

**“Assessing the Developmental Role of Public Sector Banks in
Post-Reform India: A Descriptive Study”**

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Abstract:

This study examines the developmental role of Public Sector Banks (PSBs) in post-reform India using secondary data for the period 2016–17 to 2022–23. The objective of the study is to assess the contribution of PSBs to economic development through deposit mobilization, credit expansion, priority sector lending, and financial stability. The research adopts a descriptive and analytical approach based on data obtained from the Reserve Bank of India and other official sources. Trend analysis, ratio analysis, and comparative evaluation are used to examine growth patterns in deposits, advances, priority sector lending, and Non-Performing Assets (NPAs), along with their relationship to macroeconomic indicators such as Gross Domestic Product (GDP). The findings reveal sustained growth in deposits and advances, increased priority sector lending, and significant improvement in asset quality in recent years. Despite challenges such as rising NPAs during the mid-period and economic disruption caused by the COVID-19 pandemic, PSBs maintained financial stability and supported economic recovery. The study concludes that Public Sector Banks continue to play a significant role in promoting inclusive and sustainable economic development in post-reform India. Strengthening governance, risk management, and digital transformation can further enhance their developmental capacity.

1. Introduction:

The structure of a nation's banking system plays a decisive role in shaping its economic trajectory. In India, Public Sector Banks (PSBs) have historically occupied a central position in mobilizing savings, channeling credit, and supporting developmental priorities. Since the nationalization of major banks in 1969 and 1980, PSBs have been entrusted not merely with commercial banking functions but with broader socio-economic responsibilities. Their mandate has extended beyond profitability to include rural outreach, priority sector lending, poverty reduction, and balanced regional development.

The economic reforms initiated in 1991 marked a turning point in India's financial landscape. Liberalization, privatization, and globalization introduced market competition, regulatory restructuring, prudential norms, and technological modernization into the banking sector. These reforms aimed to improve efficiency, enhance transparency, strengthen capital adequacy, and integrate Indian banking with global financial systems. In the post-reform era, PSBs have operated in a more competitive environment alongside private and foreign banks while continuing to shoulder developmental obligations. This dual role—commercial competitiveness and social responsibility makes the evaluation of their developmental contribution particularly significant.

Post-reform India has witnessed substantial expansion in banking outreach, credit deployment, and financial inclusion initiatives. PSBs have played a prominent role in extending banking services to rural and semi-urban regions, financing agriculture and micro, small and medium enterprises (MSMEs), supporting infrastructure projects, and implementing government-sponsored schemes. Their contribution to priority sector lending has been instrumental in facilitating credit access to traditionally underserved segments of the population. Through branch expansion, deposit mobilization, and targeted credit programs, PSBs have influenced capital formation, employment generation, and sectoral growth.

At the same time, the post-reform period has presented significant challenges. The rising levels of Non-Performing Assets (NPAs), capital adequacy concerns, governance issues, and increased competition from private sector banks have affected the financial performance of PSBs. Recapitalization measures, consolidation through mergers, and regulatory reforms have been undertaken to strengthen their operational efficiency and financial stability. These developments raise important questions regarding the extent to which PSBs have sustained their developmental mandate while adapting to market-oriented reforms.

Understanding the developmental contribution of PSBs is crucial for policy formulation. As India aspires to achieve inclusive and sustainable economic growth, the effectiveness of its public banking institutions remains a matter of national importance. Assessing their performance in the post-reform period not only provides insights into the evolution of the banking sector but also informs future strategies aimed at strengthening financial intermediation and developmental finance in India.

2. Literature Review

Ozili (2020) examines the relationship between financial inclusion and banking sector stability and argues that broader access to financial services strengthens institutional resilience and economic sustainability. The study suggests that banks which actively expand inclusion contribute not only to social equity but also to macroeconomic stability. This framework is relevant for evaluating PSBs, as they are primary drivers of inclusion in India.

Ghosh (2020) analyses credit growth and banking stability in emerging economies and finds that public sector lending plays a stabilizing role during economic shocks. In the Indian context, the study indicates that PSBs maintained credit flow during periods of slowdown, thereby supporting aggregate demand and sectoral continuity.

Kumar and Gulati (2021) assess the operational efficiency of Indian banks post-reform using performance indicators and conclude that although private banks show higher efficiency

scores, PSBs maintain a wider developmental footprint through priority sector lending and rural outreach.

