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INDIAN FINANCIAL SYSTEM AND ECONOMIES

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ABSTRACT

The financial system connects people who save money with those who need to borrow it for investments. It uses banks, markets, and financial services to move money from savers to borrowers, which helps the whole economy grow. This research looks at India's financial system and how it supports the country's economic development. It examines how saving and investment patterns affect GDP, why building capital matters for growth, and how credit creation connects the financial system to economic progress. The study also explores the relationship between financial development and economic growth. It identifies current gaps in India's system and shows how better financial education can help people make smarter money decisions and participate more fully in banking, digital finance, and other financial services.

The monetary structure of India can broadly be classified as two major components: monetary establishments and fiscal stores. Financial institutions, nonbanking financial firms (NBFCs), insurance companies, mutual funds, and progress financial institutions. These institutions act as mediators between creditors and borrowers, providing funds for productive assets. The Reserve Bank of India (RBI) is a major financial institution and a major regulatory authority responsible for monetary policy, currency supply, and fiscal stability. The economic trading centres are divided into money trading centres and asset markets. The money trade deal includes instruments for appreciating Treasury bills, trade documents, and deposit certificates with short-term funds. The resource store, through the alternative palm, manages the long-term support and trades equity and debt instruments on the stock markets, similar to the Bombay Stock Exchange and the National Stock Exchange. The SEBI, which ensures transparency, protects investors, and ensures fair procedures, regulates such exchanges.

KEYWORDS: Indian financial system, new economic paradigm, financial literacy, digital finance.

INTRODUCTION

The Indian Financial Organisation shall have a structure that facilitates the movement of funds



between individuals, establishments, and the Government. Among them are financial institutions (Admiral Financial Institutions and National Banks), monetary markets (money and capital markets), fiscal instruments (bonds, chemical bonds, etc. and regulators like the Reserve Bank of India, SEBI, and IRDAI). The current organization will assist in mobilizing resources, facilitating investment, and supporting fiscal development. The Indian economy is a mixed economy combining agriculture, industry, and aid. It should be one of the world's fastest growing markets, divided into three basic sectors: primary production, secondary business, and tertiary support. Major improvements since 1991 have promoted denationalization, liberalization, and globalization, making India a major player on the planet. The Indian fiscal organization can be broadly classified into two parts: the form area, which consists entities that appreciate the Reserve Depository of Republic of India commercial banking entities, insurance companies, and resource trading centres and the unorganized area, which includes autochthonous banks and informal lenders. The economy, on the other hand, is structured in three sectors: primary (farming), secondary (industry), and third aid, which is becoming a major contributor to GDP.

LITERATURE

Bhattacharya and Patel (1985) and Rangarajan (1993) Prior to liberalization, highlight the laterality of citizens' field institutions in the Indian fiscal environment. Their analysis shows that the firm was managed thoroughly, with limited competition and minimal economic innovation.

Acharya and Rajan (2013) note that citizens sector banks continue to face management and effectiveness challenges that make it difficult to operate optimally.

Prasad, and Ghosh (2002) Analyze the development of the Republic of India asset trading centres and call for a fundamental improvement in openness, investor protection, and innovation incorporation. And that's the same with him.

Subbarao (2009) It underlined the growing role of economic policy and the RBI in guaranteeing fiscal stability during the cycles of international fiscal volatility.

Shah and Patnaik (2007) provided evidence that capital market liberalization contributed significantly to GDP growth, especially through increased investment efficiency.

RESEARCH GAP

Financial integration has gained considerable policy attention, particularly through projects such as the Pradhan Mantri First Month Rich Project and the Digital Payment Network expansion. However, a comprehensive socio-economic study of the long-term socio-economic impacts of fiscal incorporation, especially in rural and distant areas, remains lacking. As a priority for investigative



activity above the opening of the Economic Foundation Statement, a smaller number expressed by the actual application, the fiscal state, and professional development in the context of the financial entry. The integration of equipment with conventional banking and economic support has speeded up, but the virtual divide remains a serious concern. There may also be a lack of information on how demographic factors such as time, net income, education, and region affect access and integration of electronic monetary aid. The present period represents a significant interval of time between the knowledge of equity and the victory of computerized economic transformation in India. The obligation of non-banking economic undertakings (NBFCs) to assist SMEs and the weaker sectors of the economy is underexplored. The shortcomings of major NBFCs such as IL & FS and their subsequent ripple effects using the fiscal arrangements reveal the need to investigate the vulnerability supervision, supervisory oversight, and systemic vulnerabilities in the holding of NBFC.

