

TRENDS OF PRIORITY SECTOR LENDING IN INDIA

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ABSTRACT

Reserve Bank of India (RBI) insisted on all scheduled banks to provide a specified part of their lending to the sectors like agriculture, allied activities of agriculture, micro and small enterprises, housing, education and weaker section. This would meet the needs of the essential economic sectors. Lending to priority sector has created the fear of NPAs among the banks. Profitability of the banks has also been adversely affected by the priority sector advances, because of low rate of interest on the priority sector advances. The present study investigates the percentage on growth of priority sectors in India and accesses the targets and achievement relationship of each priority sectors by considering the sample of top five and least five banks in priority sector advances.

INTRODUCTION

Priority Sector lending comes under selective credit control of Qualitative tools of the Monetary Policy of Reserve Bank of India. National Credit Council in 1972 emphasized the commercial banks to give weight age to the priority sector. Need for lending to different priority sectors in terms of growth and equity, the target for lending to the redefined priority sector may be retained at 40 per cent of ANBC or the credit equivalent off-balance sheet (CEOB), whichever is higher, will be the same for planned commercial banks. The economic development of a nation is reflected by the progress of the various economic units, broadly classified into corporate sector, government and household sector. There are areas or people with surplus funds and there are those with a deficit. A financial system or financial sector functions as an intermediary and facilitates the flow of funds from the areas of surplus to the areas of deficit. A Financial System is a composition of various institutions, markets, regulations and laws, practices, money manager, analysts, transactions and claims and liabilities. The sectors for national priorities would be aligned as priority sector. Revised PSL guidelines will enable better credit penetration to credit deficient areas; increase the lending to small and marginal farmers and weaker sections; boost credit to renewable energy, and health infrastructure.

Review of Literature

Shabbir (2013) made that comparative analysis of Agricultural Sector advances and Small Scale Industries advances by scheduled commercial banks (SCB) and public sector banks (PSB). Kadiwala (2017) found that there is significant difference in priority sector lending between selected banks during the study period and priority sector lending by sample banks have failed to reach the target set by RBI during the study period. Selvi (2014) examines the role of Scheduled Commercial banks in India in lending to various sectors. Anil Kumar Swain, et. al., (2017) examines the patterns of PSL by banks. The research problem of this kind requires analysis at

different time frames. Thus the present study made an attempt to analyse the Priority Sector Lending for the recent five year period.

Methodology

The study aims to analyse the trend of priority sector advances by commercial banks, and to analyse the achievement of target by the commercial bank in relation to priority sector advances. For carrying out the analysis a sample consisting of top five and least five banks in priority sector advances was considered Bhagwat, & Raut (2018). Based on the data availability relating to the performance of the banks in the priority sector lending the sectors such as namely agricultural sector, Micro, Small and Medium Enterprises, education and housing was analysed for the period of five years from 2015-2016 to 2019-2020 by using percentage analysis.

Analysis and Interpretation

The percentage analysis of branches in priority sector lending for the study period shows that other than Central Bank of India, Bank of Maharashtra, Punjab & Sind Bank, CSB Bank and Dhanalakshmi Bank has shown increasing trend in the branch expansion. The percentage analysis of deposits accepted for the study period shows that UCO Bank, IDBI Bank, Lakshmi Vilas Bank and Dhanalakshmi Bank have decreasing trend. The percentage analysis of Capital Adequacy Ratio of Commercial Banks for the study period shows that the banks namely Canara Bank, Union Bank of India, UCO bank, DCB Bank, HDFC Bank, IDBI Bank, Bank of Maharashtra, Dhanlaxmi Bank Ltd and City Union Bank has shows increasing trend in capital adequacy ratio over the five year period. However, State Bank of India, Bank of Baroda, Lakshmi Vilas Bank and Punjab National Bank has decreasing trend in the capital adequacy ratio. The percentage analysis of net interest margin of Commercial Banks for the study period shows that the banks namely State Bank of India, Bank of Baroda, Canara Bank, UCO Bank, Bank of Maharashtra, ICICI Bank Ltd, IDBI Bank, and Dhanalakshmi Bank has shown increasing trend in branch expansion over the five year period. However, Punjab National Bank, Central Bank of India, Punjab & Sind Bank, Axis Bank, CSB Bank and Lakshmi vilas Bank has recorded decreasing trend in the branch expansion Garg & Diatha (2013). The trend analysis of Return on Assets of Commercial Banks during reveals that Dhanalakshmi bank has the highest Return on Assets in 2016. The percentage analysis of Credit Deposit Ratio of Commercial Banks for the study period shows that State Bank of India, Punjab National Bank, Union Bank of India, UCO Bank, Central Bank of India, Punjab & Sind Bank, ICICI Bank, Axis Bank, Kotak Mahindra Bank, Lakshmi vilas Bank and DCB Bank has decreasing trend in the Credit Deposit Ratio. The percentage analysis of Priority Sector Advances of Commercial Banks for the study period reveals that except Central Bank of India, IDBI Bank and Dhanalaxmi Bank, all the sample banks has recorded increasing trend in the Priority Sector Advances. The percentage analysis of Priority Sector Advances by Commercial Banks in agriculture sector shows that Bank of Baroda, Canara Bank, Central Bank of India, Indian Bank, DCB Bank, Lakshmi Vilas Bank, CSB Bank, Dhanalaxmi Bank and City union Bank has shown increasing trend in Priority Sector Advances for agricultural sector. The percentage analysis of Priority Sector Advances by Commercial Banks in MSME sector reveals that Central Bank of India, Indian Bank, DCB Bank, IDBI Bank, and ICICI Bank has shown increasing trend in Priority Sector Advances for MSME sector. The percentage analysis of Priority Sector Advances by Commercial Banks in Education sector shows that Central Bank of India, HDFC Bank, ICICI Bank, AXIS Bank, IDBI Bank has shown increasing trend in Education sector over the five year period. The banks namely Bank of

Baroda, Canara Bank Central bank of India, Bank of Maharashtra, Indian Bank, IDBI Bank, DCB bank, Dhanalaxmi Bank, CSB Bank and City Union Bank has shows increasing trend in housing sector lending over the five year period. The banks namely Canara Bank, Central Bank of India, Axis Bank Ltd, IDBI Bank, CSB Bank, Lakshmi Vilas Bank, Dhanalaxmi Bank and City Union Bank has shown increasing trend in weaker section over the five year period.

Conclusion

The study investigates the trend of priority sector lending using percentage analysis. Annual data was taken by money control website. It is found that though Central Bank of India, IDBI Bank has recorded decreasing trend in the Priority Sector Advances, the percentage analysis carried out for the priority sectors namely agriculture sector, MSME sector, education sector, housing sector, and weaker section sectors has recorded increasing trends. The mixed trend was recorded for the priority sectors considered in this study.

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