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Role of Jammu and Kashmir Bank in the Development of State economy

Majid Majeed Wani ¹, Dr. Sudheesh ²

¹ M.Phil Research Scholar, Department of Economics, Rabindranath Tagore University, Madhya Pradesh, India

² Assistant Professor, Department of Economics, Rabindranath Tagore University, Madhya Pradesh, India

Corresponding Author: Majid Majeed Wani

Abstract

The banking system plays an important role in the modern economic world. As a key component of the financial system, banks allocate funds from savers to borrowers in an efficient manner. They provide specialized financial services, which reduce the cost of obtaining information about both savings

and borrowing opportunities. These financial services help to make the overall economy more efficient. In this paper an attempt is made to analyze the role of Jammu & Kashmir Bank in the development of state economy.

Keywords: Bank, Economy, financial system, Jammu & Kashmir

1. Introduction

Banks play an important role in the creation of new capital in a country which helps the growth process. The banking system facilitates internal and international trade. A large part of trade is done on credit. Banks provide references and guarantees, on behalf of their customers, on the basis of which sellers can supply goods on credit. This is particularly important in international trade when the parties reside in different countries and are very often unknown to one another.

The Union territory of Jammu and Kashmir (J&K) has undergone several economic and political changes in post 1947 period. Some of the changes had a far reaching impact on the economy, while some of the changes have released short term influences. The major influences that were experienced in the agriculture sector were in the form of institutional and technological changes. The institutional changes were introduced to reform feudal agrarian relations whom the State inherited from its colonials. The technological changes were in the form of introduction of new and modern sophisticated techniques in the process of cultivation like that of the use of tractors, harvesting machines and other agricultural inputs.

J&K Bank has shepherded the state's economy and financial activity through the violent decades even as investment dropped and tourism crashed. The 2017 economic survey conducted by the state government found that, on average, one bank branch is available per 6,185 residents of the state. Compare this to the national average of a bank per 8,708 people. It has been the lifeline of local economy.

Over the years, the bank has even taken on the role of a quasi-government institution, entering into all the significant and not-so-significant areas of life in J&K – including disbursing salaries to government employees and developing state infrastructure under its CSR initiatives.

2. Objective of the Paper

1. To analyze the financial performance of the Jammu and Kashmir Bank;
2. To study the contribution of the Bank to the economy of Jammu and Kashmir State

3. Methodology of the study

Research Methodology includes a number of activities to be performed. One activity after another is performed to complete research work. The data has been collected through secondary source. Secondary data is the one which has already been collected and analyzed by someone else. In this section the following methods are used:

Average, Co-efficient of Variation (C.V), Compound Annual Growth Rate (CAGR), Standard deviation (S.D), Growth Rate, correlation analysis, simple regression analysis, t-test, and Analysis of variance (ANOVA). For this study various books, magazines, research papers and newspapers are consulted.

Historical background of Jammu & Kashmir Bank

J&K Bank was founded in October 1938 during the rule of Dogra King Maharaja Hari Singh, and it became the first bank in the country to emerge as state-owned. It offers banking services under the three major divisions as Support services, Depository services and Third party services. Presently the bank has nearly 938 branches under its control to serve the customers across the country in FY 2019. As on 31 March 2019 the Bank operates mainly into four segments comprising of Treasury Corporate, wholesale banking, Retail banking and other banking operations. According to the extended Central Laws of the State Jammu & Kashmir Bank was defined as Government of Company as per the provision of Indian companies act 1956. In the year 1971, the Bank received the status of scheduled bank. RBI declared it as 'A' Class Bank in the year of 1976.

The first shareholders of the bank included the government of Hari Singh and top ministers of the J&K administration; including the then prime minister N. Gopaldaswami Ayyangar. It continues to be the only bank in India where the state government holds a majority stake. In all public-sector banks, the majority stake is held by the Centre.

Role of Bank in economic development in state

J&K Bank functions as a universal bank in the Union Territories of Jammu & Kashmir and Ladakh and as a specialized bank in the rest of the country. It is also designated as RBI's agent for banking business, and carries out the banking business of the Union Territories of Jammu & Kashmir and Ladakh, besides collecting central taxes for CBDT.

J&K Bank follows a two-legged business model whereby it seeks to increase lending in its home territory which results in higher margins despite modest volumes, and at the same time, seeks to capture niche lending opportunities on a pan-India basis to build volumes and improve margins.

J&K Bank operates on the principle of 'socially empowering banking' and seeks to deliver innovative financial solutions for household, small and medium enterprises.

"When every other bank was shutting branches, J&K Bank played the role of the state's backbone and continues to do so," said former J&K Bank chairman Mushtaq Ahmed, whose tenure ended in 2016.

Nearly 90 per cent of the people in the state have accounts in J&K Bank, and the bank provides services to 90 per cent of business in the state. Economists, experts, politicians and anthropologists, based in and outside of Kashmir, say the bank has embedded itself into the social fabric of the state and that the masses have an emotional connect with it.

