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AN EMPIRICAL STUDY ON ROLE OF COMMERCIAL BANKS ON ISSUING LOANS AND ADVANCES SELECTED AREAS, IMFACT ON ECONOMIC GROWTH IN INDIA

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Abstract:.Banks performs important functions in the development of a country. The basic role of commercial banks is to mobilize financial resources to meet the financial demands of various productive sectors of economy. In other words economic development is economic progress of a country but Banks have catalyst role in economic development because banks control a large part of supply of money in circulation In India for improvement of Financing Internal and External Trade and Provision for Long-term Finance for the Improvement of Agriculture and various Consumers Activities. At present The study investigates the commercial banks how it helpful in economic development selected areas like industry sector, agriculture sector and external trade and internal trade and Progress under Financial Inclusion Plans in between the period 2011-2019.

Key words: capital formation, economic development, agriculture financing, industries

I. INTRODUCTION

Activities of the commercial banks in India are expanding at a rapid space during the period after Independence. There is territorial as well as functional. Expansion of the activities of the bank. Banks which are conservative and conventional in their approach have come out from their shell and face the challenges of planned economic growth. In recent years non-conventional sectors are receiving the attention of commercial banks in India. A better understanding of the implications of financing nonconventional sector by commercial banks is possible only if one looks back the position of commercial banks during the pre-nationalization era banking in India before nationalization. Commercial Banks are is the institutions that ordinarily accept deposits from the people and advances loans. The banking sector in India comprises of banks big and small, public, private, old and new, viable and nonviable. There are wide diversities' in their sizes, organizational patterns geographical presence and functional specialization. India commercial banks operate both in urban and rural areas and foreign banks function in cities and ports..

1.2 CLASSIFICATION OF COMMERCIAL BANKS

1. Scheduled banks: - Banks which have been included in the Second Schedule of RBI Act 1934. They are categorized as follows:
2. Public Sector Banks: - are those banks in which majority of stake are held by the government. Eg. SBI, PNB, Syndicate Bank, Union Bank of India etc.
3. Private Sector Banks: - are those banks in which majority of stake are held by private individuals. Eg. ICICI Bank, IDBI Bank, HDFC Bank, AXIS Bank etc.
4. Foreign Banks: - are the banks with Head office outside the country in which they are located. Eg. Citi Bank, Standard Chartered Bank, Bank of Tokyo Ltd. etc.
5. None scheduled commercial banks: - Banks which are not included in the Second Schedule of RBI Act 1934.

1.3 review of related literature:

Tripathi, L. K., Parashar, A., Mishra, S. (2014): The present study, with the help of multiple regression model attempts to investigate the impact of priority sector advances, unsecured advances and advances made to sensitive sectors by banks like SBI group and other nationalised banks on Gross NPAs of banks.

Ram Mohan TT (2010) in article highlighted the fact that despite the worst financial crisis of the century, Indian banking sector fared well. Indian banks showed 1% ROA in both 2007-08 and 2008-09. Capital adequacy and spread also improved. All these indicators place banking sector among most profitable banks in the world today. ROA of 1% is a benchmark of good performance in banking despite the ups and downs of the economy. This shows that Indian banking is crisis proof. It is suggested that banks need more sophisticated products and should meet the challenge of financial inclusion.

Mathur (2002) examined the arguments extended to a case for the privatization of public sector evidence that state ownership banks lower the probability of banking crisis. Private and foreign banks stimulate efficiency, innovation and economic growth. It is held that the Arguments which are put forward for the privatization of PSBs are not strong. Private ownership may lead to crisis if the regulatory system is unable to control the adverse extraneous pressures

KaminskyandSchmukler, 2002, p. 30). Currently, there are opposing views concerning the most preferable coordination mechanism. According to the development and political view of state involvement in banking, a government is through either direct ownership of banks or restrictions on the operations of banks better suited than market forces alone to ensure that the banking sector performs its functions. The argument is essentially that the government can ensure a better economic outcome by for example channeling savings to strategic projects that would otherwise not receive funding or by creating a branch infrastructure in rural areas that would not be build by profit-maximizing private banks. The active involvement of government thus ensures a better functioning of the banking sector.

