



Banking sector contributions to India's GDP growth: Perspectives for 2024-25

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Abstract

This study examines the pivotal role of India's banking sector in driving GDP growth and fostering technological innovations. The banking sector plays a critical role in mobilizing capital, facilitating economic activities, and promoting financial inclusion across diverse sectors. Technological advancements, including digital transformation, fintech integration, AI, and blockchain, have reshaped banking operations, enhancing efficiency and customer experience. The study highlights the sector's resilience amid global uncertainties and underscores the importance of regulatory frameworks that balance innovation with financial stability. Looking forward, leveraging these advancements will be crucial for sustaining economic momentum and achieving inclusive growth. This study provides key perspectives on how the banking sector's evolution contributes to India's economic resilience and technological advancement in the global landscape.

Keywords: Banking sector, GDP growth, technological innovations, economic impact, financial inclusion and digital transformation

Introduction

According to the Reserve Bank of India (RBI), India's banking sector boasts sufficient capitalization and robust regulation, positioning it favourably compared to global peers. Credit, market, and liquidity risk analyses affirm that Indian banks have demonstrated resilience, effectively weathering global economic downturns.

In recent years, the world has experienced a series of crises, with the trend showing no signs of abating. Despite these challenges, the Indian economy remains anchored by robust fundamentals, financial stability, and positive growth momentum. However, it is crucial to maintain vigilance in a volatile global environment. The evolving landscape shaped by technological advancements, shifts in supply chains, trade dynamics, financial changes, and climate challenges presents both opportunities and hurdles. Against this backdrop, India stands poised to enter a new era of transformation, sustained by favorable demographics, improving productivity, technological advancements, and a supportive policy framework. The convergence of these factors augurs well for sustained high growth prospects in India in the years to come.

Recent years have seen the Indian banking industry introduce innovative models such as payments and small finance banks. Concurrently, initiatives like the Pradhan Mantri Jan Dhan Yojana and Post Payment Banks have expanded the sector's reach. These efforts, alongside comprehensive reforms including digital payments, neo-banking, the rise of Indian NBFCs, and fintech advancements, have significantly bolstered financial inclusion and stimulated India's credit ecosystem.

India's fintech industry is projected to reach US\$ 150 billion by 2025, solidifying its position as the third-largest fintech ecosystem worldwide and one of the fastest-growing markets globally. Currently, over 2,000 DPIIT-recognized fintech firms operate in India, a number steadily increasing. India's digital payments system has made substantial strides, ranking highest among 25 countries in the Faster Payments Innovation Index with the Immediate Payment Service (IMPS) achieving level five status. The Unified

Payments Interface (UPI) has been pivotal in revolutionizing real-time payments and expanding its global footprint in recent years.

The research paper on the banking sector's contributions to India's GDP growth examines pivotal aspects shaping India's economic landscape. The banking sector plays a crucial role as a catalyst for economic growth, influencing both macroeconomic indicators and the adoption of technological advancements. In recent years, India's banking industry has witnessed significant transformations driven by technological innovations, enhancing operational efficiencies, customer experiences, and financial inclusion initiatives. These advancements are not only pivotal for sustaining economic growth but also for fostering resilience amidst global economic uncertainties. As we delve into this study, it becomes evident that understanding the interplay between banking dynamics, GDP growth trajectories, and technological innovations is essential for formulating informed policies and strategies that can propel India towards sustainable economic development in the coming years.

Review of literature & evolution of india's banking sector

The critical role of the banking sector in India's economic growth and development is underscored by a comprehensive review of literature and recent empirical studies. Early research establishes a foundational link between the banking sector and India's GDP growth, highlighting how financial intermediation, credit creation, and mobilization of savings contribute significantly to economic output.

