BACKGROUNDERS
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Government of India

Building Trust: The Journey of Strengthening India's Banking Sector

10th December, 2025

Key Takeaways

- Banking activity has strengthened significantly in India, with domestic **deposits and credit nearly tripling between 2015 and 2025**- deposits grew from ₹88.35 lakh crore to ₹231.90 lakh crore; credit expanded from ₹66.91 lakh crore to ₹181.34 lakh crore.
- **Gross non-performing assets** have fallen from a peak of 11.46% in 2018 to 2.31% in 2025.
- **Public sector banks profitability has strengthened**, with net profits rising from ₹1.05 lakh crore in FY 2022–23 to ₹1.78 lakh crore in FY 2024–25.
- **Scheduled commercial banks continue to post strong earnings**, with net profit increasing from ₹2.63 lakh crore in FY 2022–23 to ₹4.01 lakh crore in FY 2024–25.

Introduction

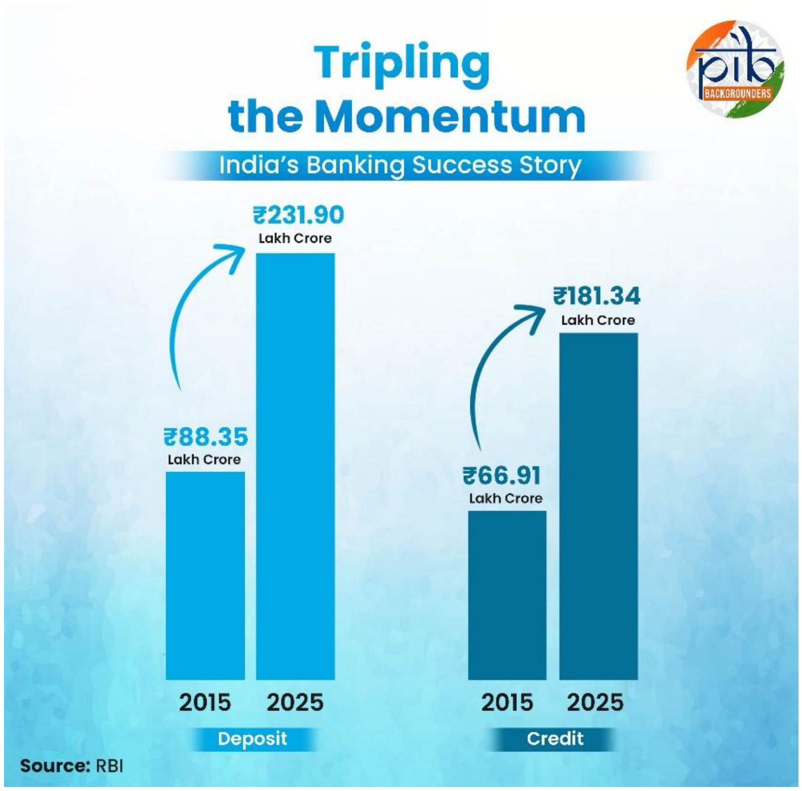
Financial stability lies at the heart of a nation's economic strength- and for India's banks, it remains the unwavering north star. As the world's fourth-largest economy, **India's financial sector has evolved into a resilient and dynamic force, ready to power the country's growth ambitions and investment needs.**

Over the past two and a half decades, India's banking system has undergone a remarkable transformation- from the early days of ATM networks to the emergence of RTGS, NEFT, IMPS, and the revolutionary UPI, now extending its frontier to digital currency. This steady march of innovation has reshaped how India transacts, saves, and invests. Today, the banking sector stands stronger than ever- with robust capital and liquidity buffers, improved asset quality, and sustainable profitability. **The resilience of public sector banks (PSBs) and scheduled commercial banks (SCBs), reflected in their high-quality capital, declining loan losses, and solid earnings, underscores their capacity to finance growth while withstanding shocks.**

From Crisis to Confidence- The New Face of Indian Banking

After the Global Financial Crisis, which ended in early 2009, India's strong fiscal and monetary stimulus helped cushion the impact. However, the following years saw the emergence of a "twin balance sheet" problem, marked by overleveraged corporates and mounting stress. **Yet, what followed turned the challenge into an opportunity, eventually bringing India in the list of *"Top Five"* economies of the world.**

Guided by the principle "*never waste a good crisis*", in the last 10 years, a series of deep structural reforms began- aimed at restoring the long-term strength and stability of the financial system. **Today, Indian banks are far more mature than they were a decade ago.**



- **Bank deposits and credit** (domestic) have nearly tripled between 2015 and 2025, with deposits rising from ₹88.35 lakh crore to ₹231.90 lakh crore and credit expanding from ₹66.91 lakh crore to ₹181.34 lakh crore.
- **Capital buffers** 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** has also improved. 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.
- **Profitability of banks** has enhanced significantly. Between FYs 17-18 and 24-25, Return on Assets (RoA) increased from -0.22% to 1.37%, and Return on Equity (RoE) jumped from -2.74% to 14.09%.

