

## **PRIORITY SECTOR LENDING AND NON-PERFORMING ASSETS OF PUBLIC AND PRIVATE SECTOR BANK IN INDIA**

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### **Abstract**

*Priority Sector Lending is the lending the areas of priority of a country like agriculture, housing, small scale industries, education. Such type of lending plays an immense role in the development of these sectors and the development of these sectors somewhere creates the equality of income in the country. Lending to priority sectors is normally at subsidized rate of interest which can take the opportunity of banks to earn a higher rate of interest. Considering all these elements, the present study has been conducted to study the priority sector lending and non-performing assets of public and private sector banks. The study is based on the secondary data collected for the year 2017 and 2018. In findings of the study, it has been found that the amount of priority sector lending decreased in case of public and private sector banks in the year 2018 as compared to the year 2017. On the other hand, non-performing assets have increased in the year 2018 in comparison to the year non-performing asset in the year 2017 for both types of banks.*

**Keywords:** Priority Sector Lending, Non-performing Assets, Public Sector Banks, Private Sector Banks.

### **Introduction**

Credit to priority sectors i.e. agriculture and small scale industries of the economy is provided by the different nations. Any credit goes to priority sector creates funds for the sector and at the same time, it reduced the availability of fund to the bank which can be lent by the bank to non-priority sector at a higher rate as compared to priority sector as the rate of interest is subsidized in case of priority sectors. Commercial banks of India were advised to increase their involvement in the financing of priority sectors, viz., agriculture and small scale industries at a meeting of the National Credit Council held in July 1968. However in the initial years, no specific target were fixed in respect of priority sector lending in starting but in November 1974 the banks were advised to raise the share of priority sector in their aggregate advances to the level of 33% by March 1979. It was agreed that banks should aim at raising the proportion of their advances to priority sectors to 40 per cent by March 1985 at a meeting of the Union Finance Minister with the Chief Executive Officers of public sector banks held in March 1980.

### **Categories of Priority Sectors**

The main categories of priority sector as following:

- Agriculture
- Small scale industries
- Small business or service enterprises

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- Micro credit
- Education loans
- Housing loans

**Targets/Sub-targets for Priority sector**

According to guidelines provided by RBI, if any bank either domestic or foreign fails to attain the priority sector targets/sub-targets then it is required to deposit the shortfall in the Rural Infrastructure Development Fund (RIDF) set up with the National Bank for Agriculture and Rural Development (NABARD) and other funds set up with the Small Industries Development Bank of India (SIDBI) and the National Housing Bank (NHB) to the extent of amount of funds announced by the Government of India.

The targets and sub targets of priority sector lending to for domestic and foreign banks working in India are as under:-

**Table: 1 Targets and sub-targets set under priority sector lending for domestic and foreign banks operating in India**

Categories	Domestic commercial banks / Foreign banks with 20 and above branches	Foreign banks with less than 20 branches
<b>Total Priority Sector</b>	40 percent of Adjusted Net Bank Credit [ANBC defined in sub paragraph (iii) below] or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.	32 percent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.
<b>Sub targets</b>		
<b>Total agriculture</b>	18 percent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.	No specific target. Forms part of total priority sector target.
<b>Micro, Small and medium Enterprises (MSE)</b>	60% of the total advances to micro and small (manufacturing + service) enterprises should go to Micro enterprises	No specific target. Forms part of total priority sector target.
<b>Export Credit</b>	Export credit is not a separate category. Export credit to eligible activities under agriculture and MSE will be reckoned for priority sector lending under respective categories.	No specific target. Forms part of total priority sector target.
<b>Advances to Weaker Sections</b>	10 percent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.	No specific target in the total priority sector target.

