

## ABSTRACT

The paper examines the status of financial inclusion in India through the financial inclusion index. Presently the index includes bank branches, ATMs and bank accounts per 100 of population along with the volume of credit and deposit with respect to GDP to capture accessibility, penetration and usability dimensions. We modify the Financial Inclusion Index incorporating post office savings account and branches adding a new dimension to the existing methodology. Post office accounts are more accessible to the poorer sections and require less stringent documentation requirements. Secondly the existing financial inclusion index is modified by incorporating achieved level of priority sector lending in 21 states of India. Subsequently, the impact of financial inclusion in bringing down the poverty level is examined. We observe that there has been substantial improvement in the level of financial inclusion thanks to the policy thrust by the government of India in the recent past. However, there is little scope for complacency as large section of the country's population both in rural and urban region continue to remain financially excluded.

OLS regression model with state level rate of poverty with financial index, sex- ratio, literacy reveal that there are strong association with the financial inclusion index and the decline in poverty between 2001 and 2011. Dummy variable to capture the political party in power across states and centre is introduced which opens an unexplored dimension in the debate of Financial Inclusion.