

BANKING

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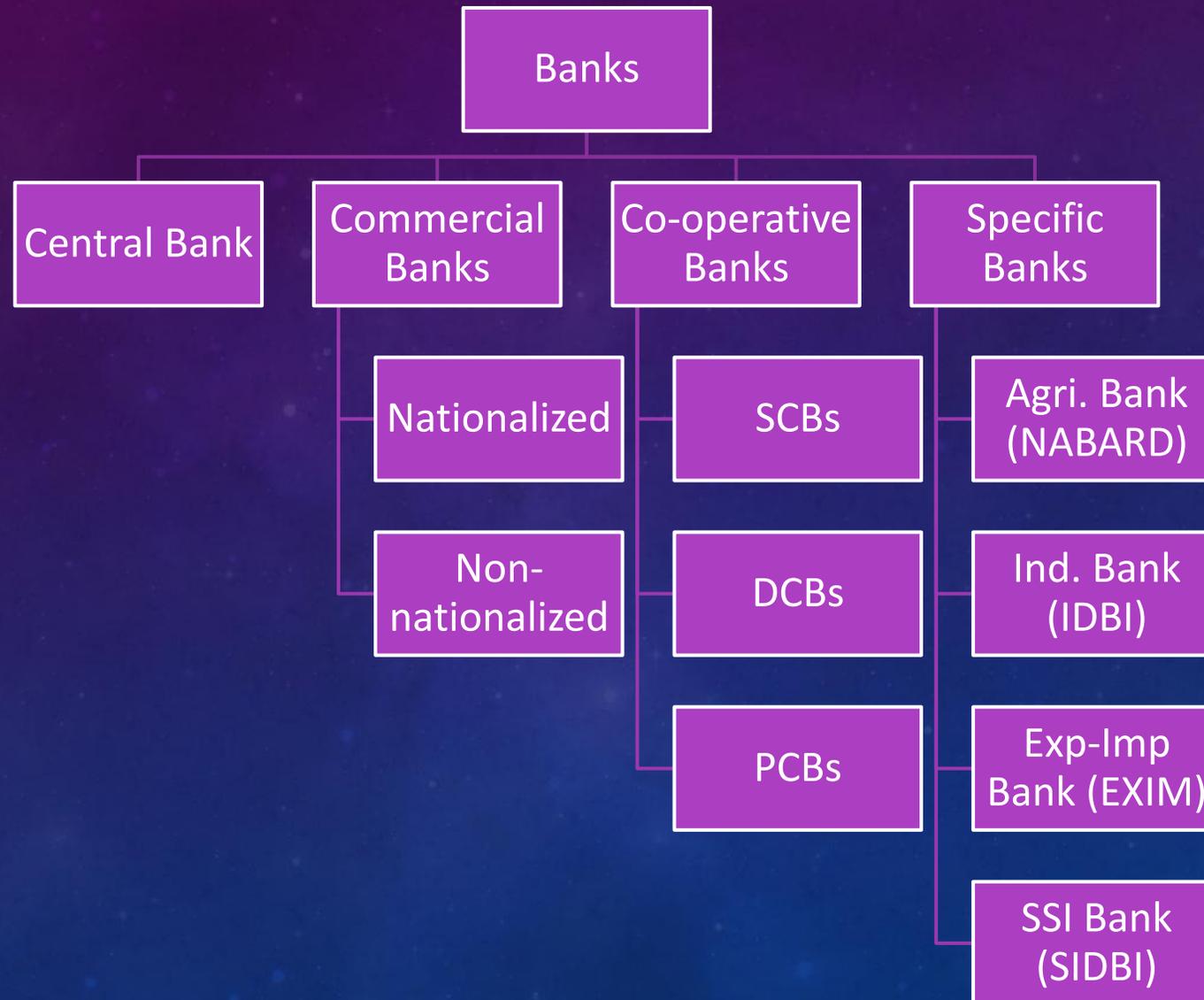
HISTORY