Thillairajah (1994)and Padmanabhan (1988) sharing the same opinion, explain the high marginal propensity to save by the unstable economic conditions that generally prevails in these areas (unstable incomes, fluctuations in harvest etc).

Rose (1986) sees the importance of savings beyond capital formation. To her, savings are a catalyst for capital formation but equally, a major determinant of the cost of credits based on the law of scarcity, which holds that 'when the former is low and scarce, it becomes more costly to obtain'. The classics 5 as well as modern growth models hold that savings constitute the principal parameter, and determinant of economic growth.

2.1 Gap in Research

From the above literature review it was found that study has been conducted from the period 2011 to 2019 in context of the objective stated earlier in the study. Now the researcher study the Development is a continuous process of qualitative and quantitative changes in the country which improves standard of living of people. The term consisting of various aspects of human life like economic, social, political, cultural, environmental and technical. Thus, for the improvement of 'quality of life' of society.

2.2 statement of the Problem:

The study tries to discuss theRole of banks in facilitating / promotion of entrepreneurship - an essential condition of economic development and The basic role of commercial banks is to mobilize financial resources to meet the financial demands of various productive sectors of economy. The main subject matter of this paper is to understand the significant difference of the lending occurrence, and management of NPA in different nationalized banks of India in respect to priority and non-priority sector lending

2.3 Need of the Study

The banking sector of India consists of public sector banks, private sector banks, co-operative banks and foreign banks. But among these four types‟ public sector banks still dominate the banking industry, with approximate 82% of the market share in total deposit and advances of the industry. The public sector banks play a crucial role in the Indian economy, by contributing directly to the GDP, and mobilizing savings and channelizing investments. But after managing every challenge successfully and by giving standard services to the customers, The direct correlation between economic growth on one hand and financial growth driven by the dynamism of the financial sector in general and banks in particular on the other.

2.4 objectives of the study:

- To study the role of commercial banks is to mobilize financial resources to meet the financial demands of various productive sectors of economy in India
- To study The actual position of priority sector lending by banks in India.
- The growth and development of commercial bank in India during the period from 2011 to 2019

2.5 Scope:

The scope of the study is in between the financial year 2011-2019 on the public sector banks, which include the State Bank of India and its Associates, and the other nationalized banks of India.

2.6 Research Methodology

The present study is done on the SBI Associate Banks and other public sector banks. The SBI Associate Banks include: The State Bank of India, State Bank of Bikaner and Jaipur, State Bank of Hyderabad, State Bank of Mysore, State Bank of Patiala, and State Bank of Travancore. The other public sector banks include Allahabad Bank, Andhra Bank , Bank of Baroda , Bank of India , Bank of Maharashtra , Canara Bank, Central Bank of India , Corporation Bank , Dena Bank , IDBI Bank Limited , Indian Bank , Indian Overseas Bank , Oriental Bank of Commerce, Punjab and Sind Bank , Punjab National Bank , Syndicate Bank , UCO Bank , Union Bank of India , United Bank of India , Vijaya Bank.

3.1 Role of Banking in Development

Banking sector in India has performed an important role in the development of the country. Before independence banks were known as agency houses but after independence RBI had strengthen the banking system by adapting various policies. Till mid-sixties banking in India was oriented to urban area, but specially after nationalization rural sector development was the important priority of Banking sector.

Banks accelerates the development of country by the ways like capital formation, credit creation, advances, and allocation of funds. Before discussing role of banking in development, it is necessary to discuss the term development.

