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# A Study on Impact of Reserve Bank of India's Monetary Policy on Financial Inclusion..

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**ABSTRACT**

The paper emphasizes that mobilizing and circulating financial resources is a primary requirement for the development of any economy. For a developing nation like India, achieving inclusive economic growth is critically linked to financial inclusion, making it a key policy objective. The fundamental purpose of this study is to analyse how financial inclusion impacts the growth of the Indian economy Sand to examine the various initiatives undertaken by banking institutions in India to achieve inclusive growth. Indian policymakers, including the Government of India and the Reserve Bank of India (RBI), have actively worked to promote financial inclusion as a national priority. These efforts recognize that despite various inclusive banking initiatives introduced over the years—such as cooperative movements, bank nationalization, and creating regional rural banks—a significant percentage of the population still lacks access to formal financial products and services. In conclusion, the study suggests that financial inclusion has made a notable contribution to the development of the Indian economy but highlights the need for further efforts to achieve truly inclusive growth...

**Keywords**: financial inclusion, economic growth, monetary policies, poverty, rural sector.....

## INTRODUCTION

The Reserve Bank of India (RBI) is the central banking authority of India, which is responsible for regulating the monetary system, maintaining financial stability and to promote economic growth. In recent times RBI has introduced various policies such as Pradhan Mantri Jan Dhan Yojana (PMJDY) to increase the accessibility of bank accounts, "Kumar Bijoy states that PMJDY has increased the number of bank accounts through diluting KYC for marginalized and deprived citizens but transactions in the account or lack of savings to be deposits." Unified Payment Interface (UPI) to make the financial or money transactions easy and transparent, "Shailesh Rastogi, Chetan Panse, Arpita Sharma, says that UPI is impacting the financial literacy, in addition to that it if found that financial literacy is significantly impacting financial inclusion which in turn is causing economic development.

Moreover, there is a gap between the formulation of the policy and implementing it in the rural areas, which leads to raising concerns whether the policies or initiatives are truly achieving the economic growth.

The financial inclusion is the process of ensuring access to the financial services such as banking, credit, insurance and payment services to all the people in the society. It plays a very important role in the economic development of a country by promoting savings and investments, and reducing poverty. The RBI is promoting financial inclusion by bringing up various policies and new initiatives to improve the financial literacy. Lack of awareness, illiteracy, and socio-economic barriers leads to the challenges in achieving the financial inclusion.

Therefore, the purpose of this study is to analyse how RBI policies influence financial inclusion and how it contributes towards economic growth. It also aims to examine the effectiveness of these policies, identify existing challenges, and to prove insights into improving financial inclusion for sustainable economic development.

### Literature review

Financial inclusion provides basic banking services like savings, loans, and insurance to all people, especially those in rural and low-income groups. It helps the individuals to manage money safely and improve their standard of living. Rangarajan committee (2008) on financial inclusion stated that "Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost." Mandira sharma and Jesimpaise (2008) suggest that the issue of financial inclusion is a development policy priority in many countries. Band, Naidu and Mehadia (2012) argued about opportunities and problems in the path of success of financial inclusion plan. According to Murari and Didwania (2010) it refers to the offering of financial services to individuals and businesses who are economically disadvantaged and have low income. Kuri and Laha (2011) defined it is as the act of integrating the more vulnerable and less influential sectors of society into the organized financial system. Bagil and Dutta (2012) define "Financial inclusion as the state in which individuals establish a connection with authorizes financial institutions by various means such as possessing a savings bank account, credit account, insurance policy and similar activities." Paramasivan and Ganeshkumar, financial inclusion refers to the easy access and effective use of official financial services or systems by every individual in the economy.

Most authors agree that RBI policies have improved financial inclusion in India. However, some studies points out that there are challenges in rural areas.

Overall, the literature says that the RBI policies have contributes to expand the financial inclusion in India by improving the banking access, promoting digital payments. However, the gaps still exist because of less usage of bank accounts, and awareness among the people and lack of communication with the people in rural areas.

**Table 1- Bank accounts opened before and after RBI implementing policies**

| **Period** | **Year range** | **Bank accounts** | **Key policy/content** |
|---|---|---|---|
| Before PMJDY | Up to 2013 | 530 million | Limited inclusion, many unbanked households. |
| PMJDY launch | 2014 | | Mass financial inclusion drive begins. |
| After PMJDY (Initial surge) | 2014-2016 | 750 million | Rapid account opening (Zero-balance accounts). |
| Expansion phase | 2017-2020 | 1.1 billion | Linking with Aadhar, DBT, mobile banking. |
| UPI growth | 2021-2024 | 1.5+ billion | Digital usage rises; active accounts increase. |

This table shows that's how the financial inclusion has been improved in India over the period of time. Before 2013 most of the people did not have their own bank account so it had limited financial inclusion. After 2013 that is 2014 the government of India introduced a scheme known as Pradhan Mantri Jan Dhan Yojana (PMJDY) which was to have at least one bank account in every house so they could utilize the financial services which are being provided. After the implementation of this policy there was a increase in the number of bank accounts especially in 2014 and even in 2016 has they had a option of zero-balance bank accounts. From 2017 to 2020 they started to focus on linking the bank accounts to the Aadhar card for using the services like digital banking. And from 2021 to 2024 there was increase in mobile banking because of Unified Payments Interface (UPI). Overall, this table shows that the India have increased the digital usage.

