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LENDING TO PRIORITY SECTOR: A SCENARIO FROM INDIAN SCHEDULED COMMERCIAL BANKS

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ABSTRACT

Over the years the scope and extent of priority sector advances has undergone changes with several new areas and sectors being brought within the purview of this sector. Priority Sector lending includes lending to those sectors that impact large sections of the population, the weaker sections and the sectors which are employment-intensive such as agriculture, and tiny and small enterprises. The categories under priority sector include agriculture, micro & small enterprises, education, housing, export credit, and others. Priority sectors have been an integral part of bank credit delivery in India. This present study highlights the role of Scheduled Commercial banks in India in lending to various sectors viz advances to Priority Sector, Sectoral Deployment of Gross bank Credit and Retail Credit Portfolio. To project the progressing trend of the lending pattern of the banks, trend analysis, exponential growth rate, correlation and percentage analysis were used. The result shows positive strides in all sectors except food credit and the proportion of priority sector advances.

KEY WORDS: *Advances, Consumer Durables, Food Credit, Housing Loan, Non Food Credit, Priority Sector, Retail Credit, Scheduled Commercial Banks*

INTRODUCTION

India lives in its villages and growth of Indian economy depends on the growth of the rural economy. The variation in rural income causes variations in the demand for products of the industrial as well as services sector. After independence it was felt that in order to achieve overall development of the country it is essential to develop the large rural sector, for which it is necessary to channelise required financial resources. An enunciation of the need to channelise the flow of credit to certain sectors of the economy, known as the priority sectors, in the largest interest of the country, can be traced to the Reserve Bank's credit policy for the year 1967-1968. The government initiated measures for social control over banks in 1967-1968 with a view to securing a better adaptation of the banking system to the needs of economic planning and it is playing a more active role in aiding sectors like agriculture and small industries. Extension of credit to small borrowers in the hitherto neglected sector of the economy has been one of the key tasks assigned to the public sector banks in the post-nationalisation period. At a meeting of the National Credit Council held in July 1968, it was emphasized that commercial banks should increase their involvement in the financing of priority sectors, viz. agriculture and small scale industries. The description of the priority sectors was later formalized in 1972 on the basis of the reports submitted by the Informal Study Group on Statistics relating to advances to the priority sectors constituted by the Reserve Bank of India in May 1971. On the basis of this report, the Reserve Bank prescribed a modified return for

reporting priority sector advances and certain guidelines were issued in this connection indicating the scope of the items to be included under the various categories of priority sector. Over the years the scope and extent of priority sector advances has undergone changes with several new areas and sectors being brought within the purview of this sector.

OBJECTIVE OF THE STUDY

To highlight the trend of lending by the Scheduled Commercial banks in India to the priority sectors.

METHODOLOGY OF THE STUDY

This study is based on the secondary data which is collected from the reports of the Reserve Bank of India. The researcher has applied the statistical tools like Percentage analysis, correlation analysis, trend analysis and exponential growth rate to analyse and to interpret the results.

ADVANCES TO PRIORITY SECTOR

Priority Sector lending includes lending to those sectors that impact large sections of the population, the weaker sections and the sectors which are employment-intensive such as agriculture, and tiny and small enterprises. The categories under priority sector include agriculture, micro & small enterprises, education, housing, export credit, and others. Priority sectors have been an integral part of bank credit delivery in India. Priority Sector lending includes lending to those sectors that impact large sections of the population, the weaker sections and the sectors which are employment-intensive such as agriculture, and tiny and small enterprises. The categories under priority sector include agriculture, micro & small enterprises, education, housing, export credit, and others.