- Banking, in its crude form is an age old phenomenon. It was in existence even in ancient times.
- Revilpout, a French writer in his writing mentions about bank & bank notes in Babylon 600 B.C.
- In Indian context, references to money lending business are found in “*Manu Smriti*”.
- Chaldeans, Egyptian & Phoenician history also records the existence of rudimentary banking in early days.
- Prof. Marshall, in his book “*Money, Credit & Commerce*” (1923), writes about the activities of money changers in the temples of Olympia & other sacred places in Greece around 2000 B.C.
- In the Middle Age, in Italy the first bank called “Bank of Venice” was established in 1157 when they (people of Venice) are in financial crunch because of War.
- In England, the bankers of Lombardy has taken the initiative to start modern banking along with their trading activities in London. However, the commercial banking began there only after 1640.
- In England, initially Bank of England was establish in 1833.
- In India, modern banking started during British regime. In 1779 East India Company established Hindustan Bank - the first banking institution in Calcutta & Mumbai.

WHAT IS BANK?

- On account of multifarious activities of modern banks it becomes difficult to define Bank.
- A bank is a financial institution licensed to receive deposits and make loans. Banks may also provide financial services such as wealth management, currency exchange, and safe deposit boxes. Moreover, banks are a very important part of the economy because they provide vital services for both consumers and businesses. As financial services providers, they give you a safe place to store your cash.
- In short, bank is a financial institution which performs two important functions viz.,
 1. Accepts the deposits &
 2. Advances the loans.

TYPES OF BANK



CENTRAL BANKING

- A central bank is a universal monetary institution in modern times. Almost all the countries has a central bank.
- A Central bank is a bank which constitutes the apex of the money & banking system of a country.
- It occupies a pivotal position in the monetary & banking structure of the country in which operates.
- In various nations central bank is known by different names. In USA , it is known as Federal Reserve Bank,. In the U.K. it is called as Bank of England. In India it is known as Reserve Bank of India.
- *An Institution charged with the responsibility of managing the expansion & contraction of the volume of money in the interest of the general public welfare is called as Central Bank. - R. P. Kent.*

