



Public Sector Banking and Inclusive Socio-Economic Transformation in India

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ABSTRACT

This study explores the contribution of public sector banks to India's socio-economic transformation. Sustainable social progress depends greatly on a strong and inclusive economic structure, in which every sector plays a significant role. Among these sectors, the banking industry acts as a crucial driver of economic and social advancement by supporting financial inclusion, employment generation, rural development, and poverty reduction. Public sector banks, through their extensive outreach and welfare-oriented policies, have contributed significantly to improving the living standards of weaker and marginalized sections of society.

The paper is based on secondary data collected for the period 2017–2024 and examines the relationship between public sector banking activities and socio-economic development in India. Findings indicate that public sector banks have maintained a strong connection with economic growth by facilitating credit availability, promoting government welfare schemes, and encouraging balanced regional development. The study also highlights the importance of banking reforms and inclusive financial services in strengthening socio-economic equality.

Keywords: Socio-economic development, Public sector banks, Financial inclusion, Economic growth, Banking sector

INTRODUCTION

For many years, economists and researchers have debated the factors responsible for economic growth in developing countries. Earlier studies largely emphasized the role of stock market development in accelerating economic progress. Shah and Thomas (1997) argued that stock markets in India operated more efficiently than the banking system because they were relatively less influenced by government intervention.

However, another school of thought stresses the importance of the banking sector in promoting economic development. Scholars such as Bagehot (1873) and Schumpeter (1912) stated that banks stimulate future economic growth by identifying productive investment opportunities and

providing financial support to various sectors of the economy. Banking institutions not only mobilize savings but also channel funds into productive activities that generate employment and improve living standards.

In the Indian context, public sector banks have played a vital role in achieving socio-economic objectives, particularly after bank nationalization. These banks have extended financial services to rural and underdeveloped regions, supported agricultural and small-scale industries, and implemented several government welfare schemes aimed at reducing poverty and inequality. Their contribution has been especially significant in promoting financial inclusion among economically weaker and socially disadvantaged groups.

This paper attempts to examine the relationship between public sector banks and socio-economic growth in India. It also analyzes how banking services contribute to economic progress while addressing the needs of marginalized communities that are often neglected in the development process. The concept of socio-economic development should include the upliftment of weaker sections of society, and this study gives special attention to their participation and welfare through the role of public sector banking institutions.

LITERATURE REVIEW

Sarkar and Rakshit (2023), in their analysis of Indian public sector commercial banks, examined how macroeconomic factors influence PSB profitability. The study found that GDP growth, inflation, and employment positively affect banking performance. The authors concluded that stronger PSBs contribute to national economic development by supporting credit flow to priority sectors such as agriculture, MSMEs, and infrastructure.

The study *“Unlocking the Full Potential of Digital Transformation in Banking”* (2023) highlighted how digitization, mobile banking, AI, and fintech integration improved banking accessibility and customer outreach. The review observed that digital banking significantly enhances financial inclusion, especially among rural and underserved populations. Public sector banks were identified as major facilitators of digital financial services in developing economies like India.

The comprehensive review by Mishra et al. (2024) examined the relationship between financial inclusion and socio-economic development. The study concluded that access to banking services improves poverty reduction, women empowerment, entrepreneurship, and sustainable development. Public banking institutions were considered essential in extending affordable financial services to marginalized populations

Ozili and Syed (2024) reviewed financial inclusion and fintech research in India and found that RBI initiatives, digital payment systems, and public banking infrastructure have significantly expanded financial access. The study identified determinants of inclusion such as education, income, ICT access, and branch penetration. PSBs were highlighted as crucial intermediaries in implementing inclusive banking policies.

A systematic review on payments banks in India (2024) explored how digital banking institutions complement traditional PSBs in promoting inclusion. The review concluded that collaboration

between public banks and digital financial platforms can strengthen outreach to unbanked populations and improve service efficiency.