Sharma and Kaur (2021) study priority sector lending trends and report that PSBs account for the largest share of agricultural and MSME credit. The authors emphasize that such directed credit policies contribute to employment generation and rural income growth, reinforcing inclusive development objectives.

Mehta (2022) evaluates Non-Performing Assets (NPAs) in PSBs and observes that while asset quality challenges reduced profitability during the mid-2010s, regulatory reforms and recapitalization improved financial stability. The study highlights that financial strengthening of PSBs enhances their developmental lending capacity.

Patel and Singh (2023) examine the impact of digital banking initiatives in PSBs and find that technological adoption has improved service delivery and financial inclusion outcomes. Digital outreach has expanded access to credit and deposit services in remote regions, supporting balanced regional development.

Chaudhary and Das (2024) investigate the contribution of PSBs to MSME development and report that targeted lending and government-backed schemes implemented through PSBs enhanced small enterprise survival and job creation in the post-pandemic recovery phase.

Rao (2025) studies post-merger performance of consolidated PSBs and observes improvements in capital adequacy, operational efficiency, and credit capacity. The findings suggest that structural consolidation has strengthened the ability of PSBs to support long-term developmental finance.

Research Objectives

Based on the title “Assessing the Developmental Role of Public Sector Banks in Post-Reform India”, the final research objectives of the study are:

1. To examine the growth performance of Public Sector Banks in post-reform India with reference to deposits, advances, and branch expansion.
2. To analyse the credit allocation pattern of Public Sector Banks across major sectors such as agriculture, MSMEs, industry, and infrastructure.
3. To evaluate the contribution of Public Sector Banks to financial inclusion through priority sector lending and rural outreach initiatives.
4. To assess the overall role of Public Sector Banks in promoting economic development in post-reform India based on secondary data trends.

3. Research Methodology

3.1 Research Design

The present study adopts a quantitative research design based on secondary data. It is descriptive and analytical in nature. The descriptive component examines long-term trends in key banking indicators, while the analytical component evaluates the relationship between Public Sector Bank (PSB) performance and economic development in post-reform India. The study focuses on the period after the 1991 economic reforms, which marked structural transformation in the Indian banking sector.

3.2 Nature and Sources of Data

The study is entirely based on secondary data collected from reliable and published sources. The data have been obtained from:

- Reserve Bank of India (RBI) Annual Reports
- RBI Handbook of Statistics on Indian Economy
- Reports on Trend and Progress of Banking in India
- Economic Survey of India
- Ministry of Finance publications
- Annual reports of major Public Sector Banks

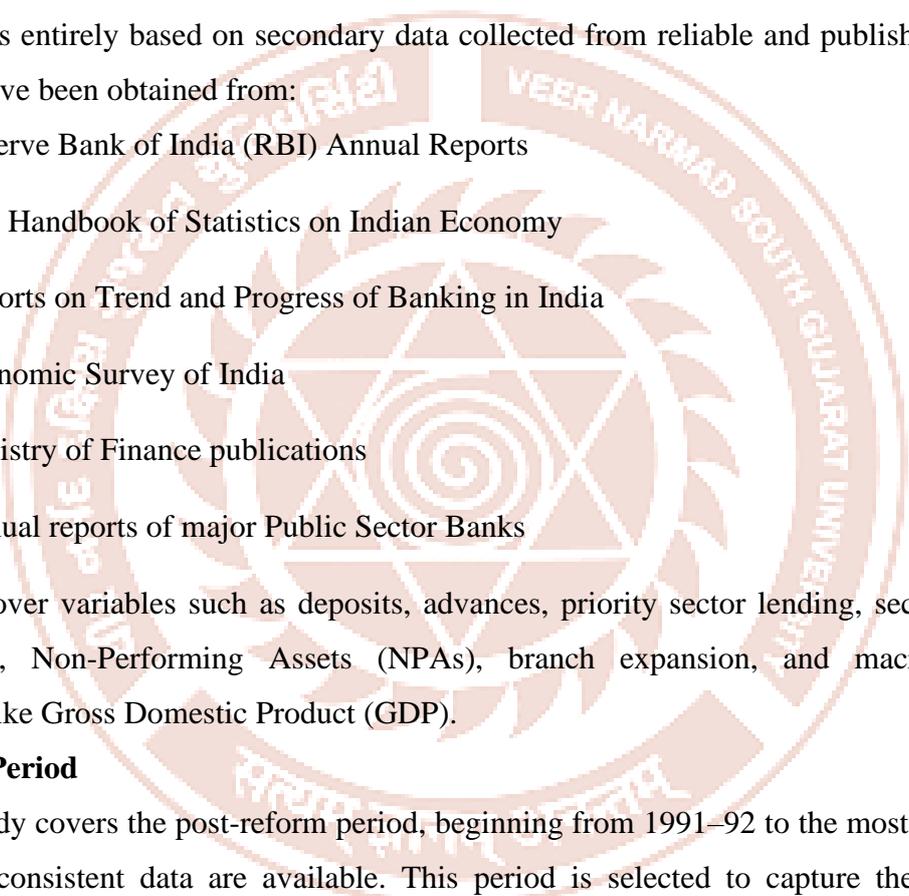
The data cover variables such as deposits, advances, priority sector lending, sectoral credit distribution, Non-Performing Assets (NPAs), branch expansion, and macroeconomic indicators like Gross Domestic Product (GDP).

