

Financial Inclusion and Financial Stability – A Conceptual Understanding

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Abstract: *Today it is seen that most of the developing countries are trying to incorporate financial inclusion in the mainstream society, so that the lower income groups and the deprived sections of the society can take the advantage of the same. This will lead to financial stability in the economy. The main question here is whether these concepts of financial inclusion and financial stability are dependent or are independent phenomena and which are more linked for achieving higher economic growth. There are both positive and negative aspects which can be highlighted to check the positive and negative impacts of financial inclusion on achieving financial stability. The present paper will thus focus on the aspects of financial inclusion and financial stability on whole and bring their relevance in bringing overall economic growth and development of the national economy.*

Keywords: Financial Stability, economic development, financial inclusion, poverty, growth

I. INTRODUCTION

Financial Inclusion – Concept and Meaning

The provision of inexpensive financial services to a large segment of underprivileged and low-income populations is known as financial inclusion. As one of the primary national goals of the nation, the Reserve Bank of India (RBI) and the Central Government of the nation have been working harder to advance financial inclusion. The Reserve Bank of India and the Government have taken the following significant steps over the past fifty years to promote financial inclusion: nationalization of commercial banks; establishment of a strong branch network for scheduled commercial banks; introduction of the mandate priority sector lending; lead bank scheme; concept of self-help groups; zero balance BSBD accounts for banking practices; and so on. In every developing nation, the concept of financial inclusion is crucial. In order for the RBI to implement significant policy changes in India, it must first reach the vast majority of the nation's economically disadvantaged citizens, particularly the weaker and lower-class segments.

In the context of Indian Banking, money and finance, RBI plays a vital role to provide optimum finance for different sections of the economy. So far, RBI also controls the entire banking system and is trying to maintain macroeconomic stability by their monetary instruments and different monetary applications. Financial stability and financial inclusion is closely associated with RBI's monetary policy. Financial stability is one of the important objectives of monetary policy. In continuation to that, nowadays, RBI has introduced many policy initiatives and different monetary measures for achieving financial stability and financial inclusion in the country. The Indian economy has a very large banking system for their well-determined growth and development of the country.

Need and Scope of Financial Inclusion in India:

The Indian economy is one of the developing economies. In such an economy some common features and problems are there like poverty, unemployment, income inequality, lack of adequate infrastructure facilities, lack of equitable finance, etc. Agriculture is the backbone of the economy. It is the primary sector of the economy. However, at the same time the agricultural sector of the economy is suffering from many different economic issues and problems. Equitable finance is the soul of economic activities. Unfortunately there is lack of equitable supply of finance in real sectors of the economy supply of finance in real sectors of the economy, so there is greater need to provide equitable supply of

finance. Secondly, financial inclusion broadens the resource base of the financial system by developing a culture of saving among large segments of rural poor and plays its own role in the process of economic development.

At the same time there is a better scope of financial inclusion for the welfare of the poor sections of the society. There is a gap between aggregate demand for finance and aggregate supply of finance, there is a lack of adequate supply of finance in agriculture and allied economic activities. There is a big scope of financial improvement for the welfare of the neglected sections of the economy. Central Government of the country and state Government including RBI and their monetary application trying to fill the gap and uplift vulnerable groups in the country.

Financial inclusion also focused on the exploitation of poor sections of the society such as farmers, firm workers, land less people, marginal farmers, etc. By the so-called culture of money lenders by providing easy access to formal credit and supply of finance. So all these things consider that there is a huge need and scope of financial inclusion in India.

II. LITERATURE REVIEW

Tarun Gautam and Kapil Garg (2014) Said that financial inclusion is an important aspect of the banking system for maintaining the gap between rich and poor. Thus, the role of the bank is important. According to this study report they should overcome the root in our system and help the IT sector, which tries to reach the poor class account holders and to increase the accessibility of banking activities and also to increase saving and to spread awareness in the economy. The study also shows there is a greater need for financial inclusion because the maximum class of the society are excluded.

K.N.V Patch (2014) Highlights many economic issues in the Indian economy. In his research he explains what is the meaning of small finance bank and its importance in financial inclusion he tries to explain why the micro finance is important aspect for provision of saving as well as supply of credit to small business unit (SSI's) and small and marginal farmers with micro and small industries and other unorganized sector to explain the high technology - low cost opportunities. Whatever the micro financial issues are there in rural or in urban areas, but one, which is very important, is that there is a greater need for micro finance.

Kalpana Mandal (2013) . The main aim of banking is to provide several banking services to the customers. Not only that but in the modern era the entire century and entire banking system of the nation has to think on how to increase the growth of financial inclusion and how to get financial stability within the nation. That is the priority of the banking sector. RBI tries to understand the importance of financial inclusion and financial stability. Thus, RBI in recent years is concentrating on basic issues. There is this kind of financial inclusion with financial stability. For that purpose, RBI has set up 15 Banking Ombudsman Schemes with specific jurisdiction covering 33 states and seven union territories of India.