Significance of the Indian Financial System and Economy:

The Indian Monetary Organisation and Economic Structure, the architectural and functional heart of the territory's growth system. As a rapidly expanding and flourishing retail trade, Hindustan trusts a great deal on a resilient fiscal structure to ensure the efficient mobilization of resources, capable allocation of resources, and smooth functioning of the economic tasks. To measure how profoundly a nation can gather its development objectives, reduce poverty, create employment, and maintain fiscal and financial discipline in a competitive world, it is necessary to understand the relevance of Indian financial organizations and economy.

Mobilization and Allocation of Savings: Indian financial structure amusement is a crucial factor in mobilizing savings from families, enterprises, and institutions into productive assets. Guaranteeing the use of idle funds for fiscal progress and, consequently, increased equity creation is ensured by the lenders, the fiscal organizations, and the fund marketers.

Economic Growth and Development

fiscal expansion to last a long time, it is important to have a functioning fiscal structure. In Bharat, the financial sector provides financing to cultivate, cultivate, and support, which is the main driver of GDP. The simplified functioning of the monetary markets enhances investor confidence and encourages entrepreneurship.

Employment Generation

The financial structure contributes to employment growth by providing loans to firms, new operations, SMEs, and rural enterprises. Furthermore, the increase in financial services, financial services, insurance, and technology finance has also become a major employment area in India.



Financial Inclusion

India's second growth method will have a major focus on fiscal involvement. In order to facilitate financial management and fiscal support for rural and urban disadvantaged, such schemes as First Month's Wealth Project, Lead Advantage Transfers, and Unify Payment Interface (UPI) have widened access, enabling financial management and fiscal support for rural and urban disadvantaged communities.

Challenges of the Indian Financial System and Economy

Non-Performing Assets (NPAs)

The high number of underperformers is one of the major challenges faced by the Indian financial structure, especially in the financial sector.

2. Financial Inclusion

However, despite significant progress, a large part of the Republic of India population, especially rural and remote areas, still does not have access to official financial and financial assistance.

3. Regulatory and Governance Issues

A number of supervisory bodies, such as the Reserve Bank of India, SEBI, and IRDAI, will run the Indian Monetary Organisation. Stores of certainty and systemic effectiveness can be swayed by a coordination block between the regulator, the compliance burden, and occasional delays in regulatory improvements.

Inefficient Monetary Policy Transmission

Although the Reserve lender of Indian adjusts policy rates in the direction of escalation and growth, the transmission of such rates to the actual lending rates of financial institutions is frequently delayed or partially delayed. This problem is exacerbated by systematic rigidity, threat aversion among banking entities, and high fund costs.

Underdeveloped Bond Market

In comparison with planet standards, Hindustan's chemical bond store remains shallow. The current system restricts the possibility of companies being supported and places too much reliance on the banking entities for long-term financing. Deep chemical bond storage may be optimal. Handling of resources and reducing systemic risks.

Dependence on Informal Sector

An essential part of India's economic functioning in the informal sector, which is regularly outside the reach of traditional economic establishments. That reduces tax compliance, restricts access to finance,



and restricts productivity measurement and policy power.

Strategies to Overcome Challenges

Leverage Digital Platforms: Promote mobile banking, UPI, and fintech services to reach remote and underserved areas.

Financial Literacy Programs: Conduct widespread campaigns to educate people on banking products, credit, and insurance.

Simplify Account Opening: Promote e-KYC and use Aadhaar-based authentication for hassle-free onboarding.

Strengthen Microfinance and SHGs: Support microfinance institutions and self-help groups to extend credit access to the poor.

Impact Public and Industries

Financial Inclusion and Poverty Reduction: Pradhan Mantri Jan Dhan Yojana programs, particularly for rural and income communities, provide a broader entry point to finance management.

Consumer Protection and Financial Literacy: SEBI and RBI are working together to ensure consumer protection, while uninterrupted monetary literacy projects seek to empower human beings to make knowledgeable fiscal options.

OBJECTIVES OF THE STUDY

To examine the structure and components of the Indian financial system, including the roles of banks, non-banking financial institutions,

To assess the contribution of the financial system to economic growth in India, with a focus on capital formation, credit expansion.