The bank provides numerous financial services, including some described as humanitarian such as the 'Debt Swap Scheme for Farmers'. The purpose of the scheme is to provide finance to farmers to repay their outstanding dues to moneylenders. There is no other bank in the country that provides such a service.

Over time, J&K Bank has not only provided loans to farmers, small businesses, craftsmen, artistes, and students, but also those who wanted to buy cars and get married, even remarried. Under its CSR initiatives, the bank has developed some of Kashmir's prominent tourist spots, including the Badamwari Park.

The State was found the highest producer of apples in India. Nearly 77 percent of total apples were produced by the State.

The credit policy of the Bank was shaped to meet the credit needs of the apple growers. 4065 apple growers were provided a total loan of Rs. 85.33 crores. The Bank had financed 5 cold storage with 122544 metric tons capacity at the expense of Rs.103 crores.

The Bank extended liberal banking facilities to private players in the development of the state. The Bank had planned to provide Rs.320.52 crores towards energy sector. The Bank had undertaken the financing of micro hydro projects under private public participation. The Bank had contributed significantly to the development of agriculture, floriculture, poultry, animal husbandry, handloom and handicraft by providing cheap and easy credit to individuals. The bank made earnest efforts for inclusive development across the unbanked population of the state. More than 700 network of Khidmat centres were upgraded to Business Correspondent Model.

The Gramin Bank was also provided financial and technological support by the Jammu and Kashmir Bank for accelerating rural economy of the State.

The methods of analysis adopted in the study are Average, Co-efficient of Variation (C.V), Compound Annual Growth Rate (CAGR), Standard deviation (S.D), Growth Rate, correlation analysis, simple regression analysis, t-test, and Analysis of variance (ANOVA).

3.1 Co-efficient of Variation:

To examine the extent of dissimilarity in the variables, statistical technique coefficient of variation is used. The coefficient of variation represents the ratio of the standard deviation to the mean; it is a useful statistic for comparing the degree of variation from one data series to another even if the means are drastically different from each other. It is a statistical measure of the dispersion of data points in a data series around the mean. It is expressed in the following form:-
Co-efficient of Variation (CV) = Standard Deviation / Mean*100

The coefficient of variation describes the magnitude of sample values and the variation within them.

Compound Annual Growth Rate (CAGR)

In order to study the year-wise growth in the variables, the compound annual growth rates (CAGR) have been calculated. It is a simple measure to find out the year-wise increase and decrease in the variables under study. The compound annual growth rate is a number that represents a steady level of growth from the initial value to an ending value as it determines the average of year to year growth rate for time series data. The percentage compound annual growth rate in a variable has been calculated by firstly regressing the natural logarithm of the variable on time which is called the semi-log model is used in the following form:-

$$\ln Y_t = \beta_1 + \beta_2 t + u_t$$

Where, Y_t is the value of the variable in t th time whose annual compound growth rate is to be find out, and t is the time period. The years have been coded as 0, 1, 2, 3 and so on. and are parameters, and u_t is the disturbance term. After estimating the above regression model, the following formula has been used for getting compound annual growth rate:-

$$r = [\text{anti Ln } (\beta_2) - 1] \times 100$$

Where, r = compound annual growth rate (%).

3.2 Regression Analysis

Regression analysis attempts to establish the nature of relationship between variables that is to study the functional relationship between the variables and thereby provide a mechanism for predicting or forecasting. When we study the relationship between two variables it is called the simple regression, on the other hand when we study the relation between more than two variables it is called multiple regression. In this study the researcher estimate the multiple regression model and some simple regression equations.

Simple Regression Equation Y on X is expressed as

$$Y = a + bX$$

Where “Y” is a dependent variable, i.e. its values depend on X. “X” is independent variable, i.e we take given value of X and compute the value of Y.

a is the “Y-intercept” because its value is the point at which regression line crosses the Y-axis that is vertical axis.

b is the “slope” of line . it represents change in Y variable for a unit change in X variable.

This best fit line is obtained with the help of the following two normal equations:

$$\begin{aligned} \Sigma Y &= na + b(\Sigma X) \\ \Sigma XY &= a\Sigma(X) + b\Sigma(X^2) \end{aligned}$$

The regression coefficient of Y on X is equal to: $b = b_{YX}$

Simple Regression Equation X on Y:

$$X = a + b Y$$

This best fit line is obtained with the help of the following two normal equations:

$$\begin{aligned} \Sigma X &= na + b(\Sigma Y) \\ \Sigma XY &= a\Sigma(Y) + b\Sigma(Y^2) \end{aligned}$$

The regression coefficient of X on Y is equal to: $b = A_{XY}$

Multiple Regression Model:

$$Y = \alpha_0 + \alpha_1 X_1 + \alpha_2 X_2 + \alpha_3 X_3 + \alpha_4 X_4 + \alpha_5 X_5 + \dots \alpha_n X_n + U_i$$

Where

Y = Dependent Variable or Regressed

$X_1 + X_2 + X_3 + X_4 + X_5 + \dots X_n$ = Independent Variables or Regresses

$\alpha_0 + \alpha_1 + \alpha_2 + \alpha_3 + \alpha_4 + \alpha_5 + \dots \alpha_n$ = Intercepts

U_i = Random Error Term.

