

Priority Sector Lendings By Indian Commercial Banks-An Analytical Study

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Abstract

The priority sector lending mainly intends to ensure that the assistance from the banking system to those sectors of the economy that has not received adequate support of institutional finance. The attainment of the socio-economic priorities of the government like the growth of agriculture, promotion of small entrepreneurs and development of the backward area, etc. are the major responsibilities and challenges of commercial banks. Since the seventies, Reserve Bank of India and the Government of India have stipulated guidelines for priority sector lending by banks. Conventionally, the objective of PSL has been to ensure that vulnerable sections of society get access to credit and there is an adequate flow of resources to those segments of the economy which have higher employment potential and help in making, an impact on poverty alleviation. However, over the last four decades, the Indian economy has not only undergone a structural transformation but has also been increasingly integrated into the global economy, resulting into a shift of national priorities from lending to vulnerable sections to increase employability, create basic infrastructure and improve the competitiveness of the economy, thus creating more jobs.

Key Words Priority Sector, Bank Credit, Private Sector Bank, Public Sector Bank.

1. Introduction

Banking system has a significant place in a country and the role of a banking institution remains indispensable in any modern society. It is equivalent to the heart of an economic organism pumping in the savings and pumping out the investible funds in diverse channels. It forms the core of the financial system of a country. The financial system of India is still characterized by the existence of both the organized and unorganized sectors. The unorganized sector consists of the money lenders and indigenous bankers cater to the credit needs of many people especially in the rural area. The organized financial sector has a wide mixture which comprises of commercial banks, co-operative banks, and other institutions. Commercial banks are the oldest institutions having a wide network of branches, commanding utmost public confidence and having the lion's share in the total banking system. Priority Sector Lending (PSL) is an important role given by the (RBI) to the banks for providing a specified portion of the bank lending to few specific sectors like agriculture

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and allied activities, micro and small enterprises. It also extends poor people for housing students for education and other low-income groups and weaker sections. Priority Sector includes the following categories: (i) Agriculture (ii) Micro, Small and Medium Enterprises (iii) Export Credit (iv) Education (v) Housing (vi) Social Infrastructure (vii) Renewable Energy (viii) others Priority Sector Lending (PSL) has long by developed as well as developing nations as an instrument to channelize credit at preferential rates to have specified sectors of the economy that may not get timely and adequate credit in the absence of such special dispensation. In India, PSL is an important role given by Reserve Bank of India (RBI) to the banks in order to synchronize the lending activities with national importance and priorities.

2. Literature Review

Prof. Harsha and A. Throve, (2015) analyzed the priority and non-priority sector lending with the reference to nationalized banks which can contribute more towards the priority sector.

Muneesh Kumar (2016) in his study analyzed that larger banks and state-owned banks lend more to large firms and state-owned firms. Smaller banks and private sector banks seem to have a comparative advantage in lending to smaller firms. The study found that the bank performance as measured by its higher financial strength (AR) profitability (ROA, NIM), had a positive and significant impact on PSL

Dr.Kamlesh and S. Dave (2016) examined that the banks have to increase their lending activity towards priority sector to boost up the economy as priority sector is the key segment of the development of the country.

A. Udhaya Sweetline (2017) in her study concluded that historical background of priority sector lending impact of nationalization of commercial banks on the priority sector lending.

Dhanyesh Prabhakumar Pillai (2017) in their study suggested that the guidelines of priority sector lending will be a boost to the economy and boon to banks. **Ajaz**

Ahmad dasses and Tarig Ahmed Malik (2018) in their study concluded that the priority sector advances of the banking groups are increasing.

3. Objectives of the Study

1. To study and assess the trend of development of bank credit to priority sector;
2. To expose the priority sector advances by the bank group-wise.

4. Research Methodology

The study is purely based on secondary data where a major portion of data is extracted from 'Statistical tables relating to the bank in India, the annual publication of RBI'. Further, various articles, reports and research papers relating to capital adequacy have been referred. So, the study is basically secondary in nature. The study covers a period of TEN years from the year 2009-2010 to the year 2018-19. In order to analyze the data and draw conclusions in this study, various statistical tools like Descriptive Statistics and, ANOVA-Single Factor have been applied.