M. Sreeramula (N.D) Its RBI working paper series focuses on how financial inclusion is important for establishment of financial stability in India. His work tries to show that without financial inclusion economic growth and development is not possible. In this study section number two explains the status of financial exclusion and having the Information of NSSO 59th round survey results. It shows that nearby 51.4% of farmer households are financially excluded from both formal as well as informal sources. Out of the total farmer household's only 27.7% access Journal sources of credit: one third of this group also borrowed from Non-formal services and overall 73% of farmer households have no access to formal sources of credit. Whatever the financial inclusion related issues are, the Reserve Bank of India (RBI) uses important measures regarding how to increase financial inclusion within the country. Now RBI is taking serious policy initiatives with the help of commercial banks, and some special policy measurements.

Dr. Deepali Pant Joshi (June 2011) Updates on financial education and inclusion programmes in India. She explains the meaning of financial inclusion in the process of ensuring access to appropriate financial products and services needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost in a fair and transparent manner by mainstream instructional players. She even explains that there are twin aspects of financial inclusion that one is financial literacy and second one is financial inclusion. She says financial literacy is playing a very vital role to lead financial inclusion. So far that now RBI also takes financial inclusion policy measures with the help of financial

literacy. For this purpose credit counseling and financial education/ literacy integral to the process of building basic financial skills are very important.

P. Arunachalam (2010) Explain the status of inclusive growth in India. He is a faculty member and Head of Department of Applied Economics, Cochin University of Science and Technology, Kochi – 22, Kerala. In his book many important articles are published by different researchers on different topics regarding inclusive growth and other economic issues. In his book entitled “Inclusive Growth in India ” that Dr. Shobha V. Bhimsen published her research article entitled “Financial Inclusion – Role of Urban Co-operative banks on Page no. 465 to 471. She tries to explain what the conceptual meaning of financial inclusion is. She said that there is not a single perfect meaning or definition of financial inclusion. In a general way we can say, “Financial Inclusion refers to delivery of banking services at an affordable cost to the vast sections of disadvantaged low income groups called Financial Inclusion”. Financial inclusion is the process of ensuring access to appropriate financial products and services needed by vulnerable groups such as weaker sections and lower income groups at an affordable cost in a fair and transparent manner by mainstream institutional players. It is called financial inclusion”.

Objectives of the Study

The main objectives of the study are as follows –

- To understand the significance of financial inclusion in India
- To assess the role of financial stability in relation with financial inclusion and its importance in the economic development of the nation.

Significance of Financial Inclusion:

Financial inclusion is very important for not only to fulfill the financial needs but also it is more important for the equal justice, protection of a fundamental of human rights and enjoying their financial freedom and their choice. Already there is a huge gap between rich and poor among the entire society of the country. There is a lack of equal distribution of national wealth as well as financial sources. So there is a need to maintain the gap between these socio economic aspects by providing a stable and equitable supply of finance and trying to attend to financial inclusion within the nation. India’s nation building was not well constructed for thousands of years B.C. to understand the important significance of nation building. It is the only one remedy for inclusive growth and development of the country. Many farmers committed suicide, different socio economic as well as religious problems, problem of vulnerable groups’ and poor weaker sections like SC’s, ST’s, OBO’s and other minorities so all the problems are closely associated with supply of finance and financial inclusion. All poor’s are standing in the queue and waiting for an equitable optimum supply of finance at an affordable cost in a fair and transparent manner. It is the significance of financial inclusion in the country.

Financial Stability – Concept and Meaning

Financial stability is one of the most important financial factors for the equitable socio economic growth and development of the country. Financial stability is a fundamental and important tool for each country for implementation of monetary applications of the central bank. Reserve Bank of India (RBI) introduced financial stability in its statute under the RBI act 1934. If we compare it with developed countries like the UK and US, developing countries like China and India etc have more importance to financial stability. The central bank of the country, the RBI is conscious of the need to pay increasing attention to financial stability and wants to improve such skills in this field so that towards this direction RBI also established a multi disciplinary financial stability unit in recent time as a part of monetary policy.

Importance of Financial Stability in India

After China Economy Indian economy is one of the faster growing economy in the world, but till today it is called like Indian Economy is developing economy and we don’t know how much time is need for transfer it in to developed

economy. All of us talked about the status of the Indian money market and the status of the structured banking system in India. There is a need for reforms in several ways and means. Financial stability is one important monetary objective of the Central Bank (RBI) under the RBI statute and RBI Act 1934. Financial instability poses a severe threat and barriers to achieve important macroeconomic objectives such as equitable growth and development. Nowadays the Central Bank has shown keen interest in the maintenance of financial stability in the country. Most Central banks in developed countries keep a close watch on every movement of domestic and International Financial markets. This is to provide emergency liquidity assistance whenever needed. The significance of financial stability in India is important for equitable lending and uplifts poor sections of the society and economy. Some specialized financial institutions from capital market and commercial banks from India money market create distinguished behavior regarding the short term and long-term landings in between agriculture sector and industry or service sector. It means that there is a lack of equitable credit supply within different sectors of the economy. Therefore, financial stability is very important for the significance of financial stability in such a developing economy.

