



# Analytical Study of Priority & Non Priority Sector Lending with Reference to Public Sector Banks in India

*In a bank-based economy, sound health of the banking system is an imperative for efficient financial intermediation in the context of overall development and financial stability. In the post- global crisis period, the Indian banking system, has suffered growing impairment of asset quality. Non-performing assets are one of the major concerns for banks in India .NPAs reflect the performance of banks. The earning capacity and profitability of the banks are highly affected because of the existence of NPAs. A high level of NPAs suggests that large number of credit defaults that affect the profitability and net-worth of banks. In this paper an effort has been made to evaluate the operational performance of the selected Public sector banks in India and also analyze how efficiently Public sector banks can managing NPA.*

**Key Words :** Public Sector Banks, Priority Sector, Non-prioritysector, operational performance.

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## **I**ntroduction :

The importance of banking is known to all. The prosperity of any country depends on several factors which may be in the category of externalities or internalities. In the context of internal factors, banking industry has tremendous role to play to ensure a stable economy. In our country, since the financial sector reforms that took place in the beginning of the 1990s, things have changed a lot in several industries, including banking. The entry of private sector banks with a new zeal has posed competition to the public sector banks. But, despite their existence for more than three decades, almost 75% of the total advances are rendered by the public sector. However, in recent times, the banking sector as a whole is in the limelight not due to good reasons, but instead due to the increasing non-performing assets (henceforth to be mentioned as NPAs) in the sector. In very simple words, one can define NPA to be a non-performing loan or a loan in which interest and principal is not being repaid and instead getting overdue for several months in a row. Hence, the non-repayment of interest leads to a fall in the performance and the credit worthiness of the banks. Though both sets of players have been affected, the public counterpart has been affected to a larger extent.

### **Priority sector lending :**

The definition of priority sectors has evolved over a period of time and at present, priority sectors are broadly taken as those sectors of the economy which in the absence of inclusion in the priority sector categories would not get timely and adequate finance. Typically, these are small loans to small and marginal farmers for agriculture and allied

activities, loans to Micro and Small Enterprises, loans for small housing projects, education loans and other small loans to people with low income levels. Presently, the target for aggregate advances to the priority sector is 40 per cent of the Adjusted Net Bank Credit ANBC or the credit equivalent of Off Balance sheet Exposure (OBE), whichever is higher for domestic banks. Foreign banks with 20 or more branches in the country are being brought on par with domestic banks for priority sector targets in a phased manner over a five year period starting from April 1, 2013. For foreign banks with less than 20 branches the overall target is fixed at 32 per cent. The recent notification published by RBI shows the poor performance of PSL lending by banks. Banks who always care rich people are feared to lend loans for these sectors because chances of lone waivers and NPAs. Even the trend continues in industrial sectors like mining; beverages; tobacco products etc.

### **Categories and targets under priority sector lending :**

The categories under priority sector are : (a) Agriculture (b) Micro Small and Medium Enterprise (c) Export Credit (d) Education (e) Housing (f) Social Infrastructure (g) Renewable Energy (h) Others.

### **Objectives of the study :**

(a) To analyze advances to priority sector and non-priority sector by PSBs in India.

(b) To study NPAs of priority sector lending and non-priority sector lending of PSBs.

### **Review of literature :**

Koeva (2003) in his study on the performance of Indian Banks during Financial Liberalization, gives new empirical

Categories	Domestic scheduled commercial banks and Foreign banks with 20 branches and above	Foreign banks with less than 20 branches
<b>Total Priority Sector</b>	40 percent of Adjusted Net Bank Credit or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher. Foreign banks with 20 branches and above have to achieve the Total Priority Sector Target within a maximum period of five years starting from April 1, 2013 and ending on March 31, 2018 as per the action plans submitted by them and approved by RBI.	40 percent of Adjusted Net Bank Credit [ANBC defined in sub paragraph (iii)] or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher; to be achieved in a phased manner by 2020 as indicated in sub paragraph (ii) below.
<b>Agriculture</b>	18 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher. Within the 18 percent target for agriculture, a target of 8 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher is prescribed for Small and Marginal Farmers. Foreign banks with 20 branches and above have to achieve the Agriculture Target within a maximum period of five years starting from April 1, 2013 and ending on March 31, 2018 as per the action plans submitted by them and approved by RBI. The sub-target for Small and Marginal farmers would be made applicable post 2018 after a review in 2017. ##	Not applicable
<b>Micro Enterprises</b>	7.5 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure. The sub-target for Micro Enterprises for foreign banks with 20 branches and above would be made applicable post 2018 after a review in 2017.	Not Applicable
<b>Advances to Weaker Sections</b>	10 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher. Foreign banks with 20 branches and above have to achieve the Weaker Sections Target within a maximum period of five years starting from April 1, 2013 and ending on March 31, 2018 as per the action plans submitted by them and approved by RBI.	Not Applicable

ownership type has a significant effect during financial liberalization. Kumar (2004) in his article on an evaluation of the financial performance of Indian private sector banks noted that Private sector banks play an important role in development of Indian economy. After liberalization, the banking industry underwent major changes in the public and the private sectors as per the recommendations of Narashimam Committee. The Indian banking industry was dominated by public sector banks earlier. But the situation has changed now: new generation banks which use technology and professional management have gained a reasonable position in the banking industry. Vohra and Dhamu (2012) emphatically point out that the NPAs have a direct impact on profitability, liquidity and equity of the banks. The authors observe that NPA of Indian banks are relatively very high by global standards. Thus, they recommend restricting of lending operations only to secured advances with adequate collateral securities. They also list a few common reasons for an asset turning NPA, considering economy, industry, borrower and lender sides separately.

