Abstract

Alexander Gerschenkron\textsuperscript{1} has put forward a concept which justify that banks plays an important role in giving a pace to industrialization. But, banking system is not only the element of his explanation as he considers that it does play a key role at certain stage of industrialization; there are other factors also. He points out that more backward an economy is, greater is the part played by special institutional factors which are designed to increase the supply of capital.

In this view, banking is catalytic intermediary that transfer saving into capital. In other words, transfer of monetized surplus net savers to deficit spenders, helps in utilization of real sector output by creating employment- out- income and finally resulting into economic growth.

Historically, banking intermediation is unchallenged in the mobilization of financial resources. But, in bank dominated financial system as India is, unchallenged role of banks have attracted the attention of academics, development agencies, and policy makers to examine the role of commercial banks in resources mobilization, when it has failed to produce the desire and balanced effect for all. In a bank led financial system like India, commercial banks have to play vital role in managing regional balance and sectoral development by energizing the rate of credit deployment.

In the era of low public investment and politicalization of union aid\textsuperscript{2} for the states, bank credit has become more significant for state’s economy. However, this desired role of the banks does not look in the backward states of the country. The present research work has justified the existence of set hypothesis to examine all these facts in a poor state like Bihar.

\textsuperscript{1} Economics of Backwardness in Historic Prospective. A Book of Essays, Cambridge, 1962.
For poor state like Bihar, is vital to have sound financial system led by commercial banks system, which effectively mops up the saving available with public and institution to disburse credit to the productive sector in an efficient manner helping the states to run on the path of steady growth and prosperity.

Since the deposit of bank is circulate as credit, the creation such credit-deposit leads to net increase in money stock of the economy which in turn influences the size of capital supply on one hand and net addition to the purchasing power of mass on another.

Technically, the proportion of loan-assets created by banks from the deposit received is known as credit –deposit ratio and indicates the involvement of banks in business activities of the states.

The state of Bihar is in its critical stage of C D Ratio compared to the some rich state as well as all India. It was hobbling around 25 percent all through the 1990s it has remained below the level of 32 percent till the study period, 91-07. However, recent initiative of the state government and lending agencies are trying to change the things. Undoubtedly, it is the will of the state government and banker of the state to, that the state’s C D Ratio has finally crossed the limit of 35 percent, and now stands at 36. 70 percent at the end of 2011-12, against the national average of 70.0 percent.³

By using the time series data of C D Ratio of Bihar and some selected states, I have examined the impact of the problem of low C D Ratio on economic development of Bihar over the time horizon of 1991-2007. It reveals that, poor deployment of bank credit in the state has reduced the opportunity to grow and pushed the state in the vicious circle of backwardness. Poor deployment of bank credit against the large deposit received from the state has lowered the C D Ratio as low as 20.7 percent in 2000-2001.

Low C D Ratio is resulting into sluggish rate of industrialization, marginalization of agriculture, poor capital formation, informalization and regular emigration of work force, insufficiency of infrastructure, and dominance of local money lenders, etc. Thus less deployment of credit against the large deposit in a particular region, worsen the rate of economic growth with the passage of time, so there is urgent need to overcome this situation.