To evaluate the effectiveness of financial inclusion initiatives and their impact on reducing poverty, supporting entrepreneurship.

To study the challenges faced by the Indian financial system, such as non-performing assets (NPAs), regulatory fragmentation.

RESEARCH METHODOLOGY

Design of the descriptive and analytical evaluation. It deals with the past, policy influences, and systematic progress in the Indian Economic Organisation, as well as the importance of postliberalization improvement and contemporary obstacles. In order to obtain results alongside operational setbacks and policy findings, the structure interview and questionnaire will continue to be used in order to continue to move beyond policymakers, financial services professionals, economists, and business experts. Quantitative surveys of ADR examine association and change surveys using software such as SPSS, STATA, employ an econometric model to assess the link between fiscal growth and fiscal development. Qualitative review Thematic review of the Policy Paper and Efficient



Interview. In order to understand regional influences, a scenario examining the choice of monetary beings rather than the district.

IMPORTANCE OF THE STUDY

India's fiscal framework will play a key role in financial growth, influence purchasing, consumption, and macroeconomic sustainability. Understanding the interaction between financial organizations, bazaars, and supervisory standards is essential for effective policy making and global expansion in an instantaneous economic system.

The challenges faced by banks, NBFCs, and capital markets, and

The strategies needed to enhance financial sector efficiency, stability, and accessibility.

The analysis aims at providing intellectual wisdom, advising policy decisions, and supporting the design of a more resilient and comprehensive monetary framework in India by crossing the gap between theory and practice.

FINDINGS OF THE STUDY

The study concludes with the following main conclusions based on an exhaustive study of India's monetary framework and its relationship to fiscal developments. The Indian monetary framework has been substantially expanded since liberalization, facilitating resource formation and monetary growth. However, rural and debt gaps prevail; fiscal integration has been improved through a system similar to the Jan wealth framework and electronic channels.

High levels of non-performing assets (NPAs) continue to affect banking sector efficiency

Capital markets have become more developed and transparent, but participation is still urban-centric. Regulatory bodies have strengthened oversight, yet coordination among them needs improvement The study draws up the following main conclusions based on an exhaustive analysis of India's economic framework and its links to financial progress

The Indian financial system has expanded significantly post-liberalization, supporting capital formation and economic growth Moreover, financial integration has improved through the January Dhan project and digital channels, although rural and loan intervals prevail High levels of non-performing assets (NPAs) continue to affect banking sector efficiency.

Data analysis and interpretation

UPI Transaction Volume Over the Years.

There have already been 173,597.92 million worth of UPI transactions in the financial year 2024-2025. The UPI Transaction volume has been up by 32% from the previous financial year and by 1286% from the start of the decade.

Here is a table showing UPI transaction volume from 2017 to 2025.

financial Year	Number of UPI Transactions
2017	17.9 million
2018	915.2 million
2019	5,353.40 million
2020	12,518.60 million
2021	22,330.70 million
2022	45,956.10 million
2023	83,714.40 million
2024	131,129.50 million
2025	173,597. 92 million

