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IMPACT OF FINANCIAL INCLUSION ON THE GROWTH OF INDIAN ECONOMY

Case Study

Keywords
GDP;
Poverty;
Financial Inclusion;
Economic Growth;

JEL Classification
G21; G23

Abstract

The 2017 Financial Inclusion emerges as a new economic growth model, which plays a major role in removing poverty in the country. Financial inclusion indicates the distribution of public banking services. It is affordable for people with advantages due to terms and conditions. The government of India can reduce the gap between rich and poor people. In the current situation, there are pillars of financial institutions development, economic growth and economic development. It is a current study of the impact of economic growth over ten years and financial inclusion. This article uses secondary data, which has been analyzed as the main statistical tool for multiple regression models.

INTRODUCTION

The Indian government and the Reserve Bank of India make efforts to promote financial inclusion as part of its national vision. In the last five decades, the Indian government has taken vital steps: Bank's Nationalization, Building Strong Branch Networks, Liberal Priority Loan, Lead Bank Schemes, NGOs, and Banking Services to provide delivery of BCs are allowed, zero balance Basic Saving Bank Deposit (BSBD) accounts etc. The basic purpose of all these initiatives is to provide financial services to a large section of the economically excluded Indian population. The Indian government and the RBI have introduced Micro Finance - Self Help Group Model (1992), Kisan Credit Card (1998), Micro Finance, No Frill Accounts (2004), Business correspondents, and business facilitator (2006, 2009) and Self-esteem (2011) as economic inclusion models. Still, the path of financial inclusion is challenging. Financial inclusion in simple language is the economic mainstream with the people who are at the lowest level of the social pyramid. By financial inclusion, one is distributing financial services with banking services and credits at a large cost to disadvantaged and low-income groups.

In India, there is a consensus on the importance of financial inclusion for the country. The Indian authorities, no matter their political orientation, have been emphasizing financial inclusion for several years, with an acceleration of their efforts over the last ten years. Many initiatives and schemes have been conceived and implemented by different public stakeholders.

Definition of financial inclusion

According to a report on financial inclusion, it is defined as "the process of timely and adequate credit to financial services which are required by the weaker sections such as weaker sections and lower-income groups" (Rangarajan, 2008). In April 2012, the World Bank conducted a study that found that only 9% of the individuals borrow new loans from banks in the last nine years, and 35% are maintaining formal bank accounts in India, while the percentage of emerging economies is 41%. Financial inclusion is the process of ensuring proper access to the appropriate financial products and services required by all sections of the society, including those with vulnerable groups such as weak and low-income groups, fairly and transparently, more cheaply and transparently (Chakravarty & Pal, 2013). The objective of financial inclusion (FI) is to easily make available financial services to the country's large disadvantaged population. Many measures have been taken by the Government of India towards the poor and neglected sections of society.

In their study, Campos and Dercon (2014) sum up the latest findings on the relationship between finance and growth, which is considered causal and unidirectional: from finance to growth. Delis, Staikouras & Tsoumas (2013) reported that capital stringency and supervisory power regulation are lowering inequality, while market discipline and activity restrictions might exacerbate it. A growing literature shows that financial inclusion can have a significant positive effect for individuals. Several studies have demonstrated that the lack of financial access can lead to poverty traps and inequality Banerjee and Newman (1993)

Recently the issue of financial inclusion has received renewed attention from researchers and policymakers of both developed and developing countries. Large-scale budgetary inclusion is to deliver a formal financial service. India is a country of 1.3 billion people spread across 29 states and seven union territories. There are about 600,000 villages and 640 districts in the country. Accessibility of financial services at affordable prices is always a global problem. Therefore, an inclusive financial system has become a policy priority in India and different countries. Financial access to poor and deprived sections can improve the financial condition and living standards. Therefore, the RBI is encouraging the banking sector to expand the banking network by starting new branches and establishing a new ATM. Financial inclusion means excluding financial services delivery with banking services and credit to large-scale expenditures of deprived and low-income groups (Chhabra & Mundra, 2015). Regardless of the limit of access to financial services such as financial inclusion, savings and money accounts, credit insurance, pension etc., weak groups like weaker sections and low-income groups participate in the community (Law & Singh, 2014). Different financial services include savings, loans, insurance, payments and delivery facilities offered by formal financial systems.