Development is a continuous process of qualitative and quantitative changes in the country which improves standard of living of people. The term consisting of various aspects of human life like economic, social, political, cultural, environmental and technical. Thus, for the improvement of 'quality of life' of society, continuous development process is necessary. Various factors are involved in the development process like Govt., Banks, Society, and Institution. Development can be measured by using various criteria like standard of living, infrastructural facilities, education facilities, health care facility. Agricultural development can be measured by agricultural produce, intensity of cropping, cropped area, consumption of fertilizers, consumption of power, net irrigated area, pump-sets, tube wells, roads, electricity. Such criteria show overall performance of agriculture, modernization of agriculture. Socioeconomic development can be measured by various criteria like education facilities, health care facility, road, transport. Industrial development plays an important role in economic development. Industrial output, industrial workers, no. of industries, no. of workers engaged in factories are various factors used for industrial development

Banking sector contributing to improving the 'quality of life' of society by providing finance, accepting deposits, advancing loans and providing banking services. Thus, banking sector accelerates various aspects of development concept.

3.2 Banks and Economic Development:

Economic development is a dynamic and continuous process. In other words, economic development is economic progress of a country. Banks have catalyst role in economic development because banks control a large part of supply of money in circulation. In India, several financial institutions were established to provide funds to different sectors of economy. The role played by banks in economic development, over different periods, can be described in various ways.

1. 'Banks are financial intermediates.

2. The direct correlation between economic growth on one hand and financial growth driven by the dynamism of the financial sector in general and banks in particular on the other.

3. Role of banks in creation of money which creates the demand for goods and services.

4. Role of banks as a financial catalyst of social development.

5. Role of banks in facilitating / promotion of entrepreneurship - an essential condition of economic development.'

After liberalization, the government has approved significant banking reforms while some of these are related to nationalized banks (like encouraging mergers, disinvestment by government, reducing government interference and increasing profitability and competitiveness), other reforms have opened banking and insurance sector for private and foreign concerns. Financial sector reforms were initiated as a part of overall economic reforms in India and covering industry, trade, taxation, external sector, banking and financial markets, since mid 1991. A decade of economic andfinancial sector reforms has strengthened the fundamentals of Indian economy and transformed the operating environment for banking and financial institutions. The reforms have helped economy to avoid crises and have actually fuelled growth. The most significant achievement of financial sector reforms has been the marked improvement in financial health of commercial banks in terms of capital adequacy, asset quality and profitability. The reforms have opened new opportunities for banks. At the same time, have brought competition among banks, both domestic and foreign as well as competition from mutual funds, NBFC's. Such increasing competition is squeezing profitability and forcing banks to work efficiently, which results in overall economic progress.

3.3 Banks and Rural Development:

Rural development is development of people living in rural area. Development of rural people means rising of standard of their living. The World Bank defined rural development as "Rural development is a strategy to improve the economic and social life of a specific group of people, the rural poor, including small and marginal farmers, tenants and the landless." Improvement in standard of living of rural poor means social change through economic change. Uma Lele defines "rural development in terms of raising standard of living of rural people."

The ultimate aim of rural development is social change. For rural development 'availability of funds' is essential requirement. Commercial banks have such lendable funds hence, are involved in rural development. Commercial banking was introduced in 18th century. In India, upto independence rural sector was ignored by commercial banks. After independence, Govt. has taken various important steps to make commercial banking finance available to rural mass. Through the commercial banks, direct and indirect finance (funds) was given to rural area. In direct finance, banks provide funds directly to rural people. In Indirect finance, funds were extended to rural banks for further lending of funds to rural people. After nationalization, rural development got momentum due to opening of large number of bank branches in rural and semi-urban area. Commercial banks were realized about their responsibility towards rural society. Various programs were implemented by the banks for rural development e.g. Lead Bank Scheme, Village Adoption Scheme, DRI Scheme. Banks were providing loans and advances to rural people and also mobilizing small savings through a large network of bank branches. After, liberalization, the strategies and policies of banking sector were changed, from rural agrarian policy to rural entrepreneurial development policy. Banks are encouraging rural youth for establishment of trade, enterprises or agri-allied activities. Hence, banks has played vital role in rural area progress.