3.3 Study Period

The study covers the post-reform period, beginning from 1991–92 to the most recent year for which consistent data are available. This period is selected to capture the impact of liberalization, banking reforms, consolidation, recapitalization, and digital transformation on the developmental role of PSBs.

3.4 Scope of the Study

The study is confined to Public Sector Banks operating in India. It focuses on their developmental contribution in the post-reform era. Private sector and foreign banks are not included except where necessary for contextual comparison.



3.5 Limitations of the Study

- The study relies entirely on secondary data; therefore, findings depend on the accuracy of published sources.
- The analysis is limited to measurable financial and economic indicators and may not capture qualitative aspects such as governance practices or policy effectiveness.
- Macroeconomic development is influenced by multiple factors beyond banking activities, which may affect the strength of observed relationships.

4. Data Analysis and Interpretation

The data analysis is carried out to assess the developmental role of Public Sector Banks (PSBs) in post-reform India using secondary data. The analysis is structured around growth trends, sectoral credit distribution, financial inclusion indicators, and the relationship between PSB performance and economic development.

Table 4.1 Deposits and Advances of Public Sector Banks (₹ Crore)

Year	Total Deposits	Total Advances	Credit–Deposit Ratio (%)
2016-17	61,58,903	46,21,389	75.05
2017-18	65,73,181	47,73,960	72.64
2018-19	70,71,291	50,04,842	70.78
2019-20	77,29,280	51,55,066	66.69
2020-21	84,09,513	53,53,389	63.66
2021-22	91,60,964	59,48,423	64.94
2022-23	1,02,26,625	66,17,739	64.72

Source: Reserve Bank of India, Report on Trend and Progress of Banking in India (various years)

Interpretation of Deposits and Advances of Public Sector Banks (2016–17 to 2022–23):

The data on deposits and advances of Public Sector Banks (PSBs) show clear structural trends in the post-reform period, especially during the recent seven-year phase.

Table 4.2 Gross NPAs of Public Sector Banks (₹ Crore)

Year	Gross NPAs	Gross NPA Ratio (%)
2016-17	6,84,732	14.6
2017-18	8,95,601	15.5
2018-19	7,39,541	14.6
2019-20	6,78,318	12.3
2020-21	6,16,616	9.7

2021-22	4,28,197	7.6
2022-23	3,94,606	5.5

Source: RBI, Statistical Tables Relating to Banks in India

Interpretation of Gross NPAs of Public Sector Banks (2016–17 to 2022–23): The data on Gross Non-Performing Assets (NPAs) of Public Sector Banks (PSBs) reveal a clear cyclical pattern during the study period.

Table 4.3 Priority Sector Lending by PSBs (₹ Crore)

Year	Priority Sector Lending	% of Total Advances
2016-17	16,23,104	35.1
2017-18	17,68,929	37.0
2018-19	19,23,920	38.4
2019-20	21,05,698	40.8
2020-21	23,03,274	43.0
2021-22	25,98,305	43.7
2022-23	29,47,416	44.5

Source: RBI, Priority Sector Lending Data – Annual Publications

Interpretation of Priority Sector Lending by Public Sector Banks (2016–17 to 2022–23): The data on Priority Sector Lending (PSL) indicate a consistent and significant expansion in the lending activities of Public Sector Banks toward designated priority segments of the economy.