Table 1 Advances to Priority Sector of Scheduled Commercial banks in India
(Rs. billion)

Year	Priority Sector Advances	Trend %	Share of PSA in Total Advances (%)	Trend %
2000	1557.79	100	35.4	100
2001	1822.55	117	31.0	88
2002	2056.06	132	34.8	98
2003	2546.48	163	35.1	99
2004	2638.34	169	34.5	97
2005	3814.76	245	36.7	104
2006	5101.75	327	35.3	100
2007	6553.17	421	33.1	94
2008	7814.76	502	31.6	89
2009	9089.29	583	30.3	86
2010	10915.10	701	31.2	88
2011	13158.59	845	30.6	86
2012	14710.5	944	29.5	83
2013	16411.0	1053	28.8	81
Average	7013.58	450	32.71	92
r	0.97		-0.74	

Source: Compiled from *Trend and Progress of Banking*, various issues

The above table describes the priority sector advances and the share of priority sector advances in total advances. The priority sector advances have raised from 1557.79 billion in the year 2000 to 16411 billion in the year 2013 but the share of the same is decreased from 35.4 percent in the year 2000 to 28.8 percent in the year 2013. The trend analysis shows a growth rate of 953 percent with an average growth rate of 350 percent and the same has a declining rate of 19 percent with an average decline of 8 percent over the years from 2000 to 2013. The degree of relationship of priority sector advances over the years is calculated as a high positive correlation of 0.97 and the same is negative (-0.74) for the share of priority sector advances in total advances.

SECTORAL DEPLOYMENT OF GROSS BANK CREDIT

On a year-on-year (y-o-y) basis, non-food bank credit increased by 14.0 per cent in March 2013 as compared with the increase of 16.6 per cent in March 2012. Credit to *agriculture*

increased by 8.1 per cent in March 2013, as compared to the increase of 13.3 per cent in March 2012. Credit to *industry* increased by 15.7 per cent in March 2013 as compared with the increase of 20.3 per cent in March 2012. Deceleration in credit growth to industry was observed in major sub-sectors, barring food processing, textiles, leather and leather products, wood and wood products, chemicals and chemical products, glass and glassware, cement and cement Products, and vehicles, vehicle parts and transport equipment. Credit to the *services sector* increased by 13.6 per cent in March 2013 as compared with the increase of 14.4 per cent in March 2012. Credit to NBFCs increased by 14.7 per cent in March 2013 as compared with the increase of 23.9 per cent in March 2012. *Personal loans* increased by 14.5 per cent in March 2013 as compared with the increase of 12.9 per cent in March 2012.

Table 2 Sectoral Deployment of Gross Bank Credit (in crores)

Year	Food Credit	Proportion	Non Food Credit	Proportion	Total	Trend (%)
2003	49479	7.39	620055	92.61	669534	100
2004	35961	4.70	728422	95.30	764383	114
2005	41121	4.23	931466	95.77	972587	145
2006	40691	2.81	1405146	97.19	1445837	216
2007	46521	2.53	1795357	97.47	1841878	275
2008	44300	1.97	2203038	98.03	2247338	336
2009	46211	1.74	2602290	98.26	2648501	396
2010	64100	1.72	3667400	98.28	3731500	557
2011	81700	1.87	4289700	98.13	4371400	653
2012	94610	1.91	4869560	98.09	4964170	741
Average	54469	3.09	2311243	96.91	2365713	353
r	0.81		0.98		0.98	
r	0.91					

Source: Compiled from Trend and Progress of Banking, various issues

Table 2 depicts the lending pattern of banks towards food credit and non-food credit. It is understood from the analysis that on an average only 3.09 percent has been given as credit for food related items while the rest 96.91 percent has been given to non-food sector and the related activities. However, the total performance has been analysed through trend analysis which shows that the growth is 641 percent in the year 2012 with an average of 253 percent over the years under study from 2003 to 2012. The correlation calculated in this respect shows a high positive relationship for non-food credit (0.98), total advances (0.98) and food credit (0.81) and the correlation between food credit and non-food credit is 0.91. The exponential growth rate for the food credit is 24.16 percent and for the non-food credit is 8.56 percent and the correlation determination is 0.99 and 0.66 respectively for food credit and non-food credit.