3.4 Banking in India and 'Development:

Banks performs important functions in the 'development' of a country. Banks are converting non-productive financial resources in productive resources. It is difficult to think about development without network of commercial banks. The development process can be sustained with the help of banks. In the following ways banks are accelerating development process in India.

Capital Formation - Under Capital Formation function commercial bank has to accept deposits. People deposit their savings in banks which results in capital formation. It is a function of generation, mobilization and channelizing of savings of society. Bank offers facility of saving and thus encourages the habit of savings amongst society. "Commercial banks cannot satisfy the massive need for development capital in economies like India nor are they capable of financing the much needed infrastructure therein, yet they make a most basic and flexible contribution to development process."

Branch Expansion - Rapid economic development presupposes rapid expansion of commercial banks. Initially, the banks were conservative and limited up to civilized area. After nationalization and introduction of lead bank scheme, branch expansion gained momentum.

3. 5 Branch Expansion of Commercial Banks

As per Reserve Bank of India's (RBI) Branch Authorization Policy, general permission has been granted to domestic Scheduled Commercial Banks (other than RRBs) to open branches / mobile branches / Administrative Offices / CPCs (Service Branches), (i) in Tier 3 to Tier 6 centers (with population up to 49,999) and (ii) in rural, semi-urban and urban centers of the North-Eastern States and Sikkim subject to reporting. Opening of branches by these banks in Tier 1 and Tier 2 centers (centers with population of 50,000 and above) requires prior approval of RBI except in North Eastern States and Sikkim. Banks apply for authorizations for opening of branches in Tier 1 and Tier 2 centers in their Annual Branch Expansion Plan.

As per RBI guidelines, Scheduled Commercial Banks have been given general permission to install off-site Automated Teller Machines (ATMs) / Mobile ATMs at the location of their choice without the prior permission of RBI, subject to reporting. RBI has advised banks that while preparing their Annual Branch Expansion Plan (ABEP), the Banks should allocate at least 25 percent of the total number of branches proposed to be opened during a year in unbanked rural (Tier 5 and Tier 6) centers.

This information was given by the Minister of State for Finance ShriNamoNarainMeena in a written reply to a question raised in RajyaSabha .since nationalization there was 997% increase in branches, but most important progress is in rural branches i.e. from 1860 to 31699 branches. The population per branch is decreased from 63800 to 14000 per branch. Expansion of banking facilities in rural, backward area and provision of bank credit to farmers and rural artisans results in socioeconomic development.

Deposits Mobilization and Credit Creation - The basic role of commercial banks is to mobilize financial resources to meet the financial demands of various productive sectors of economy. It depends upon effective mobilization of deposits. The trend in increase in deposits and credit of scheduled commercial banks are as follows –

Deposits and Credits of Scheduled Commercial Banks

DEPOSITS AND CREDIT OF SCHEDULED COMMERCIAL BANKS - ACCORDING TO POPULATION GROUP (Concld.)

(No. of Accounts in Thousand; Amount in ₹ Crore)

Year	Rural		Semi Urban		Urban		Metropolitan	
	No. of Accounts	Amount Outstanding	No. of Accounts	Amount Outstanding	No. of Accounts	Amount Outstanding	No. of Accounts	Amount Outstanding
1	10	11	12	13	14	15	16	17
2011	40018	392449	28772	451987	16896	779516	35038	2451694
2012	41749	442212	31292	528289	17740	854868	40099	2977898
2013	45703	523971	34621	675653	20924	987761	27038	3337932
2014	48343	566705	39094	717764	25379	1061470	25934	3936144
2015	52777	655361	39526	796609	23777	1179094	28160	4247408
2016	57297	735783	44832	936328	28014	1296576	32231	4553957
2017	58864	774024	47019	975665	28795	1287293	37706	4880887
2018	59197	837817	53245	1239397	37204	1493146	47330	5196612