## Research gap

Studies shows how many bank accounts have been opened but not how many transactions take place from those accounts. There is also limited research on socio cultural barriers affecting the access to financial products, especially for women and north eastern population of India. There is also a very less awareness campaign related to financial inclusion policies which has to be tackled. Therefore, more research has to be conducted and analysed to understand the actual usage of the policies and the challenges faced in financial inclusion in different areas of the country.

## Conceptual framework

Many people especially in rural sectors do not understand how to use the services provided by the banks like how to make saving, how to make investment, how to transfer money to another person and how to make payments using the digital platforms. Under "Pradhan Mantri Jan Dhan Yojana" (PMJDY) schemes the rural people open bank accounts but they don't use them on daily basis for making any kind of payments.

Another initiative by the government of India like "Unified Payments Interface" (UPI) helps in making payments online but many people doesn't know how to use the smartphones and there is be no proper internet access in their areas and mainly elderly people feel difficult to adopt such technologies within a shorter duration.

Financial inclusion has been successfully expanded in India but true inclusion happens only when people actively adopt the policies.

According to the data provided by the global financial inclusion many women in India are less financially included when compared to men and depend more on the informal sources. Around 20% of the women still don't have their own bank accounts even though they have they don't use it regularly. And only 28% of the women use digital platforms to make the payments which shows the huge gap in the usage. Only 19% of the women have their own smartphones and in that only limited people have access to the digital finance. In northern states like UP, Bihar, Rajasthan patriarchy system works a lot only few women are educated and they don't participate much in any events, they depend more on the male family members.

Even though India has improved in financial access there still are cultural and social barriers and especially patriarchy system and low literacy it continues to restrict women's for using the financial services provided by the government which mainly takes place in the northern states.

## Discussions

The study examines how the RBI policies have influenced the financial inclusion and their contribution towards the economic growth of the country. It indicates that the RBI initiatives especially Pradhan Mantri Jan Dhan Yojana (PMJDY) and Unified Payments Interface (UPI) has improved the access to the financial services provided by the government of India by increasing the usage of bank accounts and promoting the digital transactions. This highlights the positive improvement in the financial system in India. However, this study also reveals that these financial services are not effectively utilized by the people especially in the rural sectors. Even though many bank accounts which have been opened under the PMJDY policy most of them do not use them regularly on daily basis. This indicates that there is a gap between implementing the policy and people actually utilizing it. So, we can that the success of any policy implemented by the government should not be measured only by the numbers but also how people use them actively. It also highlights the importance of the financial literacy. Many people especially in the rural sectors don't fully understand how the bank accounts are used and how to make online payments due to lack of knowledge. This is one of the main reasons why they have not been able to use such services effectively. As they also face problems like less usage of smartphones and lack of internet connection and finding difficulty in using the digital payment apps, this makes them hard to adopt and access the financial services.

Another issue found here is related to social and cultural factors especially for the women in rural and northern areas. Even though there are a lot of banking services provided women still don't have any idea how to use it and are being facing a lot of challenges. This might be because of lack of education, less freedom to use the technology and many restrictions implied by their family. Because of such reasons most of them are not financially involved.

In conclusion we can say that the RBI policies have been helping a lot increasing the accessibility of the financial services but the financial inclusion fully happens only when these services are completely adopted by the people. To make this happen they have to improve the literacy rate and provide more access to the digital platforms and to remove the barriers. This will result in achieving the desired goals and having a sustainable economic growth.

## Implications

For a financial inclusion to be successful it is important to increase financial literacy especially in rural and underserved area. Programs need to focus on educating people on the benefits of banking and digital payments, helping them become financially independent. Collaborating with fintech companies can also lead to innovative solutions for rural banking. Micro insurance and instant payment, making financial services more accessible and affordable. It is important to promote affordable smartphones and vernacular - language financial apps to enhance accessibility for rural and semi-literate populations. Building awareness in schools helps students to know about financial literacy from early age. RBI should improve supervision of cooperative banks and NBFCs to prevent scams and ensure transparency in microfinance institutions to protect borrowers from over-indebtedness.

Simplifying loan procedure and expanding collateral free loans for small business increases the loans. Whereas improved grievance redressal systems like simplifying complaint mechanisms in rural areas, faster dispute resolution for digital transactions and adding multilingual helplines is important.
In future rbi should frame policies in such a way it shifts from "access" to "active participation" ensuring that people do not only open bank accounts but also the financial services in meaningful way.

## Conclusions

The findings of this study indicate that the monetary policy initiatives of the Reserve Bank of India have significantly contributed to improving financial inclusion by expanding access to banking services, credit facilities and digital financial platforms. The launch of Pradhan Mantri Jan Dhan Yojana in 2014 helped bring unbanked populations into the formal banking system by encouraging Zero- balance accounts and direct benefit transfers. In addition, the promotion of digital payments through the unified payments interface improved low-cost transactions and increased financial participation, especially in rural and semi-urban areas. over time, RBI has integrated inclusive growth objectives within its policy framework through measures such as licensing of small finance banks in (2015), operalization of payment banks (2016). Furthermore, lower interest rates encouraged borrowing for productive activities, while improved liquidity enabled financial institutions to extend services to underserved communities. During the COVID-

19 pandemic in 2020, targeted liquidity measures and regulatory relaxations supported non - banking financial companies and microfinance institutions, which play a key role in reaching undeserved population. Consequently, the study concludes that the RBI's monetary policy framework has contributed to narrowing financial gaps, improving economic participation, and supporting inclusive and sustainable economic development in India...

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