Source: RBI

**Review of literature**

**Uppal (2009)** studied the priority sector advances by the public, private and foreign bank groups and concluded that the target of 40% lending to priority sector have not achieved by public sector banks the while private sector banks have achieved the overall target. Further, foreign banks have achieved the small scale industries' export credit and overall target. **Ahmed (2010)** made an attempt to diagnose the various missing parts of priority sector lending by commercial banks in the context of national scenario. Three districts viz, Cachar, Karimganj and Hailakandi of The Barak valley (the southernmost region of Assam) were taken for study. It was found that the banks in the study area were able to maintain the PSL prescription of 40 per cent as per revised guidelines. Agriculture sector was found to be the single dominant sectors that absorbed major portion of the credit outstanding. The recovery position was found very poor in almost all the sector in the area under study. **Kaur and Silony (2011)** in their study found the performance of private sector banks was better than that of public sector banks in respect of all the parameters of priority sector lending. It was found that banks have improved priority sector advances and agricultural advances over the study period. But, they were still missing the targets set for them by RBI in agriculture sector. **Rani (2011)** analyzed the performance of the commercial banks in terms of priority sector lending for a period 1995-96 to 2009-10 and revealed that still 3 public sector bank, 2 private sector banks and 3 foreign banks have not achieved the overall priority sector lending target. Further, it identified the increasing trend in priority sector advances of the commercial banks. The priority sector advances were found to be increased by 13.99 times for public sector banks, 35.63 times for private sector banks and 69.09 times for foreign banks. The level of nonperforming assets was found very high for priority sector advances during the study period 2005-06 and 2006-07. **Ibrahim (2012)** analyzed the rural credit and the role of Regional Rural Banks in the priority and non-priority sector landings. The study was diagnostic and exploratory in nature. It was found that Regional Rural Banks in India have significantly improved rural economy. The percentage of loans issued to priority sector was found higher than the loans provided to the non-priority sector. Further, the loans provided by the RRBs to priority sector were showing an increasing trend. A higher growth had been registered in the years 2007-08 and 2008-09. **Kaur (2012)** studied the priority sector advances by the public, private sector and foreign bank groups and concluded that the overall target of 40 per cent has been achieved by public and private sector banks. Further, Priority sector lending of public and private sector banks were found higher than the foreign banks. **Kumar and Gambhir (2012)** investigated the problems of priority sector lending scheme of banks and found that public sector banks have made well progress in priority lending in quantitative terms. According to the study, over dues, bad debts and NPA were the serious problems faced by the bank in respect of advances made to the weaker sections of society. Further, it was found that the private sector banks were lagging behind in priority sector lending progress. **Patidar and Kataria (2012)** in a comparative study between public sector banks and private sector banks examined the NPA in Priority Sector Lending. It was found that the priority sector lending is increasing year by year. The result showed that Public Sector banks, there is a significant impact of priority sector lending on total NPA but in case of Private Sector Banks, there was no significant impact of priority sector lending on total NPA of Banks. **Raman (2013)** analyzed financial assistance provided to priority sectors by various commercial banks of Tamil Nadu and found that priority sector advances as on March 2010 were 41.7 percent by public sector banks and private sector banks by 46 percent well above the National norm of 40 percent. Further, the education loans were reported a growth of 180% during the study period. It was evidenced that the Non-performing asset in India has adversely affect the profitability and efficient functioning of the banks.

**Shabbier (2013)** made a regional analysis of Priority Sector Advances. For this regional analysis the Country had been divided into six regions i.e. Northern region, North Eastern region, Eastern region, Central region, Southern region. The share of priority sector lending was found highest in the Southern region at all selected points of time and the North Eastern region occupied the lowest position.

### Objective of the study

The present study has been carried out for the following objectives:-

- To study the Priority Sector Lending of Public and Private Sector Banks in different sectors.
- To compare the Priority Sector Lending and Non-performing Assets of Public and Private Sector Banks.

### Research methodology

The present study is descriptive and exploratory in nature. The present study has been carried out to evaluate the priority sector lending by the public and private sector banks working in India using secondary data which have been collected from various reports of Reserve Bank of India i.e. Report on trend and progress in Banking and Annual report of RBI etc. The present study covers the period of 2017 and 2018. In this study, overall priority sector lending and sector wise lending of public and private sector has been analyzed. Further, the NPA at overall level and sector wise has been taken. The collected data have been analyzed with the help of percentage.

### Data Analysis and Findings

The following discussion is related elaborates the data analysis, findings and interpretations of the present study:

**TABLE: 1**

**PRIORITY SECTOR LENDING AND NON-PERFORMING ASSETS OF PUBLIC AND PRIVATE SECTOR BANKS FOR THE YEAR 2017 (Amount in Rs. Billions)**

Nature of Lending	Lending				Non-Performing Assets			
	Public Sector Banks		Private Sector Banks		Public Sector Banks		Private Sector Banks	
	Amount (In Rs.)	%age	Amount (In Rs.)	%age	Amount (In Rs.)	%age	Amount (In Rs.)	%age
Overall Priority Sector Lending	19889	39.5	7110	42.5	1573	24.1	133	18
Agricultural Lending	9229	18.3	2762	16.5	548	8.5	53	7.2
Micro and Small Industries	3151	6.3	1386	8.3	757	11.8	64	8.7

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

\*Percent value of lending is the percentage of Adjusted Net Bank Credit (ANBC) or amount equivalent of off-balance sheet exposures, whichever is higher.