Source : Basic Statistical Returns of Scheduled Commercial Banks in India, DSIM, RBI

3.6 Priority Sector Lending by Banks –

Prior to nationalization, commercial banks had neglected priority sectors like agriculture. Neglect of priority sector lending was one of the causes of nationalization of top 14 banks in 1969. The actual position of priority sector lending by bank Advances to Priority sectors: Since, one of the important objectives of bank nationalization was to channelize the flow of credit to the priority sectors, public sector banks made marked progress in this direction i.e., after nationalization, there was a remarkable change in the credit policy of the banks. Credit to the priority sectors especially agriculture, small-scale industry and small transport operators were given more importance by the policy makers. In addition, other priority sectors such as retail trade, professional and self-employed persons, education, housing loans for weaker sections and consumption loans were also included In 1980, RB I issued certain directives to the banks regarding priority sector lending and expected their cooperation and compliance: (a) Priority sector advances should constitute 40% of aggregate bank credit; (b) Out of priority sector advances, at least 40 % should be provided to agriculture; (c) Direct advances to the weaker sections in agriculture and allied activities in rural areas should form at least 50 % of the total direct lending to agriculture; (d) Bank credit to rural artisans, village craftsmen and cottage industries should be at least 12.5% of the total advances to small scale industries; (e) About 12% of bank credit should go to exporters. Advances provided by public sector banks to the priority sectors have been shown in Table-

Advances to Priority Sector by Public Sector Banks

(₹ Crore)

Sr. No.	Sector	Outstanding as on last reporting Friday in March							
		2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	Non-food Credit (1 to 4)	4289745	4869563	5529601	6002952	6546903	7094490	7688423	8633418
1	Agriculture & Allied Activities	546626	589914	665979	765880	882942	992386	1030215	1111300
2	Industry (Micro & Small, Medium and Large)	1937325	2230179	2516483	2657627	2730677	2679833	2699268	2885778
2.1	Micro & Small	236657	284348	348194	380028	371467	369731	372999	375505
2.2	Medium	124789	124704	124069	124536	114821	104806	103680	106395
2.3	Large	1575880	1821127	2044220	2153063	2244389	2205296	2222589	2403878
3	Services	1022960	1151886	1337451	1413097	1541067	1802237	2050472	2415609
3.1	Transport Operators	76293	79630	92342	91566	99743	110446	121268	138524
3.2	Computer Software	14297	16910	18589	17214	19096	17884	18609	18535
3.3	Tourism, Hotels & Restaurants	32319	35441	39875	37036	37053	37503	36489	39005
3.4	Shipping	7944	8220	10243	10117	10430	8375	6308	7748
3.5	Professional Services	47961	56421	79649	84417	104600	137650	155407	171517
3.6	Trade	224977	275953	325777	365682	381098	427893	466938	528158
3.6.1	Wholesale Trade (other than food procurement)	120365	150099	167570	180077	168608	193208	205160	250528
3.6.2	Retail Trade	104612	125854	158207	185604	212490	234685	261778	277630
3.7	Commercial Real Estate	112652	126070	153240	166461	177613	185564	185801	202291
3.8	Non-Banking Financial Companies (NBFCs)	233221	260257	293773	311744	352742	391032	496393	641208
3.9	Other Services	273296	292983	323963	328858	358693	485892	563259	668623
4	Personal Loans	782835	897584	1009689	1166348	1392216	1620034	1908469	2220732
4.1	Consumer Durables	7131	8381	12828	15305	17753	20791	19703	6299
4.2	Housing (Including Priority Sector Housing)	397053	456665	538610	628535	746780	860086	974565	1160111
4.3	Advances against Fixed Deposits (Including FCNR (B), NRNR Deposits etc.)	56972	61087	63596	62516	66683	66115	72493	82873
4.4	Advances to	3000	3109	3821	5434	6419	4750	5556	6265

