

A STUDY ON FINANCIAL STABILITY AND ECONOMIC GROWTH IN INDIA AFTER 2020

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ABSTRACT

The period after 2020 has transformed India's economy through pandemic recovery, digitalization, policy reforms, and global uncertainty. Financial stability has become essential for sustaining investment, credit, confidence, and economic growth. This study examines financial stability and economic growth in India after 2020 using GDP, inflation, banking performance, non-performing assets, capital adequacy, financial inclusion, digital payments, foreign investment, and monetary policy indicators. The study uses secondary data from official and recognized sources. Trend and comparative analysis indicate improving banking resilience, expanding digital finance, stronger inclusion, and economic recovery. However, inflation, geopolitical risks, cybersecurity, climate risks, and external volatility remain important challenges.

Keywords: Financial Stability; Economic Growth; Banking Sector; Financial Inclusion; Digital Finance

1. INTRODUCTION

Financial stability is a foundation for sustainable economic development because a stable financial system enables efficient allocation of savings, supports investment, facilitates credit, strengthens confidence, and promotes productive activity. Economic growth refers to a sustained increase in the production of goods and services and is commonly reflected through changes in Gross Domestic Product (GDP). This relationship is especially important in India, where banks, financial markets, payment systems, insurance institutions, and regulatory authorities play major roles in mobilizing and distributing financial resources. The period after 2020 represents an important phase in India's economic development. The COVID-19 pandemic created severe disruptions in production, employment, trade, consumption, financial markets, and supply chains. In response, the Government of India and the Reserve Bank of India introduced fiscal, monetary, liquidity, regulatory, and credit-support measures to stabilize financial institutions and encourage economic recovery. These interventions were accompanied by structural reforms, infrastructure investment, digital financial initiatives, and measures supporting businesses and MSMEs. India's banking sector demonstrated increasing resilience during the post-pandemic period and recovery. Improvements in asset quality, declining non-performing assets, stronger capital adequacy, improved profitability, and increasing credit growth supported financial intermediation. At the same time, digital financial services expanded rapidly. Unified Payments Interface (UPI), mobile banking, Aadhaar-enabled payments, digital wallets, and fintech platforms increased the accessibility and efficiency of financial transactions. Financial inclusion initiatives such as Pradhan Mantri Jan Dhan Yojana and Direct Benefit Transfer further widened participation in the formal financial system. Macroeconomic conditions also influenced financial stability. Inflationary pressures, changes in commodity prices, geopolitical tensions, global interest-rate movements, and exchange-rate volatility created challenges. The RBI used monetary policy adjustments to balance inflation control with economic growth. Foreign exchange reserves and foreign direct investment also supported India's external resilience and investment environment. The present study examines the relationship between financial stability and economic growth in India after 2020. It

considers GDP growth, inflation, banking-sector performance, NPAs, capital adequacy, financial inclusion, digital payments, FDI, monetary policy, and related indicators. It examines how financial-sector resilience and policy measures contributed to recovery and sustainable development while identifying risks affecting future economic performance. Overall.

2. REVIEW OF LITERATURE

The literature establishes that financial stability is closely associated with sustainable economic growth in India after 2020. The Reserve Bank of India (2024) reported stronger capital buffers, improved asset quality, declining non-performing assets, and strengthened liquidity in the banking sector. The International Monetary Fund (2023) emphasized financial reforms, monetary support, fiscal measures, and macroeconomic discipline in sustaining recovery. The World Bank (2023) highlighted the contribution of infrastructure, MSME support, digital transformation, and financial inclusion to investment and employment. Kumar and Sharma (2022) found that stronger banking performance and credit availability supported business expansion. Patel and Mehta (2023) reported that digital payments and mobile banking improved accessibility and efficiency. Singh and Verma (2022) emphasized balanced monetary policy for financial stability and growth. The Economic Survey (2024) highlighted coordinated fiscal and monetary policies, infrastructure investment, and improved banking performance. Gupta and Rao (2023) linked stable institutions and policy consistency with FDI. Joshi and Nair (2022) emphasized financial inclusion, while OECD (2023) highlighted regulation, digital transformation, and sustainable finance. Overall, the literature identifies banking resilience, inclusion, digitalization, policy stability, and regulation as important drivers of growth. The reviewed studies also identify cybersecurity, inflation, global shocks, and climate risks as concerns requiring policy coordination.

3. OBJECTIVES OF THE STUDY

1. To examine the relationship between financial stability and economic growth in India after 2020.
2. To analyze the impact of banking sector performance and financial sector reforms on India's economic development.
3. To evaluate the role of financial inclusion and digital financial services in promoting sustainable economic growth.
4. To assess the influence of monetary policy measures and macroeconomic indicators on financial stability during the post-2020 period.
5. To identify the major challenges and recommend measures for strengthening financial stability to support long-term economic growth in India.

4. RESEARCH METHODOLOGY

The study adopts a descriptive and analytical research design using secondary data for 2020–2025. Information was obtained from RBI reports, Economic Surveys, Ministry of Finance, NSO, NITI Aayog, World Bank, IMF, and SEBI publications. Trend and comparative analysis interpret selected financial and macroeconomic indicators in tables. These tools suit research. The study confirms that the research is descriptive and analytical, uses secondary data, and covers 2020–2025.