Financial inclusion across states in India

The Planning Commission, Government of India, hopes to achieve 'faster, steady and more inclusive growth' by its approach in the 12th Five Year Plan (2012-2017). Policies made by planning commissions encourage financial products and services to enter the country at affordable prices, especially poor and weaker groups. It will serve as an integral part of sustainable and inclusive development. They are incorporating 140 million families in rural India involving inclusive of an organized financial system. These people do not have access to banking and financial services, and as a result, they stay away from the moment of economic development of the country. Financial inclusion's primary goal is to provide a secure,

transparent and equitable financial service to the unsecured people of the country to unlock their growth potential. Financial inclusion should not be seen as a generous or regulatory liability, but there should be no uneducated opportunities for many people involved in the population. Financial inclusion is not only for the well-being of the people but also for the important commercial discretion. One has to ensure an efficient financial system for disadvantaged people to effectively distribute their household savings and meet the country's increasing credit needs.
Financial inclusion can be defined as a process that eliminates obstacles and overcome the disadvantages of some social groups and individuals with poor and deprived problems for low cost, reasonable and secure formal financial services such as credit, deposits, insurance and payments when necessary (Mohan 2006; Rangarajan, 2008).

LITERATURE REVIEW

Agarwal & Taffler (2008) studied financial inclusion from the behavioural perspective based on both the supply and demand factors. As a result, due to policymakers and vendors, the variable approach without neglecting financial appraisal allowed them to deal with their views.
Dangi and Kumar (2013) examined the initiatives and strategic measures taken by the Reserve Bank of India and the Government of India. This study also focused on the current state of financial inclusion and the future of India. Progressive and valuable changes have been shown in financial integration, but there is enough provision in the business model to prove that poor are not taken away from banking.
Mukherjee & Chakraborty (2012) state that RRBs, self-help groups (SHGs), non-banking finance companies (NBFCs), including co-operative banks played a very important role in the rural area for financial inclusion. The analysis findings showed that banks could not achieve the intended purpose and regularly studied their investments on the Reserve Bank to report on each report.
Suryanarayan (2008) focused on the definition of inclusion/deletion in terms of the broader growth outcome reflected in the production, income, and consumption distribution estimates. Studies help to sketch the business, social, regional profiles excluded in the mainstream growth process.
On the other hand, in 2003, the RBI can provide financial services to financial services under financial inclusion policies. It is an even more brave initiative to participate in rural traces that target inclusive growth.
Uma and Rupa (2013) tried to check the role of SHG in financial inclusion and reflected positive relationships between SHGs membership and financial inclusion. It found that the number of bank account increased after the number of SHGs, showing the credit earned by the members and the annual repayment of the loan was found.

Objectives
1. To examine financial inclusion in India.
2. To investigate the major factors affecting access to financial services.
3. To study the impact factor of financial inclusion on the Indian economy.

RESEARCH METHODOLOGY

This study is based on secondary data collected from the RBI, Ministry of Finance, the Government of India, trends report, banking progress in India and research articles. The author has used the various websites: Reserve Bank, the Ministry of Finance, and India's Government (GoI).
There is a ten-year period in the study period from 2008 to 2017. Data has been analyzed and multiple regressions have been implemented as the main statistical tool. Multiple regression analysis has been used to establish a meaningful relationship between the country's financial inclusion and GDP growth. According to the current study, Gross Domestic Product (GDP) depends on the number of bank branches across the country as dependent variables and independent variables, the country's ATM growth rate and credit deposit ratio.

The hypothesis of the study
Based on the objectives of the study, the following hypothesis has been formulated:
H0. There is no significant impact of financial inclusion on the growth of the Indian economy.

DATA ANALYSIS

RBI has encouraged banks to implement a planned and structured financial inclusion plan (FIP) for the country's growth and development. The first phase of the FIP was three years, which started in 2010 and ended in 2013. FIP is used by the Reserve Bank of India (RBI) to measure banks' performance under their FI initiatives. Table 1 mentioned during this period, bank accounts opened, and a major banking network set up across the country. Due to the first FIP effect, it has shown that there are some improved modifications to the transaction, meant to ensure meaningful access to financial services.
According to Table 1, the rural branches are increased in 2017 compared to 2016. In 2016 were branched 67694 and now the rural branches were 598093 in 2017. The same thing is that urban branches have increased by almost 313(0.3%)

branches within a year compared with March 2016. BSBDA has been growing much more than in 2010. BSBDA's branches were 60.2 million in 2010, and now it is 254 million. As a result, there is a radical change in the transaction and deposit amount of the bank. And the transaction is very beneficial for financial status of the banks.

