

# The Role of Public Sector Banks in Advancing Inclusive Growth

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## Abstract

Public Sector Banks (PSBs) serve as crucial financial entities, offering monetary services to the entire Indian populace, irrespective of their socioeconomic standing or financial capacity. This study examines the role of Public Sector Banks in facilitating access to financial services for individuals, concurrently supporting key economic sectors and implementing government-sponsored social welfare initiatives.

Public sector banks have developed their rural banking operations and direct benefit transfer systems and loan accessibility for disadvantaged communities according to the Reserve Bank of India regulations. The document explains important aspects of non-performing assets and operational weaknesses and technical problems. The document examines current policy transformations which include business recapitalization and consolidation and digitization efforts. The study found that public sector banks provide essential support for universal economic development yet their long-term productivity and operational efficiency require additional improvements.

**Keywords:** Public Sector Banks, Rural Banking, Reserve Bank of India, Long-Term Productivity Etc.

## I. Introduction

The development benefits must be distributed to all socio-economic groups which drives inclusive growth to become the primary economic policy goal in India. The formal financial services system in India which functions as a formal economy system determines how people engage with economic activities because people lack access to bank accounts and income inequality and regional disparities exist throughout the country [1]. Public Sector Banks (PSBs) have used their banking services to reach underserved communities which has enabled them to solve community problems through their banking operations. The nationalization of major banks in 1969 marked a key advancement which transformed the financial system of India into its current structure. The banking system adopted these social and developmental objectives through this banking establishment. Public sector banks (PSBs) have used their operations within the Reserve Bank of India regulatory framework to execute financial inclusion programs and poverty alleviation initiatives and rural development programs [2]. Their extensive branch network enables people in rural and semi-urban areas to access credit and savings and insurance services which they previously could not reach through traditional financial institutions.

Public sector banks (PSBs) have a vital function because they help implement government programs which aim to support business development and generate job openings and provide social protection. The study aims to explore how public sector banks (PSBs) contribute to equitable economic development in India through their operational activities and institutional challenges and their success in implementing various policy measures.

Dimension of Inclusive Growth	Role of Public Sector Banks	Key Outcomes
Financial Inclusion	Opening bank accounts, digital banking access	Increased financial participation
Rural Development	Agricultural credit, SHG financing	Improved rural livelihoods
Poverty Reduction	Subsidized loans, welfare scheme delivery	Enhanced economic stability
Employment Generation	MSME financing, Mudra loans	Job creation and entrepreneurship
Social Security	Direct Benefit Transfers (DBT), insurance schemes	Reduced vulnerability

**Table 1:** Key Dimensions of Inclusive Growth and Role of Public Sector Banks, Source: Author Generated

## Conceptual Framework

The study establishes its theoretical framework through the connection between financial inclusion and inclusive growth which together form the base of fair economic progress in India. The definition of inclusive growth refers to an economic development approach which enables all members of society to participate in economic progress especially those who face neglect or vulnerability [3]. The system evaluates how quickly

economic growth occurs together with its effects on different social groups to achieve goals which include decreasing poverty and inequality and reducing differences between regions. Organizations and people depend on financial service access as their main tool which enables them to handle their financial activities through investment and saving and risk management.

The implementation of financial inclusion represents the essential method which enables societies to achieve their inclusive growth objectives [4]. The financial system provides individuals who typically face exclusion from banking services access to financial products and services at affordable prices and suitable times through its delivery of banking and credit and insurance and digital payment solutions. The Reserve Bank of India has actively pushed this objective in India by establishing regulatory measures that improve banking access and protect financial stability through its policy framework. The Public Sector Banks serve as the main banking institutions that provide support to both priority sectors and social welfare programs through their role in this system [5].

The process of inclusive growth and financial inclusion creates a direct relationship, which allows better financial access to help more people enter the economy while creating better income opportunities and stronger protection for disadvantaged groups, which leads to national development that benefits all people.



*Figure 1: Conceptual Framework, Source:*

<https://framerusercontent.com/images/kXJ0oNtX0BXG2YWY797tMpuuuc.jpg?height=708&width=684>

### **Evolution of Public Sector Banks in India**

The development of Public Sector Banks (PSBs) in India shows how the banks develop through two main pathways which follow the economic and social development goals of the country. Before banks became nationalized the banking sector in India existed as a private industry which primarily served the needs of cities and industrial areas while remaining unable to provide proper banking services to farmers and rural communities [6]. The 1969 bank nationalization which continued with its second phase in 1980 created a major

shift toward social banking because it enabled low-income people to obtain credit and financial services. The policy intervention approved branch expansion to proceed quickly into rural and semi-urban areas which established the foundation needed for financial inclusion to succeed.

The Indian banking system underwent major changes after 1991 because the government introduced reforms which aimed to boost efficiency and competitiveness and strengthen financial stability [7]. The Reserve Bank of India spearheaded the reforms, setting the stage with prudential standards and capital adequacy requirements. They also brought in technology-driven banking systems. The Public Sector Banks which include Punjab National Bank and Bank of Baroda, have shown adaptability to these developments, while still pursuing their goal of social progress.