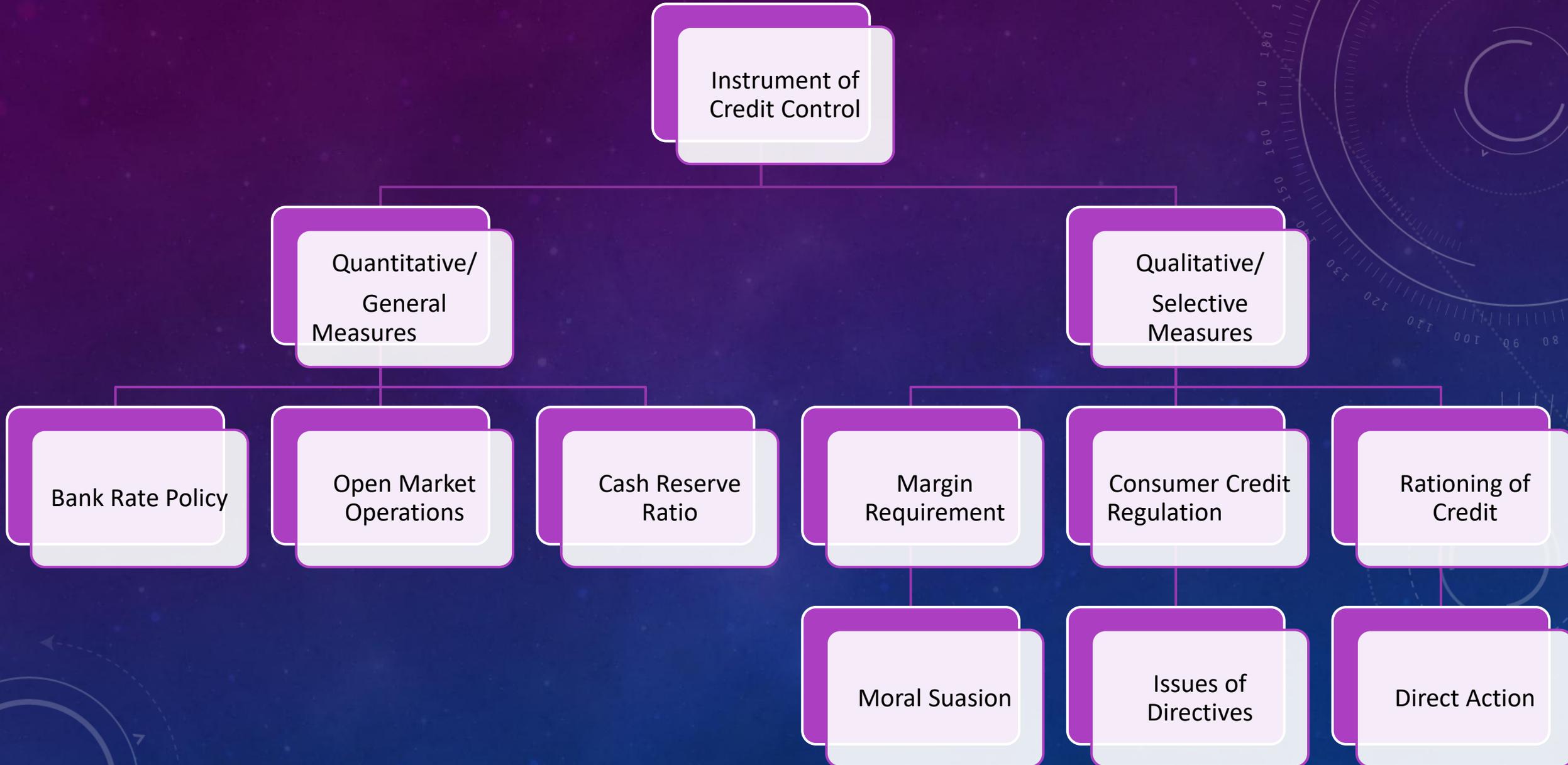


CENTRAL BANK : FUNCTIONS OF RESERVE BANK OF INDIA



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TOOLS OF CREDIT CONTROL



MONETARY POLICY

- Monetary policy is an economic policy that manages the size and growth rate of the money supply in an economy. It is a powerful tool to regulate macroeconomic variables such as inflation and unemployment.
- Monetary policy refers to the actions undertaken by a nation's central bank to control money supply to achieve macro economic goals that promote sustainable economic growth.
- Monetary policy consists of the process of drafting, announcing, and implementing the plan of actions taken by the central bank, currency board, or other competent monetary authority of a country that controls the quantity of money in an economy and the channels by which new money is supplied.
- Monetary policy consists of management of money supply and interest rates, aimed at achieving macroeconomic objectives such as controlling inflation, consumption, growth, and liquidity.

OBJECTIVES OF MONETARY POLICY IN INDIA

- The Reserve Bank of India formulates and implements India's monetary policy to attain specified goals.
- 1. To Control Supply of money in the economy:** Money supply refers to the amount of money in circulation as well as the amount of credit created by banks. Credit expansion or contraction is used in monetary policy to manage the money supply in the economy.
 - 2. Maintaining Price Stability:** Maintaining price stability in India is a significant goal of monetary policy. It means that inflation is under control. Money supply has an impact on price levels. To preserve price stability, monetary policy controls the money supply.
 - 3. To Stimulate Economic Growth:** One of the most important goals of monetary policy is to provide the appropriate amount of money and loans for the country's economic growth. Credit is made available in sufficient amounts to those industries that are critical to economic growth.
 - 4. To Encourage Saving and Investment:** Monetary policy encourages saving and investment through regulation of interest rates and controlling inflation. Higher interest rates encourage investment and saving.
 - 5. To Encourage Exports & Substitute Imports:** Monetary policy stimulates export-oriented and import-substitute businesses by granting concessional loans. This enhances the balance of payments situation.
 - 6. To Guarantee Greater Credit for Priority Sectors:** Monetary policy attempts to maximise money available to priority sectors by decreasing interest rates. Agriculture, small-scale industries, and the weakest parts of society are examples of priority sectors.
 - 7. To Encourage Employment:** Monetary policy supports employment by offering loan facilities to profitable ventures, small and medium firms, and special credit schemes for unemployed youth.
 - 8. Banking Regulation and Expansion:** The Reserve Bank of India (RBI) oversees the economy's financial system. RBI sends guidelines to various banks for the establishment of rural branches to promote agricultural lending through monetary policy. Apart from that, the government has established regional rural banks and cooperative banks.