There has been a huge increase in BC's branch and BCs branch transaction. Compared to 2010, there were 13.3 million customers, but in 2017 it grew to 208 million customers. Along with that, the transaction in the account increased so much. In March 2017, nearly Rs. 285 billion are deposited. These groups are dominating the metropolitan area, and there are more branches in other areas. Figure 1 showed, on 31 March 2017, the number of banks and the trend of population growth in the number of banks. From the SBI and SBI Associate, public sector and regional rural banks, it is clear that rural areas are more active than others. The overall increase in rural and semi-urban areas is comparatively more in comparison with urban and metropolitan cities. Private sector banks have 8744 bank branches. The number of banks are operating in the country is 146321. Table 2 mentions the Bank Group, and the population-wise growth trend of the number of bank branches in India has been shown till 2017. It is clear from the table that all the bank groups have more work in the rural area except and private and foreign banks.

Fig. 2 illustrates India's Gross Domestic Product (GDP) during a period of seven years, starting from the financial year 2008 to the financial year 2017. GDP is seen fluctuating every year during these financial years. In 2008 GDP recorded 3.89%. In 2008, most of the countries in the world were facing a financial recession. In 2010, one could see that India's GDP rate reached 10.26. The reason behind this is that the percentage of foreign investment in India was increased. Therefore, FDI inflows in India increased.

India is the fastest-growing economy in the world after 2010 slight growth slowdown. Table 3 shows the number of branches of scheduled commercial banks (SCBs) in the country. The bank branch is showing increasing trends over ten years. There were 79062 bank branches in till March 2008, which increased to 146400 in 2017. The highest increase (8.31%) has been marked during March 2014, and the number of banks in the country is the lowest growth (3.86%) recorded in March 2017. The practice included automatic teller machines (ATMs) of India. From the financial year March 2008 to March 2017, the number of ATMs has been growing steadily. Table 3 shows the growth rate of ATMs across the country, and the maximum growth during March 2016 has been 38.03%. Table 3 shows credit deposit certification for ten financial years from 2007-2008 to 2016-2017. There has been a significant increase in 2011-2012. During the period 2008-2009 and 2009-2010, 2016-2017, the credit deposit ratio has fallen marginally.

Table 4 displays a multi-regression analysis model summarized through SPSS and R. The result of the model shows that R's value is .730, which shows a high correlation between dependent (GDP) and independent variables. R Square is .532 and adjusted R square is .399. The model's P-value is .069, which is less than 0.05, indicating that the regression model is statistically insignificant and is not a suitable model. Therefore, the study finds a vigorous relationship between economic growth and financial inclusion indicators in India.

CONCLUSIONS

In emerging economies like India, a financial intervention contributes to the country's economic development through the most likely opportunities for entrepreneurs to start new business activities successfully and allocate credit to them (Chakravarty, 2013).

Financial access can increase the financial status and lifestyle of the poor population. Availability of accessible, affordable and inappropriate financial services is always an Indian problem and an effective inclusive financial system is essential for the country's economic development. To increase banking access, the establishment of new ATMs and implementation of various schemes of the country is mandatory. The Reserve Bank of India (RBI) plays an important role in promoting financial inclusion for economic growth.

The Reserve Bank has used the FIP to assume the performance of banks through financial incentive activities. In the first phase of FIP 2010-2013, many bank accounts have been opened. During 2013-2016, three-year FIPs have been implemented for RBI so that meaningful existing banking services will be ensured for the exclusionary demographic.

The new FIP now focuses more on the volume business, which plays an important role in India's growth and development. Economic involvement and the economic growth of the country is the biggest relationship. An indicator of financial inclusion, ATM growth rates are statistically significant on Indian GDP. Therefore, the study realized that financial inclusion has a strong relationship with the economy's progress and development. To get access to financial services and consumer services in this regard, there is a need to have financial inclusion regulation. E-banking training and financial literacy programs should be organized. In such a way, financial inclusion is a big way to travel to make India successful.