The evolution of India's banking sector from pre-independence to the post-liberalization era has been pivotal. Milestones such as the establishment of the Reserve Bank of India (RBI) in 1935 and subsequent nationalization of banks in the 1960s have shaped the sector's developmental trajectory. These reforms laid the groundwork for enhancing efficiency, competitiveness, and financial inclusion, thereby amplifying the sector's impact on GDP through increased

credit flow, facilitated investments, and improved financial services.

Sector-specific analyses highlight the diverse contributions of retail banking, corporate banking, rural banking, microfinance, and other financial services to India's GDP. They illustrate how these segments drive economic activities, generate employment, and distribute income across various sectors.

Recent literature assesses the profound impact of financial inclusion initiatives such as the Jan Dhan Yojana and PMJDY (Pradhan Mantri Jan Dhan Yojana) in extending banking services to marginalized populations. These initiatives have bolstered GDP growth by mobilizing savings, enhancing credit accessibility, and stimulating consumption patterns.

Digital technologies have revolutionized the banking sector, significantly augmenting its contribution to GDP. Innovations like UPI (Unified Payments Interface), mobile banking platforms, and fintech solutions have improved operational efficiency, reduced transaction costs, and expanded financial inclusion.

Effective risk management practices are crucial for ensuring financial stability and sustaining the banking sector's role in GDP growth. Studies analyze regulatory frameworks, capital adequacy requirements, and risk mitigation strategies essential for managing systemic risks and maintaining investor confidence. Comparative studies provide insights into how India's banking sector measures up against global counterparts in terms of GDP contribution, efficiency metrics, and regulatory frameworks. They offer benchmarks and lessons learned from international experiences that can inform policy decisions aimed at further enhancing the sector's role in India's economic development.

Recent reviews identify challenges such as non-performing assets (NPAs), regulatory compliance burdens, and global economic uncertainties that could potentially impact the banking sector's future GDP contributions. Strategies focusing on technological integration, sustainable financial practices, and policy reforms are discussed as critical for addressing these challenges and sustaining growth momentum.

Relevance of Study

In today's economic landscape, understanding the banking sector's contribution to India's GDP is essential for several compelling reasons. The significance of researching the banking sector's impact on India's GDP stems from its crucial role in driving economic growth, ensuring financial stability, and promoting inclusive development. This study provides essential insights for strategic policymaking and enhances comprehension of how the sector adapts within today's interconnected global economy. Addressing current challenges and capitalizing on opportunities will enable India's banking sector to sustain its transformative influence, shaping a resilient and prosperous economic trajectory for the nation.

1. Economic Backbone and Stability: The banking sector is the backbone of India's economy, serving as a crucial conduit for financial intermediation, credit allocation, and capital formation. Its contribution to GDP reflects not only its economic significance but also its role in maintaining financial stability and fostering sustainable economic growth.

2. Impact of Financial Inclusion Initiatives: Initiatives such as the Jan Dhan Yojana have significantly expanded banking services to previously underserved populations. This study examines how increased financial inclusion translates into higher savings mobilization, enhanced credit availability, and improved consumption patterns, thereby stimulating GDP growth and reducing income disparities.

3. Policy Implications and Regulatory Framework: The study evaluates the effectiveness of regulatory reforms in enhancing the banking sector's resilience and competitiveness. Insights into regulatory frameworks, capital adequacy requirements, and risk management practices provide critical inputs for policymakers to align banking policies with broader economic objectives and ensure sustainable growth.

4. Global Comparative Analysis: Comparative analyses with global banking sectors offer valuable insights into India's competitiveness, efficiency metrics, and regulatory standards. By benchmarking against international best practices, the study identifies areas for improvement and strategic interventions to strengthen the banking sector's contribution to India's GDP.

5. Technological Advancements and Digital Transformation: The advent of digital technologies has revolutionized the banking sector, fostering efficiency, reducing transaction costs, and promoting financial inclusion. By analyzing the impact of innovations like UPI and mobile banking on GDP, the study elucidates their role in accelerating economic activities and broadening access to financial services across India.