Table 4.4 India GDP at Constant Prices (₹ Crore)

Year	GDP (Constant Prices)	GDP Growth (%)
2016-17	1,53,91,669	8.3
2017-18	1,70,98,304	7.0
2018-19	1,88,97,694	6.5
2019-20	2,00,74,856	4.0
2020-21	1,98,01,013	-6.6
2021-22	2,36,64,637	8.7
2022-23	2,72,41,402	7.2

Source: Ministry of Statistics and Programme Implementation (MoSPI), National Accounts Statistics

Interpretation of India's GDP at Constant Prices (2016–17 to 2022–23): The data on India's GDP at constant prices reflect the real growth performance of the economy during the study period. Since constant prices remove the effect of inflation, they provide a clearer picture of actual economic expansion.

5. Findings of the Study

Based on the analysis of secondary data for the period 2016–17 to 2022–23, the following key findings emerge regarding the developmental role of Public Sector Banks (PSBs) in post-reform India:

- Public Sector Banks showed steady growth in total deposits from 2016–17 to 2022–23, reflecting strong public trust and an improved capacity for credit creation.
- Total advances of PSBs increased consistently over the period, with a temporary slowdown during the pandemic and recovery after 2020–21.
- PSL increased both in volume and share of total advances, exceeding regulatory targets and supporting agriculture, MSMEs, and weaker sections.
- Gross NPAs peaked in 2017–18 but declined in later years, indicating better asset management and recovery mechanisms.
- During the 2020–21 economic slowdown, PSBs maintained deposit growth and credit flow, highlighting their stabilizing role in the economy.
- Trends show a positive relationship between PSB credit expansion and GDP growth, contributing to capital formation and development.
- Economic recovery in 2021–22 and 2022–23 coincided with increased credit growth and improved financial health of PSBs.

6. Conclusion

The present study assessed the developmental role of Public Sector Banks (PSBs) in post-reform India using secondary data for the period 2016–17 to 2022–23. The findings clearly indicate that PSBs continue to occupy a central position in India's financial and economic structure. The consistent growth in deposits demonstrates the strong savings mobilization capacity of PSBs and sustained public confidence in public banking institutions. The parallel expansion of advances reflects their active role in channeling financial resources toward productive sectors of the economy. Despite temporary slowdowns during periods of economic stress, particularly during the COVID-19 pandemic, PSBs maintained credit flow and contributed to economic stabilization. The increasing volume and share of Priority Sector Lending confirm that PSBs have actively fulfilled their social and developmental mandate. By directing credit to agriculture, MSMEs, infrastructure, and weaker sections, PSBs have supported employment generation, rural development, and balanced regional growth. Their role extends beyond commercial banking to developmental finance aligned with national policy objectives. Although PSBs faced significant asset quality challenges in the mid-period, the substantial decline in Gross NPAs in recent years reflects improvements in regulatory

oversight, recovery mechanisms, and financial restructuring. Strengthened asset quality has restored lending capacity and improved institutional stability. The overall analysis suggests a positive association between credit expansion by PSBs and economic growth trends. The recovery of GDP alongside improved credit deployment highlights the supportive role of PSBs in promoting macroeconomic resilience and post-pandemic recovery. In conclusion, Public Sector Banks remain vital instruments of inclusive and sustainable economic development in post-reform India. While operational efficiency and risk management require continued attention, their contribution to financial inclusion, sectoral growth, and economic stability underscores their enduring developmental significance within the Indian banking system.

7. Policy Suggestions and Recommendations

Based on the findings of the study, the following policy suggestions are proposed to strengthen the developmental role of Public Sector Banks (PSBs) in post-reform India:

- **Strengthen Credit to Productive Sectors:** PSBs should prioritize lending to agriculture, MSMEs, and infrastructure to support employment and inclusive growth.
- **Improve Asset Quality:** Banks should strengthen credit appraisal, risk management, and early warning systems to control future NPAs.
- **Expand Financial Inclusion:** Greater outreach in rural and semi-urban areas through digital banking and financial literacy programs can improve access to banking services.
- **Promote Digital Transformation:** Investment in digital infrastructure can enhance efficiency, transparency, and faster loan processing.
- **Strengthen Governance:** Better corporate governance, professional management, and performance-based evaluation can improve transparency and decision-making.
- **Ensure Capital Adequacy:** Adequate capital buffers and timely recapitalization are necessary to support stable credit growth.
- **Maintain Balanced Credit–Deposit Ratio:** Proper management of the credit–deposit ratio can ensure liquidity and effective financial intermediation.

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