REVIEW OF RESEARCH
ISSN: 2249-894X
IMPACT FACTOR : 5.7631(UIF)
VOLUME - 15 | ISSUE - 9 | JUNE - 2026

"ECONOMIC DEVELOPMENT OF RURAL MADHYA PRADESH: ROLE OF PUBLIC SECTOR BANKS"

Snehil Omprakash Gupta
BE, MBA, DTIRM, CAIIB

Dr. Meenakshi Shrivastava
Dean & HOD
Department of Management & Commerce, Mansarovar Global University,
Sehore (Madhya Pradesh)

ABSTRACT

Public Sector Banks play a significant role as an important financial resource for economic development of Rural India as a whole and State of Madhya Pradesh in particular. Recently introduced drastic changes in Public Sector Banks basic structure and regulatory system have resulted into increased mobilization of deposits, reallocation of bank credit to priority activities and lower operational autonomy for Public Sector Banks Management.

The State of Madhya Pradesh has a very wide geographical spread and deep penetration of Rural Regions. In the PSBs banking scenario of Rural Madhya Pradesh, dominance of a selected Public Sector Banks is apparently observed for its constant growth and development of Rural Madhya Pradesh. Hence, Public sector Banks must play a crucial role for economic development of the Rural Regions of Madhya Pradesh. Keeping in view the immense need of assessing the contribution of PSBs in rural development of Madhya Pradesh, this study is conducted.

KEYWORDS: *Rural Economy of Madhya Pradesh, Economic Growth, Agriculture, Credit..*

INTRODUCTION

The Economic Development of Rural India as a whole and Rural Madhya Pradesh is increasing, generating and highly interesting as it imparts the development story to the world with its presence of human and natural resources. In the recent past it has become the preferred destination for quality workforce and potential marketplace for domestic, multinational and transnational corporates. Madhya Pradesh and India are one of the fastest growing economies amidst worldwide uncertainties.

It has been observed during recent past that growth of Madhya Pradesh is primarily service driven and its share has been growing year on year while the contribution of agriculture to G.D.P. has not been growing at the same pace. So, the recent figures, the contribution of Agriculture to G.D.P. in 2024 and 2025 was approximately 12-15%, while the service sector contributed to the tune of 78%. This trend apparently shows that the economic development largely limited to the Urban population and is yet to widely percolate to the rural population.

Eminent Poet Shri Sohanlal Dwivedi has written "Where is Our India. It is situated in our villages."

Mahatma Gandhi also said that "India lives in Village" and the agriculture and allied are back bone for economic development of the country and the state of Madhya Pradesh.

Evidence from Rural Madhya Pradesh suggests that banking access has improved, especially after schemes such as PMJDY, but awareness of advanced financial services remains limited, and many households still rely mainly on basic deposit accounts, subsidies, and wage-linked transfers. This paper argues that public sector banks are essential not only for financial deepening but also for raising rural incomes, supporting agriculture and livelihoods, and reducing exclusion in backward districts of Madhya Pradesh.

RESEARCH PROBLEM

The core problem is that rural economic development in Madhya Pradesh has not progressed evenly across districts, despite decades of banking expansion. Many rural households remain underbanked, financially illiterate, or dependent on informal credit, which weakens the developmental impact of banks. Public sector banks have expanded access, but the question remains whether they have effectively transformed access into sustained economic empowerment. This paper examines the gap between banking outreach and development outcomes.

OBJECTIVES

1. To examine the role of public sector banks in rural economic development in Madhya Pradesh.
2. To study how financial inclusion has affected rural households' banking habits and access to services.
3. To analyze the contribution of public sector banks in credit delivery, savings mobilization, and welfare transfer.
4. To identify the constraints that reduce the developmental effectiveness of rural banking in Madhya Pradesh.

Madhya Pradesh – The "Heart of India"

Madhya Pradesh - the "Heart of India" has following salient features:
Second Largest State: Madhya Pradesh is the second largest state of India in terms of area.
Geographical Location: It is centrally located in India, bordering Rajasthan, Uttar Pradesh, Chhattisgarh, Maharashtra and Gujarat.
Official Language: The official language of Madhya Pradesh is Hindi.
UNESCO World Heritage Sites: Khajuraho, Sanchi Stupa, and Bhimbetka Rock Shelters.
Wildlife Sanctuaries: Kanha National Park, Bandhavgarh and Pench National Park.
Major Rivers: Narmada, Tapti, Mahanadi and Wainganga.
Highest Peak: Maugadh Peak near Pichangla at 4,499 feet (1360 meters).
Tourist Attractions: Historical sites like Sanchi Stupa to spiritual destinations like Omkareshwar.
Cultural Heritage: Rich cultural heritage including festivals like the Khajuraho Dance Festival and vibrant folk traditions.