NPA Decline: An Upward Shift in the Quality

An asset becomes non-performing when it ceases to generate income for the bank. The rise in Non-Performing Assets (NPA) erodes profitability, as banks must allocate more capital to cover bad loans, leading to a credit crunch and constraining lending, thereby affecting overall economic growth.

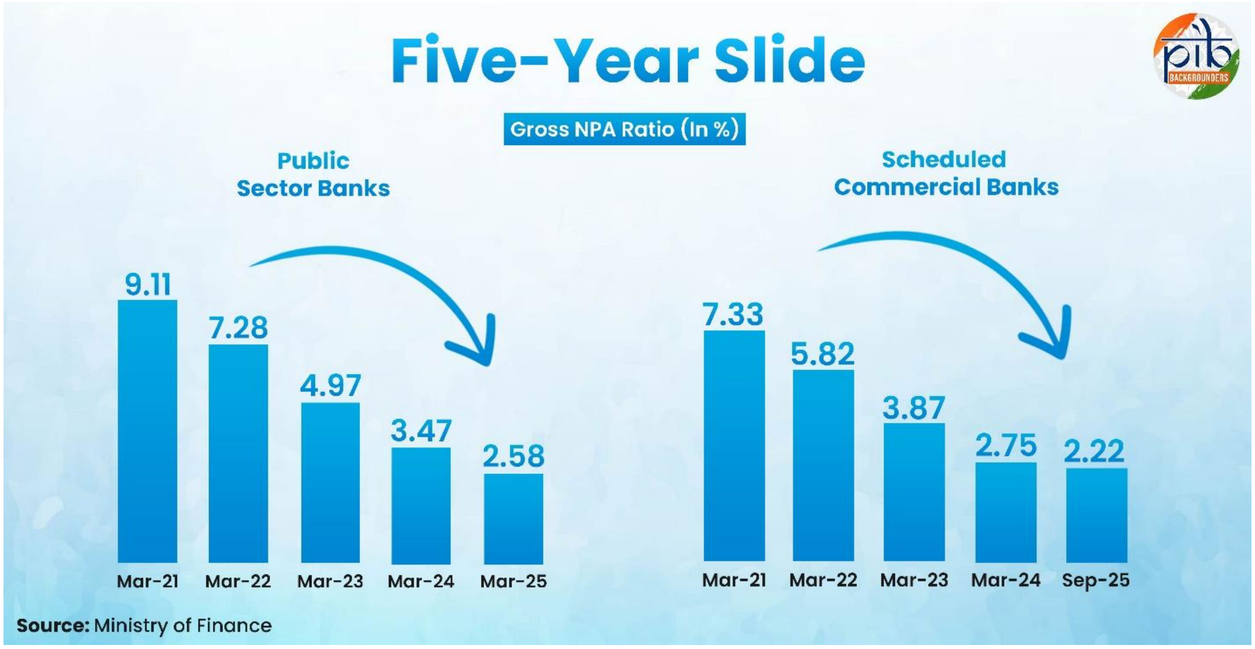
As per Reserve Bank of India (RBI) data on domestic operations, aggregate gross advances of SCBs increased from ₹23.34 lakh crore as on 31st March 2008 to ₹61.01 lakh crore as on 31st March 2014. Aggressive lending practices during this period along with wilful default / loan frauds, economic slowdown, etc. were observed to be primary reasons for the spurt in the stressed assets.

As on 31st March 2014, stressed assets of SCBs were 9.8% of their loan book, while the restructured standard loans were 5.7%. Asset Quality Review (AQR), initiated in 2015 for clean and fully provisioned bank balance-sheets revealed high incidence of non-performing assets (NPAs). As a result of AQR and subsequent transparent recognition by banks, stressed accounts were reclassified as NPAs and expected losses on stressed loans, not provided for earlier under flexibility given to restructured loans, were provided for. Accordingly, the GNPA ratio of banks started rising and reached its peak in 2018 at 11.18%. GNPA ratios measure the asset quality of banks**.** Primarily as a result of transparent recognition of stressed assets as NPAs, as per RBI data on domestic operations, gross NPAs of SCBs rose from ₹2,51,054 crore (gross NPA ratio of 4.1%) as on 31st March 2014 and peaked to ₹9,62,621 crore (gross NPA ratio of 11.46%) as on 31st March 2018.