6. Challenges and Opportunities Ahead: Anticipating future challenges such as non-performing assets (NPAs), global economic uncertainties, and technological disruptions, the study identifies strategic opportunities for the banking sector. It explores avenues for sustainable finance, enhanced digital infrastructure, and inclusive growth strategies that can propel India towards sustained high GDP growth rates.

Conclusion: In conclusion, the relevance of studying the banking sector's contribution to India's GDP lies in its pivotal role as a driver of economic development, financial inclusion, and stability. This qualitative report emphasizes the sector's transformative impact on India's economic landscape and underscores the importance of informed policymaking to harness its full potential. By addressing current challenges and capitalizing on emerging opportunities, India can leverage its banking sector to achieve resilient and inclusive economic growth in the years ahead.

Research methodology

A well-designed research methodology for investigating the banking sector's contribution to India's GDP would aim to provide a comprehensive understanding of the topic while ensuring rigor and reliability. This study adopted a mixed-methods research design to comprehensively analyse the

banking sector's contribution to India's GDP. This qualitative study aims to investigate the significance of the banking sector's contribution to India's GDP in the contemporary economic environment. The research will employ semi-structured studies with key stakeholders including economists, policymakers, banking professionals, and industry experts. These reports and studies will delve into their perspectives on how the banking sector influences economic growth, financial stability, and inclusive development in India today. Additionally, document analysis of relevant policy reports, publications, and industry insights will complement the reports and studies, providing a comprehensive understanding of the sector's impact. The analysis will be utilized to identify recurring themes and critical factors influencing the banking sector's role in GDP dynamics. This research methodology seeks to uncover insights that inform strategic policymaking and contribute to enhancing the banking sector's effectiveness in driving sustainable economic growth and development in India.

Analysis - Banking Sector Contributions to India's Gdp Growth

The Indian banking system comprises 12 public sector banks, 21 private sector banks, 44 foreign banks, and 12 Small Finance Banks. As of December 2023, India had a total of 16,88,558 micro-ATMs, along with 1,26,205 on-site ATMs and Cash Recycling Machines (CRMs), and 93,671 off-site ATMs and CRMs.

In the fiscal year 2023, banks installed 2,796 new ATMs, a significant increase from 1,486 in FY22 and 2,815 in FY21. Digital channels now facilitate 100% of new bank account openings in rural India. Boston Consulting Group (BCG) predicts that digital payments will rise to 65% of all transactions by 2026.

As of 2023, the total assets in India's public sector banks amounted to US\$ 1686.70 billion, whereas private sector banks held US\$ 1016.39 billion in assets. Public sector banks accounted for 58.31% of the total banking assets, which includes public, private, and foreign banks.

Public banks generated US\$ 102.4 billion in interest income in 2023, while private banks recorded US\$ 70 billion in the same period.

India's digital lending market has shown a robust compound annual growth rate (CAGR) of 39.5% over the past decade. It is projected that the Indian digital consumer lending market will exceed US\$ 720 billion by 2030, constituting approximately 55% of the projected US\$ 1.3 trillion digital lending market in the country.

According to the Reserve Bank of India's Scheduled Banks' Statement, deposits across all scheduled banks surged by Rs. 200.6 lakh crore (US\$ 2,414.15 billion) as of January 26, 2024.

1. According to report of the Reserve Bank of India dated June 19, 2024, wherein stated that the following additional measures are taken to enhance banking operations and bolster economic resilience:

- i. Firstly, the definition of bulk deposits for Scheduled Commercial Banks (SCBs) and Small Finance Banks (SFBs) may change to single rupee term deposits of ₹3 crore and above, with Local Area Banks following a similar structure as applicable to Regional Rural Banks (RRBs).