	Individuals against share, bonds, etc.								
4.5	Credit Card Outstanding	20435	24912	24857	30462	37679	52132	68628	88262
4.6	Education	49933	54970	60005	63320	68224	70088	69712	67988
4.7	Vehicle Loans	89054	111089	106300	124610	152908	170525	189786	202154
4.8	Other Personal Loans	159258	177372	199671	236165	295771	375547	508026	606780
5	Priority Sector	1421045	1539796	1829724	2010324	2225907	2435647	2553187	2739021
5.1	Agriculture & Allied Activities	546626	589914	665979	765880	882590	990921	1021591	1104988
5.2	Micro & Small Enterprises	498625	562296	707813	800343	847587	901972	996365	1067175
5.2(a)	Manufacturing	236657	284348	348194	380028	371467	369731	372999	375505
5.2(b)	Services	261969	277947	359618	420314	476120	532241	623366	691670
5.3	Housing	265851	267203	302007	322386	342276	368344	375587	432703
5.4	Micro-Credit	16024	16507	17213	17701	18846	18894	26352	24101
5.5	Education Loans	48067	52612	57888	59184	60137	60436	60713	53950
5.6	State-Sponsored Orgs. for SC/ST	179	124	328	348	514	636	296	397
5.7	Weaker Sections	233359	273398	386000	404884	477397	554598	569048	662628
5.8	Export Credit	39100	42234	48313	42626	42382	42502	28305	15566
Source : Reserve Bank of India. Also see Notes on Tables.									

- **Equations** Finance for Agriculture –Agriculture is the main occupation of the rural population and the development in agriculture results in style and standard of living of the people. In order to reduce unemployment and to raise income sources of farmers, development of allied activities in agriculture is essential.

- Finance to Industrial Development - In order to reduce unemployment, poverty and increase standard of living, industrial development plays a dominant role. Such industrial development is encouraged by the finance provided by banking institutions.
- Commercial banks plays catalyst role in development of industrialization. It helps in the formation of new venture, financing to sick industries for making them viable, finance to purchase capital goods. Bank also provide finance to purchase consumer durable. It means banks not only improve standard of living but also help in creation of demand for consumer goods.
- Recent development in commercial banks in India : The earliest commercial Banks were known as agency houses and were started by East Indian Company. Before independence banks could not develop themselves to desired extent. After independence RBI followed the policy of merger to strengthen the banking system. The bank nationalization is an important development in the history of banking. At present these banks function in accordance with national policies and programs and priorities given to the rural sector. The growth and development of commercial bank in India during the period from 2011 to 2019

The PradhanMantri Jan DhanYojana (PMJDY) launched in August 2014, has been implemented in two phases - Phase I (August 15, 2014 - August 14, 2015) and Phase II (August 15, 2015 - August 14, 2018). Phase I aimed at providing universal access to banking facilities, basic banking accounts for saving and remittance, and RuPay Debit card with an in-built accident insurance cover of ₹100,000. Phase II incorporated inter alia overdraft facilities of up to ₹5000, creation of a Credit Guarantee Fund for coverage of defaults in overdraft accounts, and micro-insurance and un organized sector pension schemes like Swavalamban. In September 2018, the PMJDY was extended beyond August 14, 2018 with new features viz., opening accounts from “every household to every adult”; raising the overdraft limit to ₹10,000 from ₹5,000; overdraft facility up to ₹2,000 without any conditions; and raising accidental insurance cover for new RuPay cardholders from ₹100,000 to ₹200,000, for PMJDY accounts opened after August 28, 2018.