5. Limitations of the Study

1. The study is based on secondary data as published in various publications of RBI and

other reports. These data are based on historical accounting concept, which ignores the impact of inflation.

2. The result is based on secondary data that has its own limitations.

Analysis and Discussion

Development of Bank Credit to Priority Sector

Priority Sector means those sectors which the Government of India and Reserve Bank of India consider as important for the development of the basic needs of the country and are to be given priority over other sectors. The banks are mandated to encourage the growth of such sectors with adequate and timely credit. Priority Sector includes the following categories; Agriculture & allied, Micro and small enterprises, Housing, Microcredit, Education Loans, State-Sponsored organs for SC/ST, Weaker Sections and Export credit. The year-wise bank credit to the priority sector by the Indian Commercial Banks is seen in Table 1.

**Table. 1 DEVELOPMENT OF BANK CREDIT TO PRIORITY SECTOR IN INDIA
(RS. In Crore)**

Year s	Agricultu re & allied	Micro & Small Enterpris es	Manufacturi ng	Micro Credit	Educatio n Loans	State Sponsor ed Organs for SC/ST	Weaker Sections	Export Credit
2009 - 2010	4157.41	3735.3	2604.01	217.99	362.47	12.34	1891.64	302
2010 - 2011	480634	4428.48	2102.06	192.31	425.89	0.87	1906.13	318.21
2011 - 2012	546626	498625	236657	16024	48067	179	2333459	39100
2012 - 2013	589914	562296	284348	16507	52612	124	273398	42234
2013 - 2014	665979	707813	348194	17213	57888	328	386000	48313
2014 - 2015	765880	800343	380028	17701	59184	348	404884	42626
2015 - 2016	882590	847587	371467	18846	60137	514	477397	42382
2016 - 2017	990921	901972	369731	18894	60436	636	554598	42502
2017 - 2018	1021591	996365	372999	26352	60713	296	569048	28305
2018 - 2019	1104988	1067175	375505	24101	53950	397	662628	15566
Mea n	7,05,328.0 41	6,39,033.9 78	2,74,363.507	15,604.8 30	45,377.5 36	283.521	5,66,520.9 77	30,164.8 21

Ran k	1	2	4	7	5	8	3	6
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Source: RBI's Report on Trend and Progress of Banking in India.

An introspection of Table 1 reveals that the amount disbursed to priority sectors has been increasing year after year. The amount of bank credit to agriculture and allied has been increased from Rs. 4157.41 crores in 2009-10 to Rs. 1104988 crores in 2018-19. The increase over the period 265.79 times securing the first rank; the amount of bank credit to micro & small enterprise has been increased from Rs.3735.3 crores in 2009-10 to Rs. 1067175 crores in 2018-19. The increase over the period 285.69 times securing the second rank; the amount of bank credit to housing has been increased from Rs.2604.01crores in 2009-10 to Rs. 375505 crores in 2018-19. The increase over the period 198.60 times securing the fourth rank. The amount of bank credit to microcredit has been increased from Rs. 217.99 crores in 2009-10 to Rs. 24101crores in 2018-19. The increase over the period 110.56 times securing the seventh rank; the amount of bank credit to education loans has been increased from Rs. 362.47crores in 2009-10 to Rs. 53950crores in 2018-19. The increase over the period 110.56 times securing the fifth rank.

Priority Sector Advances by Bank Groups

The scope and extent of priority sector advances have undergone a significant change in the post-reform period with several new areas and sectors. The priority sector advances of all the banking groups are fluctuating. The year-wise priority sector advances by the bank group are presented in Table 2.

TABLE 2
PRIORITY SECTOR ADVANCES BY BANK GROUPS IN INDIA (%)

Years	Public Sectors Banks	Private Sectors Banks	Foreign Banks
2009- 2010	30.89	31.09	33.93
2010- 2011	30.56	30.38	32.69
2011-2012	28.82	29.08	31.55
2012-2013	28.00	27.28	29.37
2013-2014	28.48	28.04	29.39
2014-2015	29.31	27.77	27.03
2015-2016	31.05	28.83	27.34
2016-2017	32.15	28.86	28.93
2017-2018	32.64	27.01	27.06
2018-2019	32.51	30.21	27.16
Mean	30.441	28.936	29.526
Rank	1	3	2

Source: RBI's Report on Trend and Progress of Banking in India.