MONETARY POLICY

**Tight Monetary
Policy**

- Credit Contraction
- Pump out process

**Cheap Money
Policy**

- Credit Expansion
- Pump in process

CURRENT RATES DETERMINED BY R.B.I

Sr. No.	Different types of Rates	Current Rate (Aug.,2025)
1.	Bank rate	5.75 %
2.	Repo rate	5.50 %
3.	Reverse Repo Rate	3.35 %
4.	Cash Reserve Ratio	4.50 %
5.	Statutory Liquidity Rate	18.00 %

Source: www.rbi.org.in (Access on 07-08-2025 @7:51)

COMMERCIAL BANK

- Commercial banks are the most important source of institutional credit in the money market.
- Commercial banks are profit seeking institutions or business firm dealing in money or rather dealing in claims to money.
- Main Functions of Commercial Banks:
 1. Acceptance of deposits from public.
 2. Making loans & advances.
 3. Use of cheque system.
 4. Agency functions- like to collect or make payments for bills, to remit funds on behalf of clients, to act as a executor, trustee or attorney for the customer's will, etc.
 5. General Utility Services- Letter of credits, bank drafts, traveler's cheque, deals in forigejn exchange, safety vaults, information related to banking etc.

THE FORMAT OF BALANCE SHEET OF BANK

Liabilities	Assets
Share Capital	Cash in hand- Cash with Central bank & Other banks
Reserve fund	Money at call & short notice
Deposits- Time & Demand Deposits	Bills discounted, including treasury bills
Borrowings	Investments
Other items	Advances
	Other items

PRINCIPLES OF SOUND BANKING

- A bank is a dealer in public money. It should carry on its businesses on a sound footing.
- The liability side of the balance sheet of bank indicates as to how a bank raise its funds from public. However, the bank being a joint stock company it should follow capital adequacy norm. It has to maintain the ratio of capital to the total liabilities reasonably well. A poor capital adequacy speaks of bank's unsound position.

DIGITAL CURRENCY



- Any currency, money, or money-like asset that is primarily managed, stored or exchanged on digital computer systems or on mobile phones, especially over the internet is called as digital currency.
- The term digital currency refers to a form of currency that is available only in digital or electronic form. It is also called digital money, electronic money, electronic currency, or cyber cash. For me it is *Intangible money*. This means that there is no physical form. As such, it cannot be handled, stored, or manipulated. Consumers and businesses can use digital currencies to execute transactions and trades. These currencies may not be used by all countries or communities.
- Cryptocurrencies are digital currencies that use cryptography to secure and verify transactions in a network. Cryptography is also used to manage and control the creation of such currencies. Bit coin & Ethereum are examples of cryptocurrencies.
- In India, the Reserve Bank of India started a pilot for the e- rupee devised as a digital alternative to physical cash, in December 2022, and successfully reached a target of 1 million retail transactions per day by December 2023.

UNDERSTANDING DIGITAL CURRENCY



- Digital currencies do not have physical attributes and are available only in digital form. Transactions involving digital currencies are made using computers or electronic or digital wallets connected to the internet or designated networks. In contrast, physical currencies, such as banknotes and minted coins, are tangible, meaning they have definite physical attributes and characteristics. Transactions involving such currencies are made possible only when their holders have physical possession of these currencies.
- Digital currencies have utility similar to physical currencies. They can be used to purchase goods and pay for services. They can also find restricted use among certain online communities, such as gaming sites, gambling portals, or social media networks.
- Digital currencies also enable instant transactions that can be seamlessly executed across borders. For instance, someone in the United States may make payments to a counterparty in Singapore using digital currency, provided they are both connected to the same network. Certain money exchequer practice the same viz., Paypals.