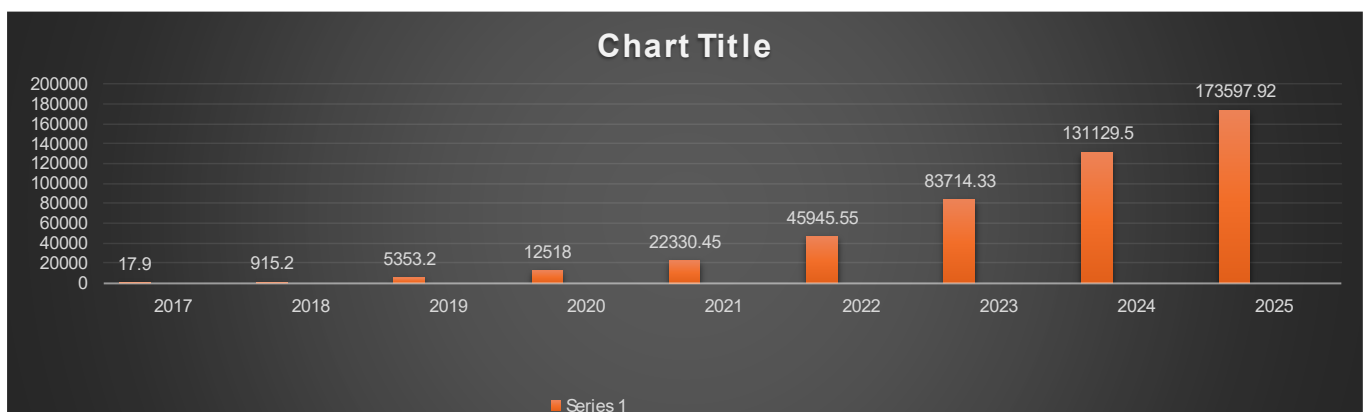
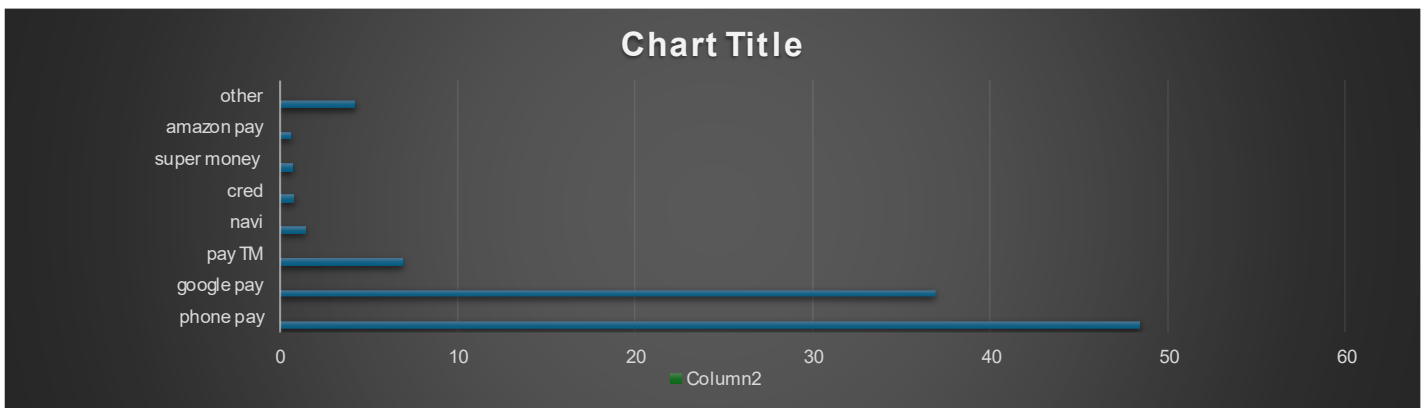


TABLE 2. UPI Application Market Share In 2025, Here is the above data in tabular form for convenience.



UPI Application	Market Share
PhonePay	48.4%
GooglePay	36.9%
PayTM	6.9%
Navi	1.4%
CRED	0.8%



Super Money	0.7%
Amazon Pay	0.6%
Others	4.2%

Table 3. Domestic Investment in India (Gross Fixed Capital Formation)

This data highlights a recovery in investment activity following the COVID 19 downturn and stabilization at around 31% of GDP by 2023.