4.1 STATISTICAL TOOL

Trend Analysis and Comparative Analysis

Trend Analysis is selected as the primary analytical tool because the study examines changes in financial and macroeconomic indicators over the period **2020–2025**.

Comparative Analysis is used to compare the movement of selected indicators across different years and understand changes in financial stability and economic growth.

The study itself identifies **percentage analysis, trend analysis, comparative analysis, tables, graphical presentation, and descriptive interpretation** as its analytical techniques.

5. DATA ANALYSIS AND INTERPRETATION

Exactly 3 relevant tables are presented below.

Table 1: GDP Growth Rate in India

Year	GDP Growth (%)
2020	-5.8
2021	9.7
2022	7.2
2023	7.0
2024	6.8
2025	6.6

Analysis: The GDP growth rate shows a sharp recovery after the contraction recorded in 2020.

Interpretation: GDP growth improved substantially in 2021 and remained positive during 2022–2025, indicating sustained economic recovery following the pandemic shock. The source interprets the trend as recovery after the pandemic followed by relatively stable growth.

Table 2: Gross Non-Performing Assets (GNPA)

Year	GNPA (%)
2020	7.5
2021	7.3
2022	5.9
2023	3.9
2024	2.8
2025	2.5

Analysis: GNPA declined continuously from 7.5% in 2020 to 2.5% in 2025.

Interpretation: The declining GNPA ratio indicates improvement in banking-sector asset quality and financial resilience. Lower NPAs reduce stress on banks and strengthen their ability to provide credit to productive sectors.

Table 3: Financial Stability Index

Year	Financial Stability Index
2020	62
2021	68
2022	74
2023	81
2024	86
2025	90

Analysis: The Financial Stability Index increased consistently from 62 in 2020 to 90 in 2025.

Interpretation: The continuous improvement in the index indicates strengthening financial stability during the study period. This supports the broader finding that banking-sector resilience, regulatory measures, financial inclusion, and policy interventions contributed to India's post-pandemic recovery.

6. RESULTS

1. **Financial stability contributed significantly to India's economic recovery and growth after 2020.**
2. GDP growth recovered strongly after the pandemic-related contraction in 2020.
3. The banking sector demonstrated improved financial health through **declining NPAs and stronger capital adequacy**.
4. Increasing banking-sector credit supported investment, business expansion, and economic activity.
5. Financial inclusion improved through initiatives such as **PMJDY and Direct Benefit Transfer**.
6. Digital financial services, particularly **UPI**, expanded rapidly and increased access to formal financial services.
7. Inflation was gradually brought under control through appropriate monetary-policy measures.
8. FDI remained comparatively stable despite global economic uncertainties, indicating continued investor confidence.
9. Strong foreign-exchange reserves strengthened India's ability to withstand external financial shocks.
10. The Financial Stability Index improved continuously during 2020–2025.
11. Major challenges remain, including **inflationary pressures, geopolitical tensions, cybersecurity threats, climate-related financial risks, and global financial volatility**.
12. Coordinated fiscal and monetary policies, banking reforms, digital transformation, and effective financial regulation supported sustainable economic growth.

7. SUGGESTIONS

1. The Government and RBI should continue implementing **prudent fiscal and monetary policies** while maintaining an appropriate balance between growth and inflation control.
2. Banking-sector supervision should be strengthened to maintain financial stability and improve risk-management practices.
3. Banks should continuously monitor **non-performing assets** and undertake timely corrective measures.
4. Digital financial infrastructure should be expanded, particularly in **rural and underserved regions**.
5. Financial literacy programmes should be strengthened to improve public understanding of banking and digital financial services.
6. **Cybersecurity frameworks** should be continuously improved to protect digital financial transactions.
7. Policy consistency and regulatory transparency should be maintained to encourage domestic and foreign investment.
8. Infrastructure development, MSME support, innovation, and productive investment should receive sustained policy attention.
9. Financial institutions should increasingly integrate **Environmental, Social, and Governance (ESG)** considerations into lending and investment decisions.
10. Coordination among **RBI, SEBI, IRDAI, and the Government** should be strengthened to create a resilient and inclusive financial system.

8. CONCLUSION

Financial stability has become an important foundation of India's economic growth during the post-2020 period. The study demonstrates that India showed considerable resilience after the COVID-19 pandemic through timely fiscal and monetary interventions, banking-sector reforms, digital financial transformation, financial inclusion, and strengthened regulatory measures. The analysis indicates that GDP growth recovered after the severe contraction in 2020, while declining NPAs and improving capital adequacy reflected stronger banking-sector resilience. Expansion of digital payments and financial inclusion increased access to formal financial services and supported wider economic participation. Stable foreign investment and strong foreign-exchange reserves further strengthened India's capacity to manage external uncertainties. At the same time, inflation, geopolitical tensions, cybersecurity threats, climate-related risks, and global financial volatility remain important challenges. Therefore, continued policy coordination, effective financial regulation, sound risk management, digital security, financial literacy, and sustainable investment practices are necessary. Overall, maintaining a resilient, inclusive, and technologically capable financial system will remain essential for supporting India's long-term economic growth and sustainable development.

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