ADVANTAGES OF DIGITAL CURRENCY



- 1. Fast Transfer and Transaction Times:** The amount of time required for transfers involving digital currencies is extremely fast. As payments in digital currencies are made directly between the transacting parties without the need for any intermediaries, the transactions are usually instantaneous and low-cost. This fares better compared to traditional payment methods that involve banks or clearinghouses. Digital-currency-based electronic transactions also bring in the necessary record-keeping and transparency in dealings.
- 2. No Physical Manufacturing Required:** Many requirements for physical currencies, such as the establishment of physical manufacturing facilities, are absent for digital currencies. Such currencies are also immune to physical defects or soiling that are present in physical currency.
- 3. Monetary and Fiscal Policy Implementation:** Under the current currency regime, the Fed works through a series of intermediaries (banks and financial institutions) to circulate money into an economy. CBDCs can help circumvent this mechanism and enable a government agency to disburse payments directly to citizens. They also simplify the production and distribution methods by obviating the need for physical manufacturing and transportation of currency notes from one location to another.
- 4. Cheaper Transaction Costs:** Digital currencies enable direct interactions within a network. For example, a customer can pay a shopkeeper directly as long as they are situated in the same network. Even costs involving digital currency transactions between different networks are relatively cheaper as compared to those with physical or fiat currencies. By cutting out middlemen who seek economic rent from processing the transaction, digital currencies can make the overall cost of a transaction cheaper.

ADVANTAGES OF DIGITAL CURRENCY



5. Decentralized: Digital currencies may be decentralized. This means they are not controlled by any government or financial institution. Decentralized digital currencies make them more resistant to government interference, censorship, and manipulation. Decentralization means true control over the digital currency is spread over a broader range of owners or users.

6. Privacy: Because transactions with digital currencies are not linked to personal data, users are given a high level of privacy and anonymity. They are therefore very helpful for those who want to protect the confidentiality of their financial dealings.

7. Accessible Around the World: Anyone with an internet connection can utilize digital currencies from anywhere in the globe. These services are therefore particularly helpful for people who do not have access to conventional banking institutions. In addition, many of these banking services only need access to an internet connection; for geographical areas that are not as developed with a strong financial infrastructure, digital currencies may be a stronger option.

DISADVANTAGES OF DIGITAL CURRENCY

- 1. Storage and Infrastructure Issues:** While they do not require physical wallets, digital currencies have their own set of requirements for storage and processing. For example, an internet connection is necessary as are smartphones and services related to their provisioning. Online wallets with robust security are also necessary to store digital currencies.
- 2. Hacking Potential:** Their digital provenance makes digital currencies susceptible to hacking. Hackers can steal digital currencies from online wallets or change the protocol for digital currencies, making them unusable. As the numerous cases of hacks in cryptocurrencies have proved, securing digital systems and currencies is a work in progress.
- 3. Volatile Value:** Digital currencies used for trading can have wild price swings. For example, the decentralized nature of cryptocurrencies has resulted in a profusion of thinly capitalized digital currencies whose prices are prone to sudden changes based on investor whims. Other digital currencies have followed a similar price trajectory during their initial days. For example, Linden dollars used in the online game Second Life had a similarly volatile price trajectory in its early days.
- 4. Limited Acceptance:** Digital currencies are still not commonly used as a means of payment by retailers and other enterprises. Because of this, using them for routine transactions may be challenging. Though digital currencies have gained in popularity, there are still limited functionalities in everyday transactions in many places.
- 5. Irreversibility:** On a digital currency network, transactions are irreversible. This means that once a transaction has been completed, it cannot be undone. In circumstances where a mistake or fraud has taken place, this may be a disadvantage. This is also a tremendous disadvantage for those new to the digital currency space, as there is a substantial learning curve. Because there is no central oversight area for many digital currencies, new users can't simply go to their local branch to receive help for many digital currencies.

World Wide Digital Currency



Many national governments are considering issuing their own centralized digital currencies.

Country	Name of Digital Currency
India	E- Rupee
China	e-CNY
Sweden	e-krona
England	Bitcoin



Thank You