- ii. Additionally, in alignment with global trade dynamics and to facilitate business ease, RBI plans to rationalize Foreign Exchange Management Act (FEMA) guidelines governing exports and imports. This aims to provide greater flexibility to Authorized Dealer banks, with draft guidelines forthcoming for stakeholder feedback. Recognizing the need for robust digital payment infrastructure amidst rising fraud cases, RBI intends to establish a Digital Payments Intelligence Platform. This platform will facilitate network-level intelligence and real-time data sharing across the digital payments' ecosystem, supported by a dedicated committee to oversee its implementation.
- iii. Furthermore, RBI proposes to expand the e-mandate framework to include recurring payments like Fastag and National Common Mobility Card (NCMC), allowing automatic balance replenishment below customer-defined thresholds, thereby enhancing convenience for travel-related payments. Moreover, UPI Lite, introduced for seamless small value transactions, may soon integrate into the e-mandate framework. This enhancement will enable automatic replenishment of UPI Lite wallets based on pre-set limits, further streamlining digital payment experiences.
- iv. Looking ahead, RBI's 'HARBINGER 2024 – Innovation for Transformation' global hackathon aims to drive fintech innovation with themes focusing on 'Zero Financial Frauds' and 'Being Divyang Friendly', underscoring RBI's commitment to fostering transformative initiatives.

In conclusion, RBI remains steadfast in its pursuit of stability and growth, anchoring monetary policy on price stability to sustain India's economic momentum amidst global challenges.

Government initiatives to strengthening the banking sector's in contributing to india's gdp

The Government of India continues to prioritize initiatives aimed at strengthening the banking sector's pivotal role in driving economic growth and contributing to India's GDP. Key efforts include expanding the reach of financial services through schemes like:

- The Pradhan Mantri Jan Dhan Yojana, which has successfully banked over 51.11 crore beneficiaries with deposits exceeding US\$ 25.13 billion. The introduction of Digital Banking Units across 75 districts aims to enhance banking accessibility and promote financial inclusion.
- Additionally, initiatives like UPI Lite for offline digital payments and the proposed national financial information registry underscore the government's commitment to advancing digital infrastructure and regulatory frameworks. These initiatives are expected to bolster the banking sector's efficiency, resilience, and capacity to support sustainable economic growth in India throughout 2024 and beyond.
- Prime Minister Narendra Modi launched e-RUPI in August 2021, a personalized digital payment solution utilizing QR codes or SMS vouchers.
- The Economic Survey 2022-23 highlighted RBI's measures, including a US\$ 9.1 billion (Rs. 75,000 crore) infusion into NBFCs, HFCs, and MFIs, contributing to the revitalization of the real estate

sector. Neo-banking platforms have experienced significant growth, attracted global investments and expanded services traditionally provided by banks and payment providers. The National Asset Reconstruction Company took over 15 Non-Performing Loans amounting to Rs. 50,000 crore (US\$ 6.70 billion) from banks. NPCI plans to launch UPI Lite to enable offline UPI transactions, facilitating payments up to Rs. 200 (US\$ 2.67).

- According to RBI data as of February 18, 2022, India's foreign exchange reserves stood at US\$ 630.19 billion. IREDA collaborated with banks in September 2023, to strengthen renewable energy projects across India. India Post Payments Bank, in partnership with Airtel, launched WhatsApp Banking Services for IPPB customers in Delhi in March 2023.
- RBI launched the 'RBI Retail Direct Scheme' in November 2021, to enhance retail investor participation in government securities. Starting October 1, 2021, RBI mandated Additional Factor Authentication for auto-debit transactions to bolster security. In October 2021, Immediate Payment Service (IMPS) transactions totalled 430.67 million, amounting to Rs. 3.70 trillion (US\$ 49.75 billion). RBI initiated a pilot project in rural areas to digitize Kisan Credit Card lending, aiming to enhance efficiency and reduce turnaround time (TAT).
- The Union Budget 2023 introduced plans for a national financial information registry to centralize financial data and adopted a 'risk-based' KYC approach. The Union Budget 2022-23 proposed the introduction of a Central Bank Digital Currency (CBDC) named Digital Rupee.
- India and Singapore's central banks announced in September 2021, plans to integrate their digital payment systems by July 2022 for swift, cost-effective fund transfers. As of May 2022, Unified Payments Interface (UPI) facilitated 5.95 billion transactions valued at Rs. 10.41 trillion (US\$ 133.46 billion).