As a result of the Government's strategy of recognition, resolution, recapitalisation and reforms, gross NPA ratio have since declined to ₹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.

Besides, GNPA ratios improved consistently from 2018-19, and reached its **lowest level in last 20 years** at 2.31% in end-March 2025. This can be attributed to strong macro-economic fundamentals boosting the Indian banking and non-banking financial sectors. Likewise, NNPA ratio also reached its lowest in last 20 years to 0.52% by consistently declining from its peak in 2018 at 6.1%, driven by stronger provision buffers. **Sentiments remain positive as profitability indicators and NPA ratios continued to improve further, while capital adequacy ratio remained robust.**

Gross NPAs of PSBs have been declining during the last five financial years- reducing from 9.11% to 2.58% between March 2021 to March 2025. Similarly, the NNPAs of PSBs declined to multi-year low at 0.52% in FY 24-25 from 1.24% in FY 22-23. This indicates sustained improvement in asset quality and risk management. The **trend has been witnessed in the SCBs too**, with a decline in both NPA and GNPA.



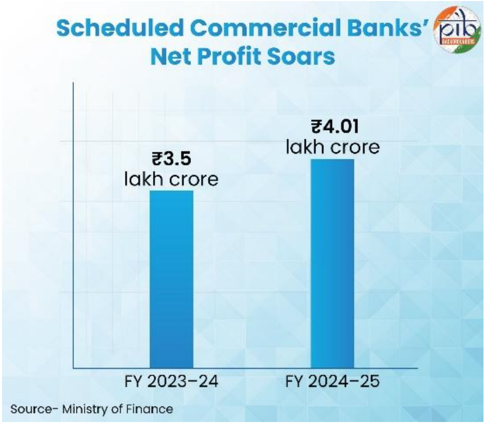
Bank Profitability on the Rise

The Indian banking industry has seen robust growth, driven by strong economic expansion, rising disposable incomes, growing consumerism, and easier credit access. Digital modes of payments, dominated by UPI, have grown by leaps and bounds over the last few years. **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 ₹203 lakh crore to **₹252 lakh crore.**
- From FY 22–23 to FY 24–25, net profit increased from ₹1.05 lakh crore to **₹1.78 lakh crore.**
- Dividend payouts grew from ₹20,964 crore to ₹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 ₹4.01 lakh crore, compared to the net profit of ₹3.5 lakh crore in FY 23-24. The growth trajectory continues, as SCB's recorded an aggregate net profit of ₹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%.

Besides, banks' capital position remained satisfactory, as reflected in key parameters like **leverage ratio** (which measures the proportion of a bank's Tier 1 capital to its total assets, serving as a safeguard against excessive risk exposure) and **capital to risk weighted assets ratio (CRAR),** defined as the ratio of total capital funds to risk-weighted assets. The leverage ratio for all SCBs was 7.9% in September 2024 (the range of 6 to 8% is generally considered prudent). PSBs are adequately capitalised, with their CRAR standing at 16.4% as of June 2025.

Strong credit expansion by **Non-Banking Financial Companies (**NBFCs), that offer services similar to banks, such as loans and investments, but do not possess a full banking license, was accompanied by further strengthening of their balance sheets, improvement in credit quality and profitability, and satisfactory capital buffers.

Factors Propelling Performance of India's Banks

Comprehensive government initiatives with regards to stress recognition, asset resolution, re-capitalisation, have markedly strengthened the banking sector's financial health and resilience. This was driven by a series of regulatory measures, which commenced over a decade ago-

- **The Asset Quality Review (AQR)** launched in 2015 compelled banks to recognize the true state of their loan books, bringing hidden NPAs to light and strengthening the supervisory framework. Additionally, 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** 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)** introduced in 2016, along with complementary out-of-court resolution mechanisms, 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 ₹10 lakh to ₹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.

Evolving Priorities in India's Banking Landscape

Building on their strong financial performance and improved asset quality, Indian banks are now focusing on sustaining growth through innovation, inclusion, and strategic expansion. 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.

Conclusion

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.

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