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## Economics: Banking and Credit: Creation Capacity and Types of Bank

### Credit Creation Capacity of a Bank

The credit creation capacity of a bank depends on the cash reserve ratio. If the cash reserve ratio is higher, then the bank has to keep more cash to make payments to public and accordingly, fewer amounts will be available for giving loans. So, less credit will be created. Credit creation will be higher if the cash reserve ratio is lower.

### Types of Banks in India



## Reserve Bank of India (RBI)

RBI is the head of the banking system in the country. This means that all other banks such as, commercial or cooperative or development banks, follow the rules and regulations made by RBI. Its head quarter is in Mumbai. It is known as bankers bank as it gives loans to other banks in the country. RBI's main function is to issue currency notes. The note, bearing the signature of the Governor of RBI is approved by the government so that it can be used for buying and selling goods and services. One-rupee notes and coins as well as coins below one rupee are issued by Ministry of Finance, government of India.

## Commercial Bank

A commercial bank is a financial institution which performs the functions of accepting deposits from the general public and giving loans for investment with the aim of earning profit. They earn profit by charging rate of interest on loans and fees for various services such as issuing draft, transferring money etc. Ex. Of public sector commercial banks are

State Bank of India (SBI) , Punjab National Bank (PNB) , Bank of India (BOI) etc. and ex. Of private sector commercial banks are ICICI Bank, Yes Bank, HDFC Bank etc.

### Cooperative Bank

Cooperative bank is an institution established on the cooperative basis and dealing in ordinary banking business. Like other banks, the cooperative banks are founded by collecting funds through shares, accept deposits and grant loans. They are run by cooperative societies and are governed by the laws of the state in which they are operating. Such banks are of two types - agricultural (or rural) and non - agricultural (or urban) . These banks may bear different names in different states and areas.

### Development Bank

Development banks are those which have been set up mainly to provide infrastructure facilities for the industrial growth of the country. They provide financial assistance for both public and private sector industries. Some example of development banks are Industrial development bank of India, Industrial Financial corporation of India and State Finance Corporations etc.