Major Themes Identified in 2023–2024 Literature

Theme	Findings
Financial Inclusion	PSBs remain the backbone of inclusive banking in rural and semi-urban India
Digital Transformation	Technology adoption has improved accessibility and reduced transaction barriers
Socio-Economic Development	Banking access contributes to poverty reduction, employment, and entrepreneurship
Government Policy Support	PSBs effectively implement welfare and credit-linked schemes
Challenges	NPAs, technological adaptation, and operational efficiency remain concerns

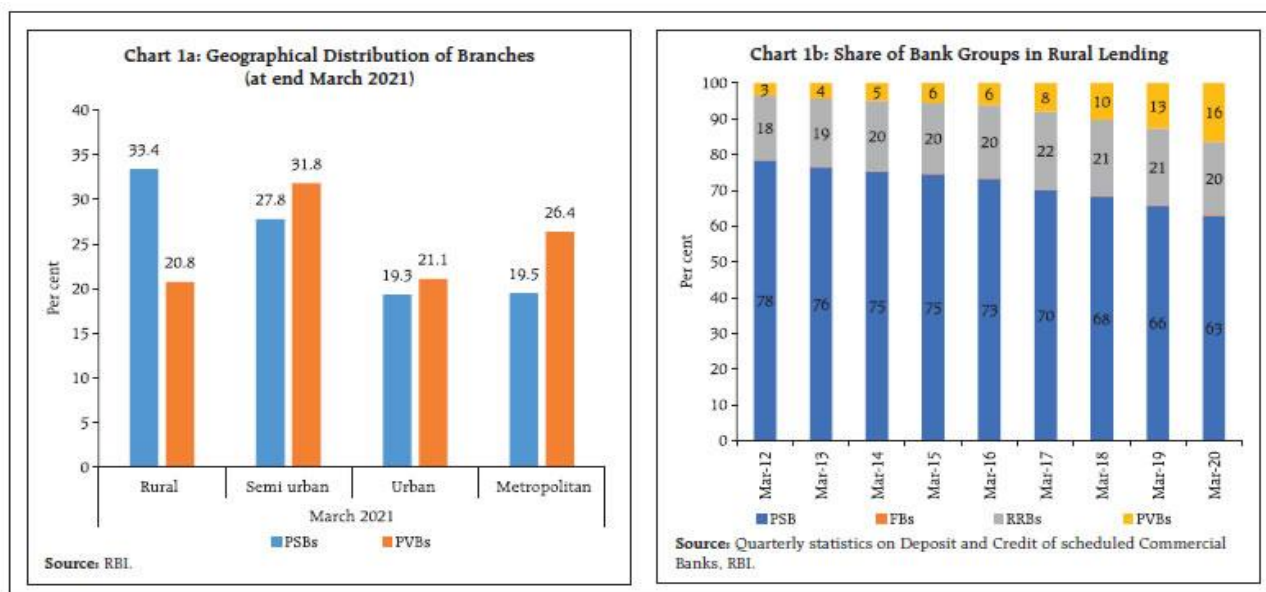
OBJECTIVES OF STUDY

- ✧ To examine the contribution of public sector banks toward the growth and development of the Indian economy.
- ✧ To evaluate the initiatives and measures undertaken by public sector banks for promoting socio-economic development in India.

RESEARCH METHODOLOGY

The study is based on secondary data collected from various reliable sources such as government reports, banking publications, journals, research articles, annual reports of public sector banks, and reports published by the Reserve Bank of India (RBI). An analytical research approach has been adopted to examine the role of public sector banks in the Indian economy. The study also analyzes the initiatives and measures undertaken by public sector banks to promote socio-economic growth and inclusive development in India.

ROLE OF PUBLIC SECTOR BANK (PSBS) IN INDIAN ECONOMY



Source: https://m.rbi.org.in/Scripts/BS_ViewBulletin.aspx?Id=21205

The Pradhan Mantri Jan Dhan Yojana (PMJDY) was launched with the objective of providing banking facilities to every household in the country. Public sector banks have played a major role in the successful implementation of this financial inclusion programme. By the end of July 2024, more than 45 crore beneficiaries had opened bank accounts under PMJDY, of which nearly 78 per cent accounts were maintained in public sector banks. Furthermore, over 60 per cent of these accounts were opened in rural and semi-urban areas, reflecting the significant contribution of public sector banks in extending banking services to underserved and economically weaker sections of society.