\*\*Percent value of Non-performing Assets is the percentage of total Non-performing Assets.

The above table shows that the amount of priority sector lending by public sector banks in the year is Rs. 19889 billion for the overall priority sector lending which is 39.5% of the adjusted net

bank credit or off balance sheet exposure. In case of agricultural lending, the amount of lending by public sector banks is Rs. 9229 billion and the amount of lending by public sector banks in micro and small industries is Rs. 3151 billion. In case of private sector banks overall priority sector lending, agricultural lending and micro and small industries are Rs. 7110 billion, Rs. 2762 billion and Rs. 1386 billion respectively. As per the data of the table 1, overall non-performing assets of public sector banks for the year 2017 are Rs. 1573 billion, non-performing assets in case of agricultural sector are Rs. 548 billion and the amount of non-performing assets is Rs. 757 billion in case of micro and small industries.

When the data related to non-performing assets of private sector banks is analyzed, it has been found that the non-performing loans of Rs. 133 billion in overall. Further in case of agricultural sector, non-performing assets of private sector banks are Rs. 53 billion. In this line third sector is micro and small industries and the amount of non-performing assets is Rs. 64 billion. It can be clearly seen in case of overall priority sector lending that the public banks are not able to meet the requirement of priority sector lending of 40% to the priority sectors as fixed by Reserve Bank of India. However, private sector banks have been found exceeding the limit of priority sector lending (40%).

**TABLE: 2**

**PRIORITY SECTOR LENDING AND NON-PERFORMING ASSETS OF PUBLIC AND PRIVATE SECTOR BANKS FOR THE YEAR 2018 (Amount in Rs. Billions)**

Nature of Lending	Lending				Non Performing Assets			
	Public Sector Banks		Private Sector Banks		Public Sector Banks		Private Sector Banks	
	Amount (In Rs.)	%age	Amount (In Rs.)	%age	Amount (In Rs.)	%age	Amount (In Rs.)	%age
Overall Priority Sector Lending	20723	39.9	8046	40.8	1875	22.2	184	18
Agricultural Lending	9321	18	3183	16.2	753	8.9	78	7.6
Micro and Small Industries	3317	6.4	1548	7.9	821	9.7	80	7.8

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

\*Percent value of lending is the percentage of Adjusted Net Bank Credit (ANBC) or amount equivalent of off-balance sheet exposures, whichever is higher.

\*\*Percent value of Non-performing Assets is the percentage of total Non-performing Assets.

The above table, Table 2 is related with the priority sector lending and non-performing assets of public as well as private sector banks for the year 2018. It can be seen very clearly that the amount of priority sector lending in case of public sector banks is Rs. 20723 billion, Rs. 9321 billion and Rs. 3317 billion regarding overall priority sector lending, agricultural lending and micro and small industries respectively. For private sector banks, overall priority sector lending is found to be Rs. 8046 billion, agricultural lending is Rs. 3183 billion and lending to micro and small industries is Rs. 1548 billion. Both type of banks are able to fulfill the minimum lending to priority sectors condition of Reserve Bank of India as the percentage of overall priority sector lending of 39.9% (approximately 40%) has been found in case of public sector banks and 40.8% has been in case of private sector banks.

When the non-performing assets of public sector banks are studied, it has been found that the

overall non-performing assets are of Rs. 1875 billion in case of public sector banks and of Rs. 184 billion for private sector banks. Non-performing assets in case of agricultural sector are Rs. 753 billion related to the public sector and Rs. 78 billion regarding private sector banks. In case of micro and small industries, the value of non-performing assets is Rs. 821 billion which is for the private sector banks and Rs. 80 billion in case of private sector banks.

### Conclusion

For conclusion, it can be said that public and private sector banks are able to achieve the overall priority sector lending targets as fixed by Reserve Bank of India. The amount of priority sector lending has decreased in case of public and private sector banks in the year 2018 as compared to the year 2017. On the other hand, non-performing assets have increased in the year 2018 in comparison to the year non-performing asset in the year 2017 for both type of banks.

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