Strategies ahead to enhance banking operations and strengthen economic resilience

Looking forward, the road ahead for enhancing banking operations and fortifying economic resilience in India appears promising. Increased investment in infrastructure, expedited project execution, and ongoing reforms are anticipated to provide significant momentum to the banking sector's growth. These developments underscore a robust outlook, with expanding businesses increasingly turning to banks to meet their credit requirements.

The evolution of technology has been pivotal, ushering in the prominence of mobile and internet banking services. Artificial Intelligence (AI) and automation are delivering unprecedented efficiencies, while Blockchain technology continues to drive innovation across diverse sectors, promising further advancements in the future.

Furthermore, there is a heightened focus within the banking sector on enhancing client services and modernizing technological infrastructure. These initiatives are geared not only towards improving overall customer experiences but also towards maintaining a competitive edge in the market. In recent years, India has witnessed a surge in fintech and microfinancing activities. The Indian fintech market has garnered significant attention, attracting US\$ 29 billion in funding across 2,084 deals from January 2017 to July 2022.

This represents 14% of global fintech funding and ranks second globally in terms of deal volume. Digital lending, which amounted to US\$ 75 billion in FY18, is projected to escalate to US\$ 1 trillion by FY23, fuelled by a substantial five-fold increase in digital disbursements. By 2025, the Indian fintech market is expected to expand to Rs. 6.2 trillion (US\$ 83.48 billion), highlighting its rapid growth trajectory and pivotal role in shaping the financial landscape.

In summary, these trends underscore the transformative potential of technological advancements and strategic initiatives within the banking sector and fintech industry, positioning India for sustained economic growth and innovation leadership in the coming years.

1. According to the report of CMIE, that the Reserve Bank of India (RBI) anticipates India's real GDP to expand by 7 per cent in the fiscal year 2024-25. Growth is projected at 7.2 per cent for the June 2024 quarter, with expectations of moderation to 6.8 per cent in the September 2024 quarter. However, a rebound to 7 per cent growth is forecasted for the December 2024 quarter, followed by an anticipated growth of 6.9 per cent in the March 2025 quarter.

According to the RBI, the GDP growth for 2024-25 will be supported by factors such as a recovery in rabi sowing, sustained profitability in manufacturing, and the underlying resilience of services. On the demand side, improvements in household consumption are expected. Prospects for fixed investment are promising due to an upturn in the private capital expenditure cycle, enhanced business sentiments, robust balance sheets of banks and corporates, as well as the government's emphasis on capital expenditure.

Technological innovations and digitalisation of financial services in India

According to the report of PricewaterhouseCoopers Private Limited (PwCPL), 2024, that the advent of new technologies and rapid digitalization has significantly altered consumer behaviours. With the widespread adoption of mobile and internet services, Indian consumers have increasingly embraced online experiences.

Banks have transitioned from traditional brick-and-mortar models to digital banking channels, necessitating ongoing technological innovation and reshaping of operational and business frameworks. Collaborations with FinTech firms have propelled technology adoption among banks, providing advanced platforms to enhance operational efficiencies and explore new business opportunities. Tech-savvy neo-banking FinTechs have successfully attracted a younger demographic with their seamless customer experiences.

As digitization continues to grow, banking services are becoming increasingly integrated into the broader digital economy. Application Programming Interfaces (APIs) have played a crucial role in facilitating seamless transactions across multiple parties, enabling banks to expand their market reach and diversify business avenues. The rise of new operating models like Banking-as-a-Service (BaaS) and beyond banking models has led to strategic partnerships between banks and various platforms, including e-commerce, BigTech companies, healthcare providers, and travel aggregators. These collaborations aim to offer

customers a comprehensive array of financial and non-financial services.