Table 1: Distribution of PMJDY beneficiaries at bank-group level				
(Number of beneficiaries in crores)				
Bank Type	Number of Beneficiaries at rural/ semi-urban centre bank branches	Number of Beneficiaries at urban metro centre bank branches	Number of Rural-Urban Female Beneficiaries	Number of Total Beneficiaries
Public Sector Banks	22.66	13.54	19.96	36.2
Regional Rural Banks	7.31	1.14	4.88	8.45
Private Sector Banks	0.7	0.6	0.71	1.3
Grand Total	30.67	15.28	25.55	45.95
Note: Data as on July 6, 2022				
Source: Pradhan Mantri Jan Dhan Yojana, Government of India				

It is often argued that private sector banks successfully achieve the prescribed priority sector lending target of 40 per cent and thereby contribute to financial inclusion. However, available data indicate that many private banks fulfill these targets not mainly through direct lending activities, but by investing in Priority Sector Lending Certificates (PSLCs), particularly in sectors such as agriculture and lending to small and marginal farmers. These categories are considered more challenging and involve higher risks and operational costs. As a result, several private banks prefer paying higher premiums through PSLC investments rather than developing the required expertise and infrastructure for direct lending in these sectors. In contrast, public sector banks have played a more active role in providing direct financial assistance to priority sectors and economically weaker sections of society, thereby contributing significantly to inclusive socio-economic development in India. (*RBI Bulletin*)

RESULT

The study reveals that public sector banks play a significant role in promoting socio-economic growth in India. These banks have contributed extensively toward financial inclusion by

expanding banking services to rural, semi-urban, and economically weaker sections of society. Schemes such as the Pradhan Mantri Jan Dhan Yojana (PMJDY) have been implemented successfully mainly through public sector banks, ensuring access to formal financial services for millions of people.

The findings further indicate that public sector banks have actively supported priority sectors such as agriculture, small-scale industries, education, and rural development through direct lending activities. Unlike many private sector banks that rely on Priority Sector Lending Certificates (PSLCs) to meet regulatory targets, public sector banks have shown greater involvement in direct financing of socially important sectors.

Overall, the analysis confirms that public sector banks maintain a strong relationship with socio-economic development by reducing regional disparities, supporting government welfare programmes, generating employment opportunities, and improving the standard of living of marginalized communities. Therefore, public sector banks continue to remain an important pillar for inclusive and sustainable economic growth in India.

CONCLUSION

Public sector banks have played a crucial role in the socio-economic development of India by promoting financial inclusion, supporting priority sectors, and implementing various government welfare schemes. Their wide network and public-oriented approach have enabled banking services to reach rural, semi-urban, and economically weaker sections of society. Through schemes such as Pradhan Mantri Jan Dhan Yojana (PMJDY), public sector banks have successfully connected millions of people with the formal financial system.

The study concludes that public sector banks contribute significantly to economic growth by providing credit facilities to agriculture, small-scale industries, education, and other productive sectors. These banks have also helped in reducing poverty, generating employment opportunities, and minimizing regional imbalances. Despite challenges such as rising non-performing assets and increasing competition from private banks, public sector banks continue to remain a strong pillar of inclusive growth and social welfare in India.

SUGGESTIONS

- Public sector banks should strengthen digital banking facilities in rural and remote areas to improve financial accessibility and efficiency.
- More awareness programmes should be conducted to educate people about banking services, financial literacy, and government welfare schemes.
- Banks should provide easier and quicker credit facilities to farmers, small entrepreneurs, and self-help groups to encourage economic development at the grassroots level.
- Public sector banks should improve customer service and adopt modern technologies to compete effectively with private sector banks.
- Effective measures should be taken to reduce non-performing assets (NPAs) and improve the financial stability of public sector banks.

- Greater focus should be given to women empowerment, rural entrepreneurship, and support for marginalized communities through inclusive banking policies.
- The government and banking institutions should work together to ensure transparency, accountability, and sustainable development through the banking sector.

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