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LIST OF TABLES & FIGURES

Table 1
Financial Inclusion Plan (FIP) Performance of India

Progress made under under financial inclusion plans as on March 2017					
Sr. No.	Particulars	Mar-10	Mar-16	Mar-17	% Change Mar-16 to Mar-17
1	Banking Outlets in Rural locations – Branches	33,378	51,830	50,860	-1.9
2	Banking Outlets in Rural locations – Branchless mode	34,316	534,477	547,233	2.3
3	Banking Outlets in Rural locations -Total	67,694	586,307	598,093	2.0
4	Urban Locations covered through BCs	447	102,552	102,865	0.3
5	BSBDA-Through branches (No. in million)	60.2	238.2	254	6.2
6	BSBDA-Through branches (Amt. in rs. billion)	44.3	474.1	691	45.8
7	BSBDA-Through BCs (No. in million)	13.3	230.8	280	21.2
8	BSBDA-Through BCs (Amt. in rs. billion)	10.7	164	285	73.8
9	BSBDA-Total (No. in million)	73.5	469	533	13.6
10	BSBDA Total (Amt. in rs. billion)	55	638.1	977	53.1
11	OD facility availed in BSBDAs (No. in million)	0.2	8	9	0.0
12	OD facility availed in BSBDAs (Amt. in rs. billion)	0.1	14.8	17	-41.4
13	KCCs -Total (No. in million)	24.3	47.3	46	-2.1
14	KCCs -Total (Amt. in rs. billion)	1,240.10	5,130.70	5,805	13.1
15	GCC-Total (No. in million)	1.4	11.3	13	18.2
16	GCC-Total (Amt. in rs. billion)	35.1	1,493.30	2,117	41.8
17	ICT-A/Cs-BC- Total number of transactions (in rs. million) *	26.5	826.8	1,159	40.1
18	ICT-A/Cs-BC- Total amount of transactions (in rs. billion) *	6.9	1,686.90	2,652	57.2

Source: RBI annual report https://m.rbi.org.in/Scripts/AnnualReportPublications.aspx?Id=1288

Table 2
Bank group and population group wise number of functioning branches as on March 31, 2017

Bank group	Rural	Semi urban	Urban	Metropolitan	Total
SBI and its associates	7819	7250	5169	5365	25603
Nationalized banks	20796	18016	13984	15545	68341
Other public sector banks	433	594	569	610	2206
Private sector banks	5777	8744	5726	7461	27708
Foreign banks	9	9	40	243	301
Regional rural BANKS	14976	4731	1615	430	21752
Small Finance Banks	88	116	99	107	410
Grand total	49898	39460	27202	29761	146321

Source: RBI annual report https://m.rbi.org.in/Scripts/AnnualReportPublications.aspx?Id=1288

Table 3
Variable of the study

Years	GDP %	Branches Growth%	ATM Growth%	Credit deposit Ratio%
2008	3.89	5.36	28.43	77.60
2009	8.48	5.07	25.47	72.60
2010	10.26	6.39	37.80	73.30
2011	6.63	6.35	23.86	75.60
2012	5.45	7.95	28.43	79.00
2013	6.38	8.36	19.15	78.10
2014	7.41	8.38	40.38	77.60
2015	8.15	4.42	13.33	76.50
2016	7.11	8.60	38.03	77.70
2017	6.62	3.86	4.68	72.90

Table 4
Result of study

Model Summary					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.730[a]	.532	.399	1.34404	1.636
a. Predictors: (Constant), CREDIT_DEPOSIT, ATM growth percentage, Number of bank branches					
b. Dependent Variable: GDP					

