Indian Economy · GS - III

The improved profitability and declining non-performing assets of Public Sector Banks indicate strengthening banking-sector fundamentals. Examine the role of banking reforms, technological adoption and prudential regulation in sustaining this improvement.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 19/11/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
15	~250 words

Answer Hint

PSB profitability, asset quality, NPA resolution, Insolvency and Bankruptcy Code, recapitalisation, governance reforms, digital banking, credit growth, risk management, financial inclusion, Basel norms.

Model Answer

Introduction

Public Sector Banks (PSBs) have reported improved profitability, expanding business and declining gross NPAs. These developments reflect improvements in banking operations, balance-sheet health and credit management.

Factors Supporting Improved Performance

1. **NPA resolution:** Insolvency and Bankruptcy Code mechanisms, recovery processes and improved monitoring have strengthened loan recovery.
2. **Governance reforms:** Professional management, accountability and better risk assessment have improved operational efficiency.

3. **Technology adoption:** Digital banking, data analytics and automated monitoring have reduced transaction costs and improved customer services.
4. **Credit expansion:** Growth in lending to households, agriculture and businesses has supported interest income.
5. **Prudential regulation:** RBI supervision and capital adequacy requirements strengthen resilience against financial risks.

Challenges Ahead

- Fresh slippages in unsecured and stressed-sector lending.
- Cybersecurity threats and digital fraud.
- Concentration of credit exposure and inadequate risk assessment.
- Balancing commercial profitability with social banking obligations.
- Maintaining adequate capital buffers during rapid credit expansion.

Way Forward

PSBs should strengthen early-warning systems, adopt responsible digital lending, improve cybersecurity and maintain prudent provisioning. Governance autonomy and transparent performance evaluation should accompany continued financial inclusion efforts.

Conclusion

Improved profitability and asset quality provide a stronger foundation for PSBs, but sustainable performance requires prudent lending, robust governance and effective risk management rather than credit growth alone.

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