RETAIL CREDIT PORTFOLIO OF SCHEDULED COMMERCIAL BANKS

Retail credit encompasses a wide range of consumer credit products and services offered by national banks. A financing method which provides loan services to retail consumers for goods and services. Retail credit facilities lend funds to consumers wishing to purchase high ticket items, but are short on capital. Thus, retail credit facilities may enable a greater number of consumers access to a retailer's goods. Retail credit facilities give the option of consuming now or consuming in the future. Higher interest rates may be acceptable to some consumers, depending on the consumers' unique consumption utilities. The risk of default is a factor that determines the interest rate that retail credit facilities charge.

**Table 3 Proportion of Retail Credit Portfolio of Scheduled Commercial Banks
(in crores)**

Year	Housing Loan		Consumer Durables		Credit card Receivables		Auto Loans and Other Personal Loans	
	Amt	%	Amt	%	Amt	%	Amt	%
2004	89449	47.32	6256	3.31	6167	3.26	87170	46.11
2005	134653	50.43	3810	1.43	8405	3.15	120120	44.99
2006	179116	47.67	4469	1.19	12434	3.31	179720	47.83
2007	224481	46.01	7296	1.50	18317	3.75	237766	48.74
2008	252932	44.31	4802	0.84	27437	4.81	285605	50.04
2009	263235	44.33	5431	0.91	29941	5.04	295209	49.71
2010	315862	50.72	3032	0.49	21565	3.46	282293	45.33
2011	360100	49.30	4600	0.63	18700	2.56	347100	47.52
2012	411800	47.89	2700	0.31	22300	2.59	423100	49.20
2013	475400	47.09	3400	0.34	26800	2.65	503900	49.92
Average	270703	47.51	4580	1.10	19207	3.46	276198	47.94
r	0.99		-0.57		0.74		0.97	

Source: Compiled from the Balance Sheets of Scheduled Commercial Banks

In 2012-13, the retail loans portfolio continued to grow in double digits as in the previous year. It is noteworthy that even in a period of overall slowdown in credit growth, retail credit maintained its growth. Growth in retail loans was maintained in 2012-13 on account of a sustained double digit growth in housing loans – the largest segment of retail loans, and a rising growth in auto loans – the third major segment of retail loans. The increase in the growth in credit card receivables too contributed to the overall growth in retail loans, although their share in total retail loans was less than 4 per cent. The data gathered and presented from the year 2004 to 2013 reveals the fact that on an average 47.51 percent of the retail credit was vested on Housing Loan, 1.10 percent on Consumer Durables, 3.46 percent on Credit card Receivables and 47.94 percent on Auto Loans and Other Personal Loans. The correlation analysis shows a high positive result of 0.99 on Housing Loan, 0.97 on Auto Loans and Other Personal Loans, 0.74 on Credit card Receivables and a negative correlation of -0.57 on Consumer Durables. Hence it is ascertained that except the loan on Consumer Durables, other sectors of loan under retail sector are rising up.

CONCLUSION

This study presents an overview of the performance of priority sector lending by commercial banks. Commercial banks are a significant part of the Indian financial system and are regulated by the Reserve Bank of India. The share of priority sector advances in total credit of scheduled commercial banks has come down over the years. The priority sector advances have raised from 1557.79 billion in the year 2000 to 16411 billion in the year 2013 but the share of the same is decreased from 35.4 percent in the year 2000 to 28.8 percent in the year 2013. The composition of the priority sector advances in the non-food credit of scheduled commercial banks shows that Non-food advances account for 97 percent of the gross bank credit while food advances account for just 3 percent. However, the total performance has been analyzed through trend analysis, which shows that the growth is 641 percent in the year 2012 with an average of 253 percent over the years under study from 2003 to 2012. Out of the retail sector loans, the data gathered and presented from the year 2004 to 2013 reveals the fact that on an average 47.51 percent of the retail credit was vested on Housing Loan, 1.10 percent on Consumer Durables, 3.46 percent on Credit card Receivables and 47.94

percent on Auto Loans and Other Personal Loans. The performance of banks in priority sector lending has improved in recent years, although substantial variations have been observed in the performance of various bank groups as also in meeting the sub-targets within the priority sector.

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