: Progress under Financial Inclusion Plans, All SCBs (including RRBs)

Sr. No.	Particulars	Mar-10	Mar-17	Mar-18	Y-o-Y growth in per cent (2016-17)	Y-o-Y growth in per cent (2017-18)
1	Banking Outlets in Rural location - Branches	33,378	50,860	50,805	-1.9	-0.1
2	Banking Outlets in Rural location - Branchless mode	34,316	547,233	518,742	2.4	-5.2
3	Banking outlets in Rural locations - Total	67,694	598,093	569,547	2.0	-4.8
4	Urban locations covered through BCs	447	102,865	142,959	0.3	39.0
5	BSBDA - Through branches (No. in Million)	60	254	247	6.7	-2.8
6	BSBDA - Through branches (Amt. in Billion)	44	691	731	45.8	5.8
7	BSBDA - Through BCs (No. in Million)	13	280	289	21.2	3.2
8	BSBDA - Through BCs (Amt. in Billion)	11	285	391	73.8	37.2
9	BSBDA - Total (No. in Million)	74	533	536	13.6	0.6
10	BSBDA - Total (Amt. in Billion)	55	977	1,121	53.1	14.7
11	OD facility availed in BSBDAs (No. in million)	0	9	6	0.0	-33.3
12	OD facility availed in BSBDAs (Amt. in Billion)	0	17	4	-41.4	-76.5
13	KCC - Total (No. in Million)	24	46	46	-2.1	0.0
14	KCC - Total (Amt. in Billion)	1,240	5,805	6,096	13.1	5.0
15	GCC - Total (No. in Million)	1	13	12	18.2	-7.7
16	GCC - Total (Amt. in Billion)	35	2,117	1,498	41.8	-29.2
17	ICT-A/Cs-BC-Total number of transactions (in million)	27	1,159	1,489	40.1	28.5
18	ICT-A/Cs-BC-Total number of transactions (in billion)	7	2,652	4,292	57.2	61.8

Note: Sr. No. 1-16 consist of cumulative data from the inception. Sr. No. 17-18 consist of data from the start of corresponding financial year.
Source: FIP returns submitted by banks.

4.1 Suggestions and conclusion

- In an environment of worsening asset quality of banks, resolution of stressed assets and ensuring adequate provisions as well as capital ascended the hierarchy of priorities for the Reserve Bank in 2011-19, although some improvement was visible. Provisions for mark-to-market losses on account of hardening of yields on government securities added to these pressures, and in this context, the Reserve Bank allowed banks to spread the losses across four quarters, providing some relief. That bank managed to improve their capital positions and maintained other soundness indicators such as the leverage ratio and the LCR well above the minimum regulatory requirements testifies to the gradually building resilience of the banking sector.
- Bank credit is recovering from the risk aversion of recent years and bank intermediation in the flow of resources to the commercial sector is regaining lost ground. There are shifts underway, though, with a renewed focus on lending to less stressed sectors such as retail loans. Lending to the agricultural sector is getting adversely impacted possibly reflecting deteriorating asset quality in the sector. Policy initiatives such as expanding the ambit of PMJDY—from every household to every adult— and the ongoing third phase of the financial inclusion plan is expected to deepen formal financialisaton of disadvantaged sections of society. Furthermore, capital infusion in weak RRBs and operationalization of an increased number of SFBs and PBs is expected to enable the expansion of the geographical penetration of banking services. On the consumer protection front, improvements in grievance redressed, introduction of innovative products for digital payments, and measures to improve cyber security in banking are all expected to leverage on the progress made so far to expand financial inclusion to encompass all Indians and to provide financial services efficiently and cost-effectively.

- Going forward, the IBC and the evolving framework for resolution of stressed assets is expected to address the bad loan problem and improve debtor-creditor relationships even as competition from NBFCs, bond market and fintech companies intensifies. In this environment, banks need to augment their capital base to guard against future balance sheet stress, and improve their credit monitoring and risk management strategies in order to support inclusive growth in the evolving financial landscape.

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