Figure 2: Public sector banks in India, Source: [https://www.nationalheraldindia.com/opinion/50-years-of-bank-nationalisation-led-to-growth-in-deposits-branches-and-credit?utm\\_source=chatgpt.com](https://www.nationalheraldindia.com/opinion/50-years-of-bank-nationalisation-led-to-growth-in-deposits-branches-and-credit?utm_source=chatgpt.com)

The public sector banks (PSBs) have strengthened their ability to operate through various structural reforms which include bank consolidation and recapitalization and governance enhancements. The strategies aim to solve problems which stem from rising non-performing assets and the need to maintain international competitiveness. The changes in public sector banks (PSBs) show how India balances its social goals with the need for financial stability in its changing economy.

**The Function of Public Sector Banks in Promoting Inclusive Growth Fiscal Inclusion**

Public Sector Banks (PSBs) have established themselves as the fundamental financial system for India by providing banking access to people from disadvantaged groups. Public Sector Banks (PSBs) have implemented multiple solutions which include zero-balance accounts and mobile banking and digital payment platforms to create better access to financial services [8]. The Pradhan Mantri Jan Dhan Yojana represents a substantial undertaking, bringing millions of previously unbanked individuals into the financial fold. Public Sector Banks leverage their vast branch networks and capacity to serve rural populations, establishing links to areas that are often difficult to access.

The banks provide access to savings and credit and insurance and pension services which help individuals reduce financial risks while achieving economic stability. The financial inclusion enabled by Public Sector Banks directly aids in poverty alleviation and promotes inclusive engagement in economic progress.

**Priority Sector Financing**

Priority Sector Lending (PSL) serves as a key policy instrument which enables Public Sector Banks (PSBs) to create pathways that allow all citizens to access the benefits of economic development [9]. The Reserve Bank of India which operates under government control, mandates banks to allocate specific funds toward vital sectors which include agriculture, micro and small, and medium-sized enterprises (MSMEs),

educational institutions, housing development, and assistance for economically disadvantaged members of society. Public Sector Banks have always played a big part in meeting Priority Sector Lending goals, and they often go above and beyond what was expected. The special loan distribution method ensures that vital sectors receive financial resources which they need for employment creation and support of rural development initiatives. PSBs provide low-cost financing options to low-income families and small-scale farmers and business owners and people who launch their own enterprises, which enables them to increase productivity and create jobs and develop their local economies. PSL serves as a central point which connects established financial networks with community-based economic development initiatives. The result generates equitable distribution of economic development benefits.

### Implementation of Government Schemes

Public Sector Banks (PSBs) serve as the main institutions which execute multiple government-funded welfare programs and development projects that aim to achieve inclusive economic growth. The implementation of Pradhan Mantri Mudra Yojana and Stand-Up India Scheme requires Public Sector Banks to serve as their main operating partner. The program provides unsecured loans to small business owners and women and people from disadvantaged groups which helps them establish new businesses and create new employment opportunities. Public Sector Banks (PSBs) support Direct Benefit Transfers (DBT) which ensure that welfare payments and subsidies reach recipients without leaks while maintaining transparency [10]. Public Sector Banks (PSBs), owing to their established institutional credibility and widespread reach, represent the most effective means of achieving public policy goals. These institutions employ various strategies that bolster their capacity to foster economic inclusion, concurrently reinforcing their accountability in public service through enhanced governance frameworks.

### Rural and Agricultural Advancement

Public Sector Banks provide essential support for inclusive growth through their primary work in Rural and agricultural development. The Indian population depends on agriculture therefore it requires affordable access to fast delivery of loans. Public Sector Banks provide loans for agriculture purposes and investment funding and financial support to dairy and fisheries and poultry industries. The organization supports Self-Help Groups (SHGs) through its financial literacy programs which it conducts together with National Bank for Agriculture and Rural Development [11]. The programs help rural communities to increase their income while building their savings capacity and achieving community development goals. The Public Sector Banks (PSBs) use their financial resources to support rural infrastructure projects which include irrigation systems and road networks and storage facilities that enable sustainable development. Public Sector Banks (PSBs) are crucial in diminishing urban-rural gaps and promoting equitable economic growth nationwide by bolstering the rural economy and enhancing agricultural output.