Year	GFCF (% of GDP)
2020	27.32%

2021	29.58%
2022	30.75%
2023	30.83%

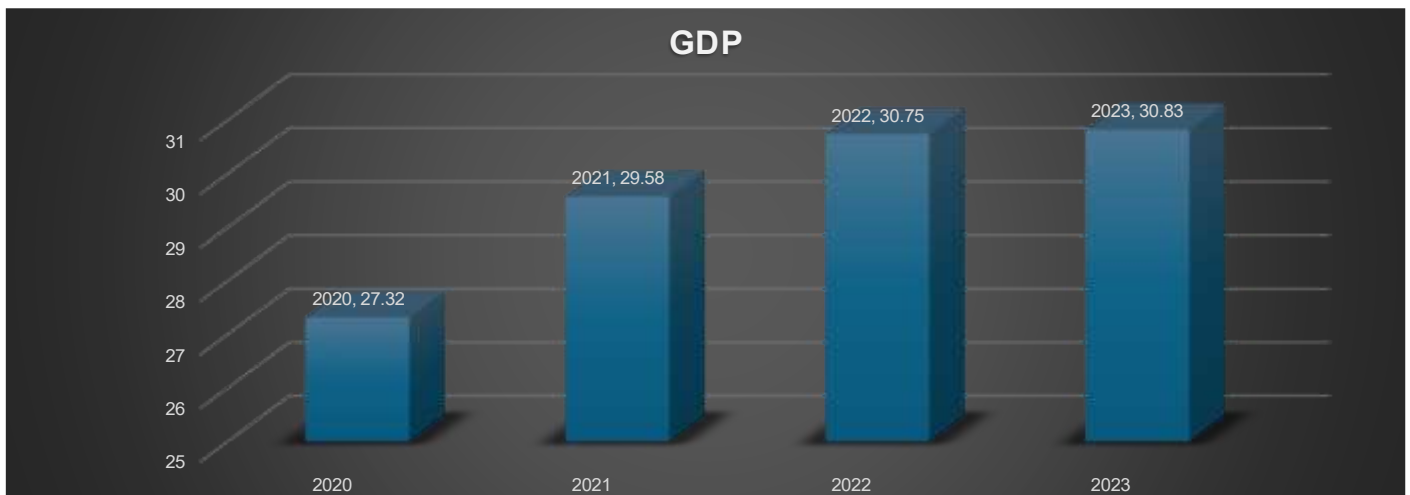


Table 4. Indian foreign investment

Here's a chart over time spanning from April 2000 to March 2025 clearly illustrating notable growth trends and fluctuations.

Financial Year	Total FDI Inflows (USD Billion)
2000–01	~\$4.0 B
2006–07	~\$22.8 B
2011–12	~\$46.6 B



Financial Year	Total FDI Inflows (USD Billion)
2021–22	~\$84.8 B
2022–23	~\$70.9 B
2023–24	~\$70.9 B
2024–25	~\$81.0 B

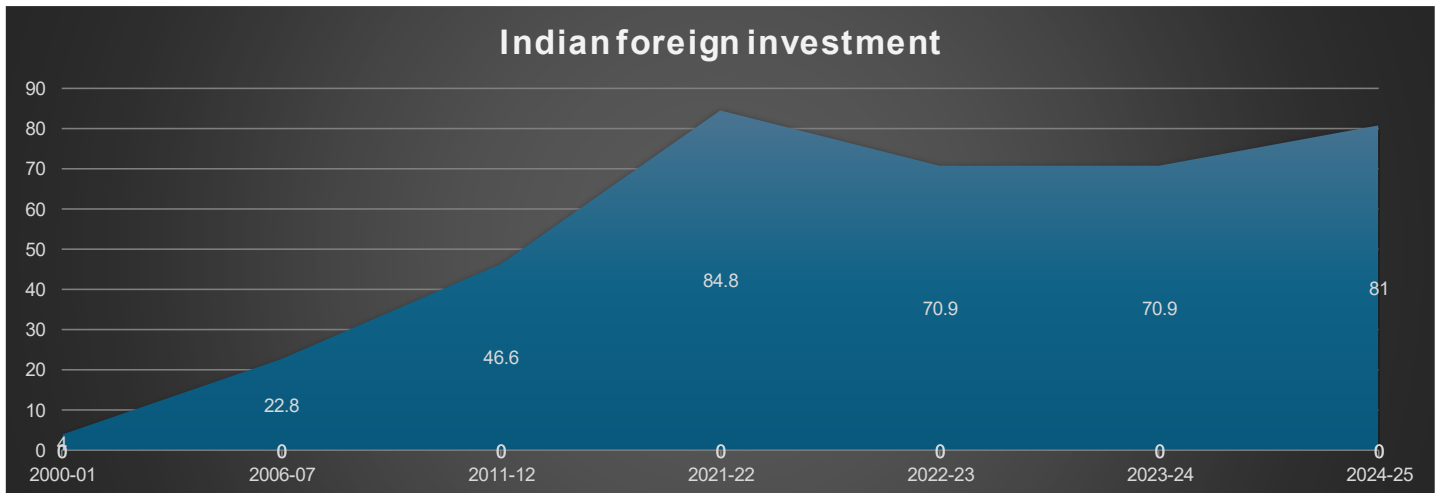
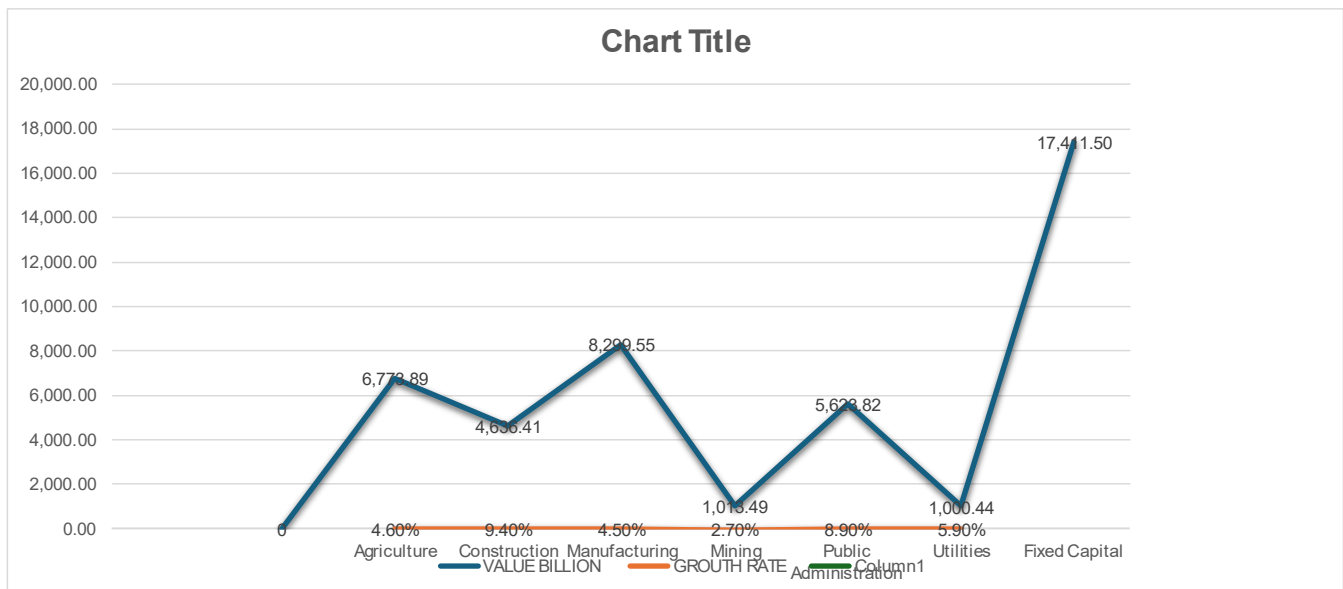


