India's Banking Sector – The journey of Strength and Trust

Mains: *GS III – Economy – Money and Banking*

Why in News?

As the world's fourth-largest economy, India's financial sector has evolved into a resilient and dynamic force, ready to power the country's growth ambitions and investment needs.

What is the present status of India's Banking system?

- **Bank deposits and credit** (domestic) – They have nearly tripled between 2015 and 2025, with deposits rising from Rs.88.35 lakh crore to Rs.231.90 lakh crore and credit expanding from Rs.66.91 lakh crore to Rs.181.34 lakh crore.
- **Capital buffers** – They have strengthened, the *capital to risk weighted assets (CRAR),* which measures capital adequacy, rose from 12.94% in March 2015 to 17.36% in March 2025 with CET-1, which represents the highest quality capital a bank can hold, increasing from 9.98% to 14.81% during the same period.
- **Asset quality** – Gross Non-Performing Assets (GNPA) and Net Non-Performing Assets (NNPA) have reduced to 2.2% and 0.5% in March 2025 after rising to highs of 11.18% and 5.94% respectively in March 2018.
- **NPA Decline –** As a result of the Government's strategy of recognition, resolution, recapitalisation and reforms, gross NPA ratio have since declined to Rs.2,73,413 crore (gross NPA ratio of 2.79%) as on 31st March 2025.
- Further, as per RBI data on domestic operations, stressed assets, including restructured standard assets, as percentage of gross advances in SCBs has declined from 9.8% as on 31st March 2014 to 3.55% as on 31st March 2025.
- **Bank Profitability on the Rise –** As per the RBI, India's banking sector is sufficiently capitalized and well-regulated.
- Notably, profitability of banks improved for the sixth consecutive year in 2023-24.

- **Public Sector Banks** – From FY 22–23 to FY 24–25, the total Business of Public Sector Banks (PSBs) rose from Rs.203 lakh crore to Rs.252 lakh crore
- From FY 22–23 to FY 24–25, net profit increased from Rs.1.05 lakh crore to Rs.1.78 lakh crore.
- Dividend payouts grew from Rs.20,964 crore to Rs.34,990 crore, reflecting the continued strengthening of financial performance.
- **Scheduled Commercial Banks (SCBs)** – During FY 24-25, SCBs recorded their highest ever aggregate net profit of Rs.4.01 lakh crore, compared to the net profit of Rs.3.5 lakh crore in FY 23-24.
- The growth trajectory continues, as SCB's recorded an aggregate net profit of Rs.1.02 lakh crore in first 3-months of FY26.
- Continuing on this success, the profitability of SCBs improved during FY 25, with Profit After Tax surging by 14.7% (YoY).
- Gains in profitability continued with Return on Assets (RoA) at 1.37% and Returns on Equity (RoE) at 14.1%.

What are the measures that is propelling performance of India's banks?

- **The Asset Quality Review (AQR)** – It was launched in 2015 which compelled banks to recognize the true state of their loan books, bringing hidden NPAs to light and strengthening the supervisory framework.
- **4R's strategy** – The Government also implemented a comprehensive 4R's strategy, consisting of:
  - Recognition of NPAs transparently,
  - Resolution and recovery of value from stressed accounts,
  - Recapitalizing of PSBs, and
  - Reforms in PSBs and the wider financial ecosystem for a responsible and clean system.
- **The Prompt Corrective Action (PCA) framework** – It helped restore the health of weak banks, followed by the consolidation of 27 PSBs into 12 by 2020.
- A detailed review of business in terms of sustainability, profitability, viability and projections along with credit risk related actions have been beneficial.
- **The Insolvency and Bankruptcy Code (IBC)** – It was introduced in 2016, along with complementary out-of-court resolution mechanisms.
- It transformed India's credit culture and improved recovery processes.
- It changed the creditor-borrower relationship, taking away control of the defaulting company from promoters/owners and debarred willful defaulters from the resolution process.

- **Sharper recovery laws –** Key legislations such as the *SARFAESI Act, 2002* (The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002) and *the Recovery of Debt and Bankruptcy Act* have been amended to enhance their effectiveness in asset recovery.
- **Focused debt resolution –** The pecuniary jurisdiction of *Debt Recovery Tribunals (DRTs)* was raised from Rs.10 lakh to Rs.20 lakh, enabling them to prioritize higher-value cases and improve recovery efficiency.
- **Specialized recovery mechanisms –** PSBs have established dedicated stressed asset management units for close monitoring and faster resolution of NPAs.
- The deployment of business correspondents and incorporation of a business strategy that uses physical sales and *marketing force to interact directly with customers (Feet-on-street model),* has further boosted recovery efforts.
- In October 2025, the RBI issued a landmark reform through its Draft Directions 2025, proposing a shift to the *Expected Credit Loss (ECL) framework.*
- The framework applies to scheduled commercial banks, including foreign banks, and introduces a risk-sensitive approach to provisioning.
- These are expected to further support credit risk management practices, promote greater comparability across financial institutions, and align regulatory norms with globally accepted regulatory and accounting standards.
- **Proactive stress management –** The RBI's *Prudential Framework for Resolution of Stressed Assets* promotes early identification, reporting, and time-bound resolution of stressed loans, with incentives for lenders to act swiftly.

What are the evolving priorities in India's banking landscape?

- **Priorities** - The following priorities outline the path ahead for strengthening the banking ecosystem and supporting India's broader development goals:
  - **Strengthen deposit mobilization** through targeted drives, effective use of branch networks, and deeper outreach in semi-urban and rural areas to sustain strong credit growth.
  - **Identify emerging commercial growth** areas over the next decade to enhance profitability and maintain momentum in economic expansion.
  - **Deepen corporate lending** in productive sectors while upholding

robust underwriting and risk management practices.
    - **Advancing India's Green Growth Agenda** by scaling up lending to renewable and sustainable energy sectors.
    - Develop tailored credit models to support new initiatives such as **Small Modular Nuclear Reactors (SMR)** announced in Budget 2025–26.
    - **Broaden financial inclusion** through key government schemes- **PM MUDRA Yojana, PM Vishwakarma, PM Surya Ghar Muft Bijli Yojana, PM Vidyalaxmi, and Kisan Credit Card (KCC).**
    - **Focus on Agri credit** under the *PM Dhan Dhanya Yojana* in 100 low-productivity districts with customised credit products to improve farm output and local economic growth.
    - **Expand international presence** by strengthening operations in *GIFT City,* supporting India's global financial aspirations, and enhancing participation in the **India International Bullion Exchange (IIBX).**
    - **Enhance customer experience** through faster grievance redressal, user-friendly multilingual digital platforms, and clean, accessible physical branches in metro and urban centres.

What lies ahead?

- India's banking sector has transformed from a period of stress to one of strength and stability.
- With cleaner balance sheets, robust capital buffers, and record profitability, banks today are more resilient, efficient, and future-ready.
- Driven by reforms, digital innovation, and financial inclusion, the sector is powering India's growth ambitions- financing infrastructure, supporting entrepreneurs, and advancing green and inclusive development.
- As India moves toward becoming the world's third-largest economy, its banks stand at the forefront- anchoring financial stability and fuelling the nation's next decade of growth.

Reference

PIB| Robust Banking Sector of India