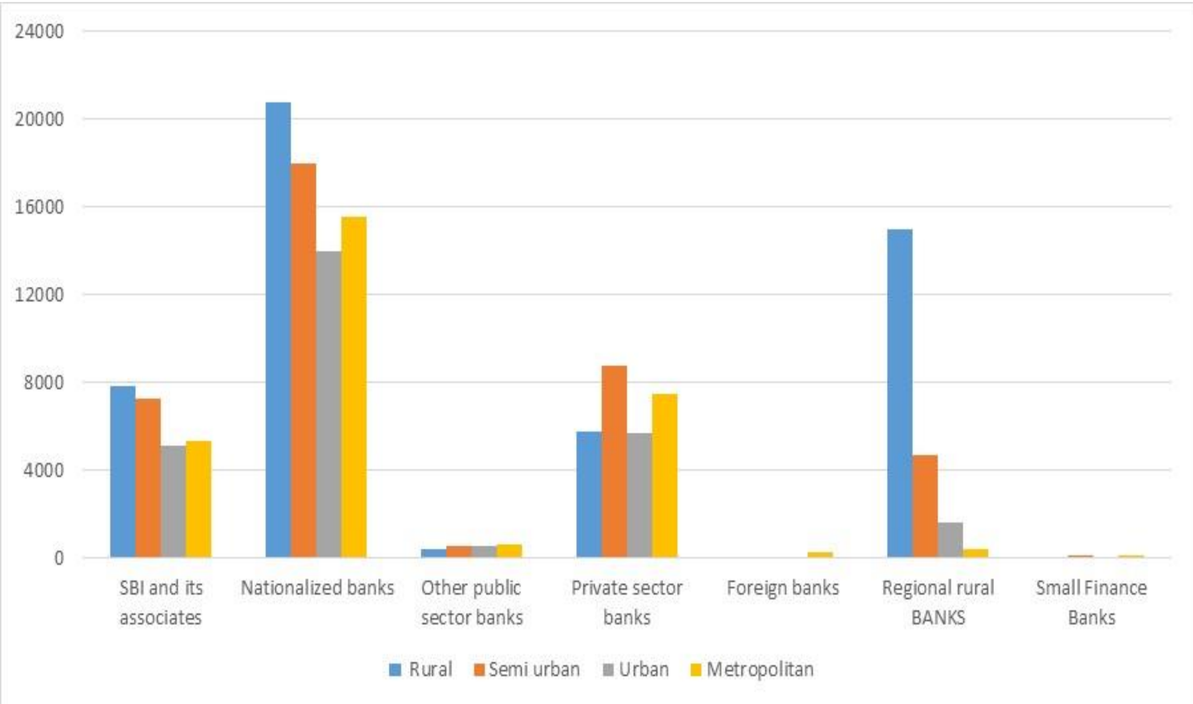

Figure 1
Group wise bank branches
Source: Prepared by author

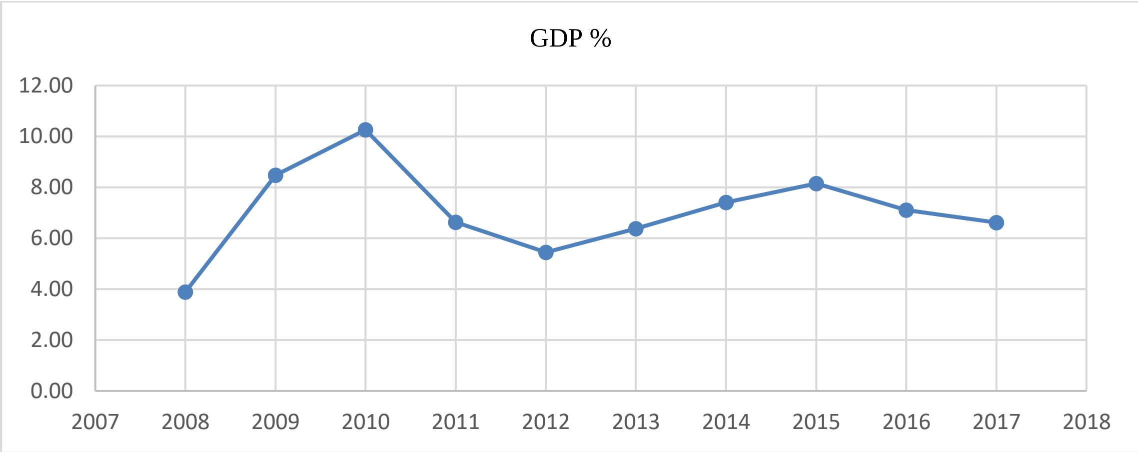

Figure 2
Gross Domestic Product
Source: Prepered by author