Scope of Financial Stability in India:

As exactly against the narrow nature of financial stability, there is a wider scope of financial stability in the economy. Nowadays, the scope of financial stability continuously increases in the country. The Indian economy basically stands on major three sectors like agriculture, industry and services and until today, we can say the agriculture sector is the backbone of the Indian economy. In all those three major sectors, financial stress and tension will be seen always, there is a lack of equitable finance especially in households and in the agriculture sector. The demand for credit in these sectors is huge in quantity and at the same time, supply of credit is not equitable so that there is positive scope and advancements of financial stability in the country. As we see, the Indian economy is one of the fastest economies in the world. The demands are also more; the issue of common poor and rural development as well as their human development is high. The role of financial stability is very important. There is greater space and scope, which is available as per the concept of financial stability. Following points have focused on the wider scope of financial stability in the country?

Wider scope in agriculture and allied sector

There is wider scope of financial stability in SSI or semi SSI industries.

There is a huge gap between total demand for credit and demand of money and total supply of credit is between these gaps. The role of financial stability is very important and scope is more.

Because of the availability of infrastructure in the rural sector of India, the condition is very bad. For agriculture or for rural industry there is no suitable infrastructure like roads, railway network, money and finance, market and application, telecommunication etc. so that the scope of financial stability is very wide.

This is not only not only not only for the rural sector and rural poor but also for the entire population. Human development is necessary for all individuals and they are demanding good health, good water, good standard of living, good knowledge and educational institutions, good nutritional food for life, good sanitation and other different kinds of services called basic services. As per all these conditions and situations, the role of financial stability is very important and there is wider scope in this regard.

For a good political system, good social structure, good economic status and development and for good religious values and their culture and cultural activities, financial stability is very important to achieve all these developmental goals and targets.

The availability of scope of financial stability and the issue of income inequality (gap between rich and poor)

Regional imbalance economic development and scope of financial stability

Poverty, unemployment and illiteracy and scope of financial stability.

Human as well as economic development and scope of financial stability

All these points are very important for financial stability in the country

Current Status of Financial Stability in India

India's economy grew strongly in the previous year. Although headline inflation is still erratic, it has generally decreased. Employment has increased above pre-pandemic levels, and formalization has advanced even if the informal sector still predominates. Early in 2023, the financial sector proved to be resilient and virtually unscathed by the global financial stress, as it was at its strongest in recent years. The impact of strong services exports and proactive diversification of essential oil imports was overshadowed by the post-pandemic rebound of domestic demand and temporary external shocks, which caused the current account deficit in FY2022/23 to expand. The public debt is still high, even though the budget deficit has decreased, and fiscal buffers still need to be restored. India's 2023 G20 presidency has shown the world how crucial a role the nation plays in achieving international policy agendas.

Strong growth is anticipated to continue, underpinned by financial and macroeconomic stability. The real GDP is expected to expand in FY2024/25 and FY2023/24 at a rate of 6.3%. Although headline inflation is still unstable due to shocks to food prices, it is anticipated to progressively decrease to the target. Resilient services exports and, to a lesser extent, decreasing oil import costs are predicted to reduce the current account deficit to 1.8% of GDP in FY2023/24. Growth will be supported going forward by the nation's robust government infrastructure program and its fundamental digital public infrastructure. If extensive reforms are carried out, India has the potential to grow even faster, with contributions from labor and human capital.

There is a balance between outlook risks. India would be impacted financially and through trade if there was a significant slowdown in global economy in the near future. Additional disruptions to the world's supply could lead to ongoing volatility in commodity prices, putting more pressure on India's finances. Weather-related shocks may cause additional limits on food exports and revive inflationary pressures domestically. Positively, growth could be boosted by better than anticipated private investment and consumer demand. Exports could rise if foreign investment is further liberalized and India becomes more integrated into global value networks. Reforms to the labor sector could increase growth and employment.

III. CONCLUSION

It can be concluded that to achieve economic development in the nation, both financial stability and financial inclusion (of the deprived class of the society) needs to be implemented in the mainstream. Over the past few years, it has been seen that due to economic reforms of 1991, the trade and business activities in the nation have gathered momentum. People are engaged in a wide range of economic activities. This has enabled them to earn a huge amount and stabilize their economic lives. This phenomena should be linked wisely to financial inclusion and banking habits should be cultivated, even in the rural areas, which would lead to overall financial stability of the nation.

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