The analysis in Table 2 demonstrates that priority sector advances by public sector bank group has increased from 30.89 % in 2009-10 to 32.51% in 2018-19 securing the first rank among the other two bank groups on the basis of the averages followed by foreign bank group secured the second rank and the private bank group secured the third rank.

To test the differences in the priority sector advances made by the three bank groups, 'Single Factor ANOVA' has been performed and for which the following hypotheses have been framed and tested.

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H₀: There is no difference in the priority sector advances made by the three bank groups;
H₁: There is no difference in the priority sector advances made by the three bank groups;
 The test results are given in the following Table.

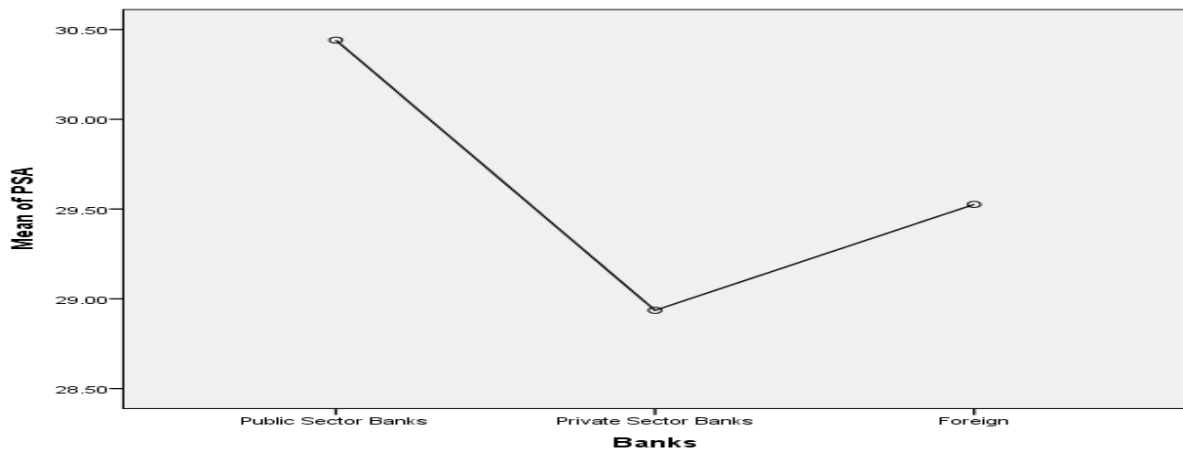
According to our study, $.231 > 0.05$, so there is no significance difference of priority sector advances made by the bank groups. So H₀ is accepted.

ANOVA

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	11.501	2	5.751	1.546	.231
Within Groups	100.422	27	3.719		
Total	111.923	29			

Means Plot

The means plot is a pictorial representation of mean scores of priority sector advances made by the public sector bank group, private sector bank group and foreign bank group which is seen below.



A closure examination of the Means Plot reveal that the mean % of secured advances made by the public sector bank group is 30.441 whereas the advances made by the private and foreign bank group are 28.936 and 29.526 respectively Therefore, it is concluded that there is a small difference in mean priority sector advances made by the private and foreign bank group.

6. Conclusion

The analysis and the discussion in the preceding pages reveal that all the three sectors of banks have Maintained a reasonable rate of percentage of credit to the priority sector. The priority sector advances of all the banking groups are increasing. In spite of increasing advances, Indian banks have not achieved some targets fixed by RBI lending to the priority sector.

Scope for Further Research

The study can be further extended to assess the performance of bank credit to the priority sector by individual bank-wise. Such a study would enhance the level of understanding for administrators and researchers. This paper and its findings may be of considerable use to banking institutions, policy-makers and to academic personalities in the area of the banking sector.

7. References

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