TABLE 5. Indian financial economy

Indicator / Sector	Value (INR Billion)	Growth Rate (YoY %)
Agriculture	6,773.89	4.6%
Construction	4,636.41	9.4%
Manufacturing	8,299.55	4.5%
Mining	1,013.49	2.7%
Public Administration (Services)	5,623.82	8.9%
Utilities	1,000.44	5.9%
Gross Fixed Capital Formation	17,411.50	



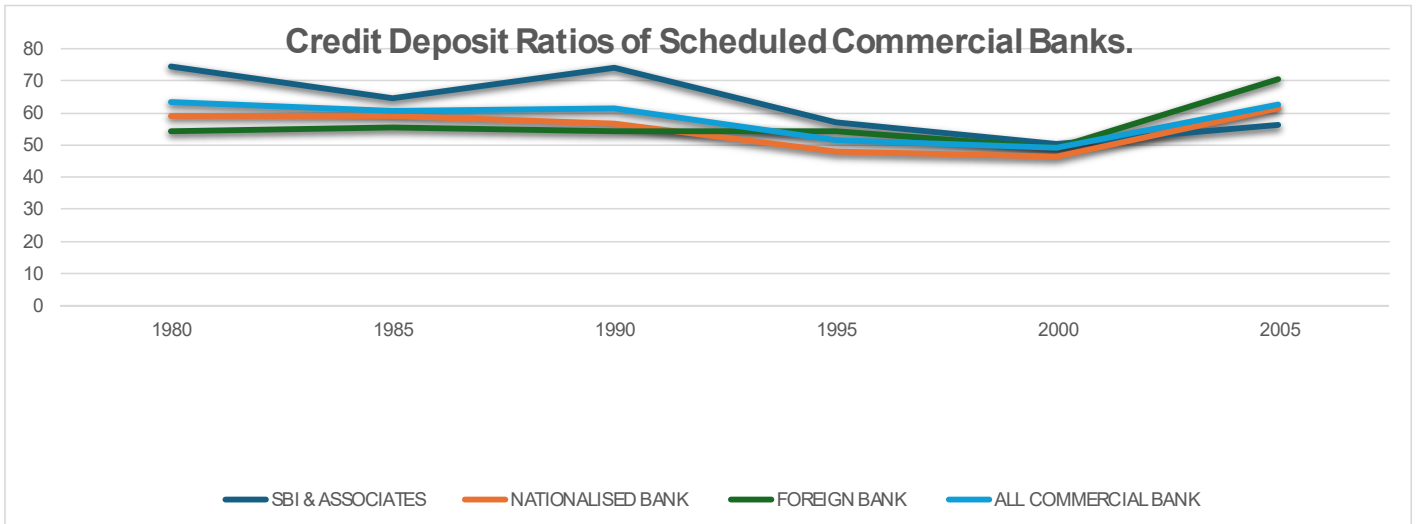
Interpretation:

Despite the weak performance of the previous quarters, the economy accelerated in Q4 to 7.4 percent growth and raised the annual average to 6.5 percent. Sectoral drivers: the formation of a star performer, together with a development of 9.4 percent, mirroring robust network operation. Public assistance to extend almost 8.9 % of authority expenditure and administrative aid. Agriculture is growing close to 4.6 %, demonstrating strength. The increase in stakes significant addition to the GFCF indicates a strengthening of asset formation and a push for foundations.

Table 6. Credit Deposit Ratios of Scheduled Commercial Banks.

The credit-deposit ratio provides an indication of the extent of credit deployment for every unit of resource raised in the form of deposits. The ratios of all scheduled commercial banks decreased gradually from 63.3 per cent in 1980 to 49.3 per cent in 2000. This declining trend has been reversed in the recent years, with the ratio increasing to 62.7 per cent in 2005. The foreign bank group recorded the highest C-D ratio (87.1 per cent) and State Bank Group the lowest (56.3 per cent) in 2005. The C-D ratios of all the bank groups had fallen drastically in 2000, except for foreign banks. With respect to domestic private sector banks group, this ratio.

Year	SBI & its Associates	Nationalised Banks	Foreign Banks	Domestic Private Sector Bank	All Scheduled Commercial Banks
	C-D Ratio	C-D Ratio	C-D Ratio	C-D Ratio	C-D Ratio
1980	74.4	58.9	73.5	54.3	63.3
1985	64.6	58.9	74.1	55.5	60.8
1990	74.0	56.6	62.3	54.1	61.6
1995	57.1	48.0	54.3	54.3	51.4
2000	50.3	46.4	72.2	49.0	49.3
2005	56.3	61.3	87.1	70.5	62.7



CONCLUSION

The Indian financial system should be the cornerstone of the economic architecture of the country, facilitating the mobilization of funds, encouraging investment and supporting overall economic development. The economic structure has undergone significant evolution over the past decade, particularly since the 1991 monetary liberalization, which has expanded its reach, depth, and functionality in all sectors. The present study critically analyses the evolution, the current framework, and the crucial component of the Indian financial structure in companies with their role in influencing economic effects such as GDP increase, financial incorporation, industrial evolution, and poverty reduction. Expansion of monetary involvement through instruments and government schemes such as the Pradhan Mantri Jan is one of the most significant achievements of recent eras. Money Yojana, Aadhaar enabled banking, UPI, and mailable wallet. These programs connect the myriad with the official economic system, allowing them access to financial services, financing, insurance, and pension support. At the same time, changes in asset exchanges, improved regulatory oversight by organizations such as the Reserve Bank of India, SEBI, and IRDAI, and the expansion of financial technology have brought about a transformation in monetary assistance and improved efficiency and visibility. As a result, the Indian currency structure has achieved impressive improvements, but it must be able to adapt to changing demands of an aggressive and diversified economy the effectiveness and inclusiveness of financial assistance are hindered by concerns such as increased incapacity of resources (NPAs), slow funding development, overlap in management, reduced economic literacy,



and electronic divide. In addition, the latency of the informal sector in the economy, related to the development of fiscal markets such as the corporate chemical bond market, limits the possibilities of building strong funds and making productive investments India's economy, which has been growing steadily, remains against international currency turmoil, policy uncertainty, and systematic constraints. and future-oriented fiscal biome.

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