6. Banking Industry in India - Economy

Recently, the President of India underscored the transformative role of India's banking sector in shaping the nation's economic trajectory.

Banking Sector in India - Foundation of Economic Growth

The Indian banking sector functions as a financial intermediary—mobilizing deposits and channeling them into productive credit. It acts as a primary conduit for credit delivery, liquidity modulation, financial inclusion, and serves as the operational backbone for macroeconomic and fiscal management. By integrating traditional banking with modern digital finance, it has emerged as a pillar of India's growth story.

Institutional Structure of the Indian Banking Industry

Cooperative Banks & Local Area Banks - These cater to niche rural markets, small borrowers, and grassroots communities.

Development Financial Institutions (DFIs) - NABARD supports agriculture and rural development, SIDBI promotes small industries, and IDBI provides infrastructure funding.

Non-Banking Financial Companies (NBFCs) - With over 9,000 registered entities, NBFCs extend credit to underserved segments, including informal and semi-formal businesses, bridging financial inclusion gaps.

Role of Banks in Monetary Management

Interest Rate Transmission - Banks serve as channels for RBI's monetary stance. Changes in repo rate directly influence lending and deposit rates.

Liquidity Operations - Participation in RBI's Variable Rate Repo (VRR) and Variable Rate Reverse Repo (VRRR) helps stabilize short-term liquidity.

Credit Expansion - Personal, agricultural, and service sector loans boost consumption and investment, supporting growth and monetary policy effectiveness.

Role of Banks in Fiscal Management

Public Debt Management - Banks invest in government securities (G-Secs), helping finance India's fiscal deficit sustainably.

Subsidy Delivery - Banks play a key role in Direct Benefit Transfers (DBT), ensuring transparent delivery of welfare schemes such as PM-KISAN and LPG subsidies.

Financial Inclusion - Initiatives like the Pradhan Mantri Jan Dhan Yojana (PMJDY) have enabled more than 56 crore zero-balance accounts, integrating marginalized groups into the financial system.

Digital Tax Ecosystem - Banks enable GST payments, income tax collections, customs duties, and refunds through digital channels, streamlining fiscal operations.

Banking Industry as a Driver of Economic Growth

Resource Allocation - Banks efficiently channel savings into productive investments, enhancing economic efficiency and growth.

Support to MSMEs - Tailored credit to MSMEs boosts employment generation, entrepreneurship, and innovation.

Infrastructure Financing - Banks provide long-term funding for roads, railways, digital networks, and ports—critical for national development.

Agriculture & Rural Support - Banks promote rural prosperity through Kisan Credit Cards (KCCs), financial literacy drives, and digitized payments (e.g., KCC to RuPay card conversion).

Key Challenges in India's Banking Industry

Asset Quality & NPAs - Loan recoveries have lagged, especially post-restructuring measures. MSMEs and agriculture face heightened credit stress, raising default risks.

Capital Adequacy & Basel III Compliance - Large banks are adapting to Basel III norms, but smaller ones face challenges. High inter-bank linkages increase systemic risk in crisis situations.

Financial Inclusion vs Profitability - Expanding outreach to rural areas is costly, with digital infrastructure and literacy gaps. Indian banks maintain higher Net Interest Margins compared to global peers, raising questions of efficiency.
Competition & Consolidation - Bank mergers reduce competition, potentially limiting consumer choice. Aggressive private bank strategies may lead to riskier lending behavior.
Cybersecurity Threats - Threats like phishing, ransomware, fake apps, and DDoS attacks expose vulnerabilities. Banks account for nearly 20% of reported cyber incidents in India, making resilience critical.

Key Reforms in India's Banking Industry

Banking Laws (Amendment) Act, 2025 - Introduced 19 amendments across 5 major banking laws.

1. **Governance Enhancements** - Director tenures in cooperative banks aligned with the 97th Constitutional Amendment.
2. **Audit Reforms** - PSBs empowered to pay competitive remuneration to auditors, ensuring higher audit quality.
3. **Investor Protection** - PSBs can now transfer unclaimed shares and bond redemption amounts to the IEPF.
4. **Substantial Interest Threshold** - Raised from ₹5 lakh to ₹2 crore, updating outdated definitions.

4R Strategy for PSB Revival (2014) -

1. **Recognition** of stressed assets,
2. **Recapitalisation** of banks,
3. **Resolution** of bad loans,
4. **Reform** in governance and operations.

Supported by the Banks Board Bureau (BBB), which introduced professional leadership selection.
Jan Vishwas Bill 2.0 (Union Budget 2025) - Decriminalizes over 100 provisions across financial laws. Simplifies compliance for MSMEs and startups. Promotes a trust-based regulatory framework over punitive approaches.

Conclusion

The Indian banking industry is not just a financial intermediary but a nation-building institution, supporting growth, fiscal stability, and inclusive development. While challenges such as NPAs, cyber risks, and balancing profitability with inclusion persist, ongoing reforms aim to strengthen governance, transparency, and resilience. With digital innovation, regulatory modernization, and global integration, India's banking system is poised to remain a backbone of economic transformation and financial empowerment.

Source - https - //www.thehindu.com/news/national/tamil-nadu/banking-industry-plays-key-role-in-indias-growth-story-president-droupadi-murmu/article70003634.ece