	132	157	313389	566846
The Dangs	8	9	12283	24055
Navsari	147	169	557851	801677
Valsad	114	137	334408	562096
Surat	326	439	1263095	2370955
Tapi	26	33	43458	89231

Source : Statistical Abstract of Gujarat various volumes

Table: 3 Growth in Number of offices and deposits of schedule commercial Bank in districts of Gujarat

District	Growth in No of office 2011 over 2008	Growth in deposits 2011 over 2008
Kachchh	24.36548	42.80631
Banaskath	18.08511	137.4304
Patan	11.76471	82.05083
Mahesana	13.42282	93.96927
Sabarkatha	14.84375	114.6461
Gandhinagar	24.77064	105.302
Ahmedabad	22.25564	74.68495
Surendranagar	23.76238	85.70194
Rajkot	24.16357	67.71372
Jamnagar	18.51852	53.27722
Porbandar	15.38462	31.51542
Junagadh	22.4359	65.52795
Amreli	28.7234	75.11727
Bhavnagar	18.51852	64.32424
Anand	17.71429	46.79583
Kheda	10.20408	54.95016
Panch Mahals	23.59551	99.64319
Dohads	10.60606	79.03151
Vadodara	19.8939	73.82083

Narmada	30.76923	94.53468
Bharuch	18.93939	80.87616
The Dangs	12.5	95.83978
Navsari	14.96599	43.70809
Valsad	20.17544	68.08689
Surat	34.66258	87.70995
Tapi	26.92308	105.327

All the districts of Gujarat records increase in number of commercial bank branches and deposits ie banking habit among Gujarati's also record marked improvement. However, highest increase in number of branches during 2011 vis-a vis 2008 is at Surat of 34.6% and least is at Dahod of 10.6%. All other districts record above 12%. In case of deposits Banaskatha records unbelievable improvement being relatively backward district of 137% as against of 31% at Porbandar. Rest all districts records above 50% improvement in banking habit which is a factor of growth. Another relatively backward district Sabarkatha has also recorded phenomenal growth of 114%. The marked growth in bank deposits in districts of Gujarat indicates economic growth in Gujarat.

3.GROWTH IN GROSS STATE DOMESTIC PRODUCT (GSDP)

Growth in gross state domestic product at constant price is indicator of economic growth as from time immemorial this indicator is used by economist to indicate growth. Nevertheless, the modern thought of growth which is more composite includes many more indicators; this indicator has always remained a base of all measurement of growth. All the states of India have recorded increase in GSDP in the years undertaken in the study although, percentage growth in GSDP between 2008-9 and 2009-10 has remained very low. (<http://mospi.nic.in>). Table 4 depicts GSDP of states of India.

Table :4 Gross State Domestic Product of states of India at constant Price (Rs Cr)

States	GSDP 2006-7	GSDP 2007-8	GSDP 2009-10	GSDP 2010-11
Andaman Nicobar	2251	2479	2964	2982
Andhra Pradesh	273730	306645	327731	347344
Arunachal Pradesh	3772	4227	4596	5276
Assam	57783	60568	64033	69143
Bihar	92427	99492	113994	125875
Chandigarh	10795	11581	13727	155754
Chhattisgarh	58598	63644	71221	79166
Delhi	124080	137961	172830	191696
Goa	15042	15875	17462	19318
Gujarat	253393	281273	300341	330671
Haryana	116349	126192	136540	151563
Himachal Pradesh	28481	30917	35907	39066
Jammu & Kashmir	30602	32561	36329	38739
Jharkhand	59226	71377	70129	73618
Karnataka	202660	228202	257125	279932
Kerala	141667	154093	177209	193383
Madhya Pradesh	30602	32561	36329	38739
Maharashtra	59226	71377	70129	73618
Manipur	202660	228202	257125	279932
Meghalaya	141667	154093	177209	193383
Mizoram	30602	32561	36329	38739
Nagaland	59226	71377	70129	73618
Orissa	202660	228202	257125	279932
Pondicherry	141667	154093	177209	193383
Punjab	30602	32561	36329	38739
Rajasthan	59226	71377	70129	73618
Sikkim	202660	228202	257125	279932
Tamil Nadu	141667	154093	177209	193383
Tripura	30602	32561	36329	38739
Uttar Pradesh	59226	71377	70129	73618
Uttaranchal	32260	38015	47599	51107
West Bengal	239077	257632	296843	317788
INDIA	3564364	3896636	4507637	4885954

Source : <http://mospi.nic.in> as on 30th July 2014

It would be interesting to evaluate growth in terms of change in GSDP across state of India and identify states where growth is highest and lowest and also relate the growth of Gujarat to best performing state. The Table 5 records growth in GSDP across states for the years considered in the study.

Table : 5 Growth in Gross state Domestic Product (%change)

States	Growth in GSDP2007-8/2006-7	Growth in GSDP 2010-11/2009-10
AndamanNicobar	10.12883	0.607287
Andhra Pradesh	12.02462	5.984481
Arunachal Pradesh	12.06257	14.79547
Assam	4.819757	7.98026
Bihar	7.64387	10.42248
Chandigarh	7.281149	1034.654
Chhattisgarh	8.611215	11.15542
Delhi	11.18714	10.91593
Goa	5.537827	10.62879
Gujarat	11.00267	10.09852
Haryana	8.459892	11.00264
Himachal Pradesh	8.55307	8.797727
Jammu & Kashmir	6.401542	6.633819
Jharkhand	20.51633	4.975117
Karnataka	12.60338	8.870005
Kerala	8.771273	9.127076
Madhyapradesh	6.401542	6.633819
Maharashtra	20.51633	4.975117
Manipur	12.60338	8.870005
Meghalaya	8.771273	9.127076
Mizoram	6.401542	6.633819
Nagaland	20.51633	4.975117
Orissa	12.60338	8.870005
Pondicherry	8.771273	9.127076
Punjab	6.401542	6.633819
Rajasthan	20.51633	4.975117
Sikkim	12.60338	8.870005
Tamil Nadu	8.771273	9.127076
Tripura	6.401542	6.633819
Uttar Pradesh	17.83943	7.369903
West Bengal	7.761098	7.055918
INDIA	9.322056	8.392801

Source : Calculated

All the states of India have recorded growth in GSDP, but highest economic growth during 2006-7 and 2007-8 is recorded at Uttar Pradesh of 20.51% and for the same period is at Assam of 4.8% . Gujarat records average growth of 11% , relatively quite good compared to many other states which remained at growth rate of single digit. For the year 2009-10 and 2010-11 the best performer is Chandigarh with growth of 14.7% and worse performer is Maharashtra, Karnataka and Uttar Pradesh with growth of only 4% . Gujarat records growth of 10% in this year.

4.RELATING BANKING HABITS WITH ECONOMIC GROWTH

The present paper hypothesizes the positive correlation between independent variable banking habits to dependent variable growth in GSDP and thereby economic growth. The Table 6 depicts co-efficient of correlation between independent variable bh and dependent variable GSDP. In all the year the correlation co-efficient is positive and decline near to 0.9 only for the year 2009-10 the correlation co-efficient 0.3 is due to slow rate of growth in GSDP across state of India.

Table: 6 Correlation Co-efficient between Banking habits (Deposits) and GSDP

Year	Correlation Co-efficient
2006-7	0.958135
2007-8	0.928942
2009-10	0.309942
2010-11	0.954563

Since out of four years considered for the study three years exhibits correlation co-efficient of 0.9 , it is proved that high positive correlation prevails between banking habits and economic growth and enhancing and imbibing banking habits among people will percolate growth.

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