The Reserve Bank of India (RBI) has adapted to this evolving landscape by implementing initiatives to promote ongoing advancements in the banking sector. Key measures include establishing a regulatory sandbox, digitizing the Kisan Credit Card, launching a public tech platform for streamlined credit processes, and operationalizing the Central Bank Digital Currency (CBDC).

Generative AI is gaining traction in banking operations, facilitating the use of virtual assistants to reduce costs and expedite query resolutions. It is also reshaping wealth and portfolio management by employing sophisticated algorithms to tailor personalized strategies and recommendations. The integration of generative AI with predictive analytics holds immense potential in enhancing cross-selling and upselling opportunities, thereby positively impacting revenue and earnings. Concurrently, advanced analytics tools and AI algorithms are pivotal in identifying customer behavior trends, managing risks efficiently, and optimizing processes. This capability empowers banks to make informed decisions and improve overall economic efficiency.

Financial institutions are increasingly leveraging machine learning (ML) applications for enhanced fraud detection, improved credit scoring, and potential reductions in loan default rates. With advancements in quantum computing on the horizon, major banks are investing in research to accelerate insights and decision-making processes. Additionally, the metaverse is anticipated to introduce immersive digital environments to banking, offering personalized interactions and virtual branches. Blockchain technology is set to enhance security and transparency, reducing transaction costs and times. The widespread adoption of these transformative technologies is expected to reshape banking paradigms, ushering in a new era of innovation and customer-centric services.

Future scope of the study

Looking ahead to 2024-2030, India's financial sector is poised for significant transformation driven by a range of initiatives that will impact banking operations, digital payments, technological innovations, digitalization, and economic policy. Embracing digital transformation, banks will increasingly integrate advanced technologies like AI, ML, and blockchain to enhance operational efficiency, customer experience, and security. The expansion of digital payments, led by platforms like UPI and digital wallets, will foster financial inclusion and drive cashless transactions. Central Bank Digital Currency (CBDC) initiatives are expected to digitize currency transactions, potentially revolutionizing monetary policy and financial inclusion strategies. Technological innovations such as generative AI and predictive analytics will reshape banking services, offering personalized customer interactions and improved risk management. Regulatory reforms, including sandboxes for fintech experimentation and strengthened data privacy laws, will support innovation while ensuring consumer protection. Economic policy will focus on infrastructure investments, sustainable finance, and inclusive growth, underpinned by robust governance frameworks and compliance standards. Overall, these initiatives aim to propel India towards a more resilient, inclusive, and technologically advanced financial ecosystem by 2030.

Conclusion

As we conclude our exploration of the study on the banking sector's contributions to India's GDP growth, several key perspectives come into focus. Firstly, the banking sector in India has demonstrated its pivotal role as a cornerstone of economic development, facilitating capital mobilization, and fostering financial inclusion across diverse sectors of the economy. This has been further underscored by its resilience in navigating global uncertainties and adapting to rapidly evolving technological landscapes.

Technological innovations have significantly reshaped banking operations, enhancing efficiency, accessibility, and customer experience through digital transformation initiatives. The adoption of fintech solutions, AI-driven analytics, and blockchain technology has not only streamlined processes within banks but has also expanded financial services to previously underserved populations, thereby promoting inclusive growth.

Looking ahead, sustaining India's economic momentum will hinge on leveraging these technological advancements to further bolster banking sector capabilities. Embracing regulatory frameworks that foster innovation while ensuring financial stability will be crucial. Moreover, nurturing a collaborative ecosystem between traditional banks, fintech firms, and regulatory bodies will be essential to drive continuous innovation and meet evolving consumer expectations.

In conclusion, the banking sector's integration of technological innovations with robust growth strategies holds promise for catalyzing broader economic resilience, fostering digital payments ecosystems, and advancing India's position in the global financial landscape. This multifaceted approach not only enhances operational efficiencies but also supports the overarching goal of achieving sustainable and inclusive economic growth in the years ahead.

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