Subsection	Key Functions of PSBs	Major Schemes/Tools	Target Beneficiaries	Impact on Inclusive Growth
Financial Inclusion	Opening zero-balance accounts, digital banking services, mobile banking	Pradhan Mantri Jan Dhan Yojana, DBT, RuPay cards	Unbanked population, low-income households	Increased financial access, reduced exclusion
Priority Sector Lending (PSL)	Directed credit to priority sectors like agriculture, MSMEs, housing	RBI PSL norms by Reserve Bank of India	Farmers, MSMEs, weaker sections	Employment generation, reduced regional disparity
Government Schemes Implementation	Disbursement of loans and subsidies, direct transfers	Pradhan Mantri Mudra Yojana, Stand Up India Scheme	Women, SC/ST entrepreneurs, small businesses	Entrepreneurship development, income generation
Rural Development	Agricultural credit, SHG financing, rural infrastructure funding	NABARD initiatives via National Bank for Agriculture and Rural Development	Rural households, farmers, SHGs	Improved rural livelihoods, economic stability
Social Security & Welfare Delivery	Direct Benefit Transfers, insurance, pension schemes	PMJJBY, PMSBY, Atal Pension Yojana	Economically weaker sections	Reduced vulnerability, social protection
Digital Financial Ecosystem	UPI, AEPS, mobile wallets integration	UPI, Aadhaar Enabled Payment System	Rural and urban users	Financial transparency, faster transactions

Table 2: Role of Public Sector Banks in Advancing Inclusive Growth, Source: Author Generated

### **Challenges Faced by Public Sector Banks**

The operational performance of Indian Public Sector Banks (PSBs) suffers from various structural problems which hinder their ability to achieve their core mission of delivering inclusive growth [12]. The bank faces its most serious problem when it accumulates Non-Performing Assets which create multiple negative effects that reduce its financial performance and ability to provide loans. Chronic non-performing assets persist because institutions often focus on specific lending opportunities, overlooking thorough credit evaluations and struggling with the recovery process. Despite the Reserve Bank of India's regulatory measures and the legal framework established by the Insolvency and Bankruptcy Code, asset quality remains a persistent problem. Public sector banks often struggle with operational inefficiencies, which then limits their ability to perform at their best.

When compared to private sector organizations, bureaucratic decision-making, combined with limited managerial freedom and rigid organizational structures, often leads to less efficient service and a decrease in competitiveness [13].

The organizations face human resource challenges because of skill gaps, lack of training programs, and missing performance-based incentives which result in decreased productivity and innovation. The banking sector faces its major challenge through technological lag which exists during the active digital transformation period that currently affects all banking operations. Public sector banks face difficulties because many of them still operate with outdated systems while private banks and fintech companies advance their digital services. The difference between these two groups becomes highly noticeable in rural and semi-urban areas because digital literacy among residents remains limited. The existing challenges demand thorough reforms to enable public sector banks to achieve better governance and operational performance and to enhance their technological capabilities.

### **Policy Measures and Reforms**

The Government of India together with the Reserve Bank of India has developed multiple policy changes and reform measures to strengthen Public Sector Banks (PSBs) so that they can better support economic growth for all citizens [14, 15]. The first step of the process requires the bank recapitalization which needs a substantial financial investment to improve public sector banks (PSBs) financial strength and loan distribution capabilities. The banks have used these resources to meet their regulatory requirements while they expanded their lending operations to essential business sectors.

The public sector banking system reform package includes plans to merge public sector banks (PSBs) into larger financial organizations which will operate more effectively and achieve higher operational productivity through economies of scale. The Insolvency and Bankruptcy Code establishes a structured process for resolving distressed assets and reducing non-performing assets through its implementation [16].

## **II. Discussion and Analysis**

The Pradhan Mantri Jan Dhan Yojana and other financial programs which Public Sector Banks (PSBs) implemented, created better access to banking services. This led to a dramatic increase in bank account openings by people who had been excluded from financial systems. The banks have improved their agricultural and micro-business operations and self-employed workers through their active support of Priority Sector Lending and their efforts to fund rural areas. The digital platform implementation which the Reserve Bank of India mandates through its regulations has created a better banking experience. Direct Benefit Transfers (DBT) have reduced leakages and assured the precise distribution of welfare benefits, hence enhancing trust in the financial system.

The PSBs face multiple challenges which include asset quality problems, operational inefficiencies, and technology deficiencies. The organization successfully reaches out to people and fulfills its social responsibilities, but its long-term impact depends on its ability to adapt through ongoing updates. The public sector banks operate as necessary components for fair economic development, but their ongoing effectiveness needs to balance social objectives with their financial results and new developments.

## **III. Conclusion**

Public Sector Banks in India function as essential institutions which enable financial access to unaffiliated socioeconomic groups through their banking services. The Public Sector Banks of India have made essential contributions to poverty reduction and rural development and economic empowerment through their programs which focus on financial inclusion and priority sector lending and government program implementation. The Reserve Bank of India authorities maintain their work on developing banking systems which help the country achieve its national development goals.

The organization needs to enhance its performance through continuous improvements that address three major challenges which include non-performing assets and operational inefficiencies and technology

limitations. The organization needs to focus on three key areas which include strengthening governance and developing digital capabilities and improving asset management.

Public sector banks will achieve their future success through their capacity to adjust to economic transformations while they maintain their social obligations and financial results which follow their mission to deliver social equality through their banking services.

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