3.3 Coefficient of Determination (R²)

R² is also known as the measure of goodness of fit. This shows the percentage of total variations of the dependent variable Y that are explained by the changes in the independent X variable. Since the explanatory variables explain a part of the total variations of the dependent variable, so R² is calculated as a ratio of explained variations of Y to

the total variations of Y. The coefficient of determination assumes the values lying between 0 and 1.

3.4 Coefficient of Correlation

The Pearson coefficient of correlation is denoted by the symbol r. It is one of the very few symbols that are used universally for describing the degree of correlation between two series. The formula for computing pearsonian r is:

$$r = \Sigma xy / N\sigma_x \sigma_y$$

Here $x = (X - \bar{X})$; $y = (Y - \bar{Y})$

= Standard deviation of series X

= Standard deviation of series Y

N = Number of pairs of observations

r = the (product moment) correlation coefficient.

The value of coefficient of correlation shall always lie between ±1. Where r = +1 means there is perfect positive correlation between the variables, when r = -1 means there is perfect negative correlation between the variables. When r = 0, it means there is no relationship between the variables. However in our study the Karl Pearson’s simple correlation coefficient has been calculated among different variables just to know the direction in which the variables are moving.

The above formula for computing Pearson’s coefficient of correlation can be transformed to the following form which is easier to apply

$$\text{Correlation coefficient (r)} = \Sigma xy / \sqrt{\Sigma x^2} \sqrt{\Sigma y^2}$$

Where $x = (X - \bar{X})$

$$y = (Y - \bar{Y})$$

$X_1, X_2, X_3, \dots, X_n$ are the values of first variable and $Y_1, Y_2, Y_3, \dots, Y_n$ are the values of second variable. \bar{x} and \bar{y} are the respective means.

Growth Rate.

$$Y_t - Y_{t-1} / Y_{t-1}$$

Y_t = Current year

Y_{t-1} = Base year

Analysis of variance (ANOVA):

$$SS_w = \Sigma d^2_1 + \Sigma d^2_2 + \Sigma d^2_3 + \dots = \Sigma d^2_n$$

Where d = deviation of every raw score of a category from its sample mean

$$SS_b = S[(X - X_t)_{xn}]^2$$

X = any sample mean

X_t = total mean

n = number of scores

SS_b = sum of squares between groups

SS_t = total sum of square of variations.

$$SS_t = SS_b + SS_w$$

Alternatively,

$$SS_t = S(X - X_t)^2$$

X = a raw score in any sample

X_t = the total mean

SS_t = the total sum of squares

2.2.6:t – Statistic is:

$$t = \frac{X - \mu}{S} \times \sqrt{n}$$

X = the mean sample

μ = the actual or hypothetical mean of the population

n = the sample size

S = the standard deviation of the sample.

Scope and Limitations of the Study.

Our study will carry out in the state of Jammu and Kashmir; however, the trend of the agricultural credit has been also examined at state as well as national level. The study includes all the agro-based banks operating in the state in the post reform period like Commercial Banks, Cooperative Banks, RRBs and Land Development Banks. As per the need of the study and availability of data the analysis has been also carried out by classifying these institutions in the form of Nationalized Banks, State Bank of India and Its associates, RRBs and Other Scheduled Commercial Banks operating in the state since from 1995-96 to 2012-13. Taking into consideration the objectives of the study and its coverage in terms of time span and different types of banks, the study is prone to many limitations. Some of the important limitations of the study are below:

1. The study will concentrate only on the analysis of quantitative financial data. The qualitative aspect of progress of banking in J&K has not been analyzed. The emerging trend in qualitative aspect of banking such as job satisfaction, reduction in inequalities and disparities and morale of bank employee and general public etc. have not been taken into consideration.
2. Another limitation of present endeavor is in the context of source of data. Different books/reports present different data of the same time. This create the major hindrance and belies the actual results.
3. The study will be carried out from 2000 onwards, however due to non-availability agriculture credit data in Jammu and Kashmir for consequent 5 years from 1990 to 1994, and will carry out only from 2000 onwards.

4. Conclusion

To conclude we can say that J&K Bank is the prestigious institution of State that always takes a lead role in promoting various sectors and giving boost to State's economy. It is the pride of the people of the state that not only is the backbone of the economy, helping the jobless, financing the entrepreneurs but also as a part of corporate social responsibility and helping all those in the need of hour.

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