Agriculture and Rural Economy

Madhya Pradesh is better known as an agrarian state, with agriculture contributing to its Gross Value Added (GVA) by approximately 35-38% in 2025-2026. Agriculture also contributed to 78% of the livelihood of the population. Major crops: paddy, wheat, maize, gram, soybean, mustard, sugarcane, cotton.

Agriculture is an important driver for economic development. Credit is a vital tool. A well-organized banking system is essential as per Banking Regulation Act 1949.

Role of Public Sector Banks

Public Sector banks provide deposits, loans and investment products. Share in institutional credit to agriculture is significant. Jan-Dhan Yojana has increased deposits. RBI guidelines support priority sector lending including agriculture in Madhya Pradesh.

Public sector banks contribute to rural economic development in Madhya Pradesh in several concrete ways. They expand physical access through branches and business correspondents, making banking available in villages where formal financial institutions were previously absent. They provide savings accounts that encourage formal saving behavior and create a base for future investment. They also support credit for agriculture, small businesses, education, housing, and allied activities, which helps rural households move beyond subsistence livelihoods.

Another major role is the delivery of government benefits. In rural Madhya Pradesh, wage payments under schemes such as MGNREGA and subsidy transfers are often routed through bank accounts, making public sector banks central to household cash flow. This has helped bring many previously unbanked households into the formal banking system. However, the same evidence also shows that account ownership alone does not guarantee higher financial literacy or diversified financial usage.

Rural Development Effects

The economic impact of Public Sector Banks can be seen in improved savings habits, easier access to formal credit, and reduced leakage in government transfers. When households receive wages and subsidies through bank accounts, they are more likely to engage with formal financial institutions and build a transaction history. Over time, this can improve creditworthiness and support investment in agriculture, livestock, microenterprises, and household consumption smoothing. Such changes are especially valuable in backward and tribal regions where informal finance has traditionally dominated.

At the same time, the developmental benefits are uneven. The study of rural Madhya Pradesh shows that while many households have accounts, awareness of services such as online banking, mutual funds, microfinance, and demat facilities is very low. This suggests that public sector banks have achieved breadth of access more than depth of inclusion. For real economic transformation, access must be complemented by literacy, trust, and active usage.

Recent Policy Measures

The Governor of RBI has taken decisions for rural growth by adjusting Repo Rate, CRR, SLR etc. These will support liquidity and lending to productive sectors especially agriculture.
Retail inflation trends and policy impact on rural economy are discussed.

Functions of Public Sector Banks

Major Functions:

- Accepting Deposits
- Making Advances
- Credit Creation
- Other related functions

Minor Functions:

- Cheque clearance
- Sale/purchase of bonds/shares
- Transfer of money
- Perform as trustee/representative
- Provide Letter of Credit
- Other financial/digital tasks

Challenges in Rural Banking

- Skewness in branch distribution (urban vs rural). Low contribution of rural areas to deposits and advances. Infrastructure gaps.

Recommendations and Innovative Models

Adopt cost-effective models:

- Brick & Mortar Branches
- Ultra Small Branches / Bank on Wheels
- Branches-in-Box
- Digitized Banking
- Biometric ATMs
- Business Correspondent Model
- Digital & Mobile Banking

Barriers:

- Lack of accessibility
- Lack of infrastructure
- Lack of safety in remote areas
- Lack of financial literacy
- Cybersecurity risks

CONCLUSION

Public Sector Banks are the real backbone of rural banking and play a vital role in the socio-economic development of Rural Madhya Pradesh.

Public Sector Banks are indispensable to the economic development of rural Madhya Pradesh because they connect households to savings, credit, welfare payments, and formal financial systems. The evidence indicates that these banks have substantially improved account ownership and basic inclusion, especially through Government-linked schemes. Yet the overall depth of financial awareness and advanced service usage remains low, which means that the developmental impact is still incomplete, for rural Madhya Pradesh.

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