**Data Analysis :**

**Priority Sector :**

The above table depicts the amount of Gross Advances, Gross NPA and the percentage of Gross NPA in public sector banks in India during the

evidence on the impact of financial liberalization on the performance of Indian commercial Banks. The analysis focuses on examining the determinants of bank intermediation costs and profitability during the liberalization period. His empirical results suggest that ownership type has a significant effect on some performance indicators and that

period of 2013 to 2017 for the priority and non-priority sectors in India. The amount of advances of has increased from Rs. 12790 Billion in 2013 to Rs. 19599.15 Billion in 2017 for the priority sector by public sector banks in india. The amount of gross NPA has increased from Rs. 669.00 billion in 2013 to Rs. 1542.76 billion in 2017. However, NPA percentage is

**Data Analysis :**

Advances and NPAs of Public Sector Banks by Priority and Non Priority Sectors									
Year	Priority Sector			Non Priority Sector			Total		
	Gross Advances	Gross NPAs	Gross NPAs as Percent of Total	Gross Advances	Gross NPAs	Gross NPAs as Percent of Total	Gross Advances	Gross NPAs	Gross NPAs as Percent of Total
2013	12,790.00	669.00	42.9	27,769.00	890.00	57.1	40559	1559	100.00
2014	15,192.98	791.92	36.5	30,711.60	1,375.47	63.5	45904.58	2167.39	100.00
2015	16,859.54	936.85	35.7	31,593.15	1,690.60	64.3	48452.69	2627.45	100.00
2016	18,737.48	1281.16	25.5	32,084.08	3,739.52	74.5	50821.56	5020.68	100.00
2017	19,599.15	1,542.76	24.1	31,823.09	4,867.80	75.9	51422.24	6410.56	100.00
CAGR	11%	23%		3%	53%				

showing the declining trend from 42.9 in 2013 to 24.1 in 2017.

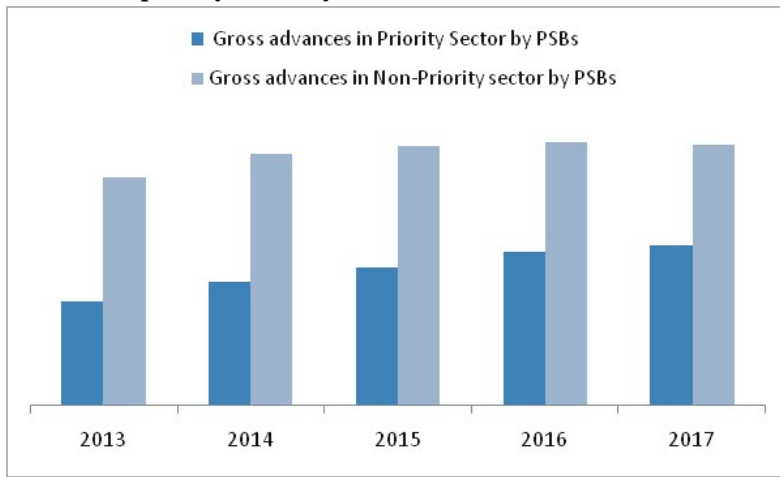
**Non Priority Sector :**

The above table depicts the amount of Gross Advances, Gross NPA and the percentage of Gross NPA in public sector banks in India during the period of 2013 to 2017 for the priority and non-priority sectors in India. The amount of advances of has increased from Rs. 27769.00 Billion in 2013 to Rs.31823.09 Billion in 2017 for the priority sector by public sector banks in india. The amount of gross NPA has increased from Rs.890.00 billion in 2013 to Rs. 4867.80 billion in 2017. However, NPA percentage is showing the rising trend from 57.9 in 2013 to 75.9 in 2017.

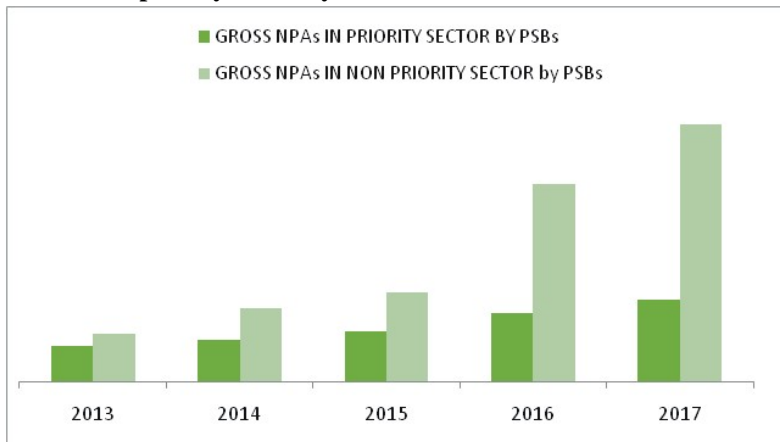
**Conclusion :**

Prevalence of NPAs in a bank in any type of advance is

**Table 1 : Comparison of Gross Advances of Priority Sector and Non-priority Sector by Public Sector Banks in India**



**Table 2 : Comparison of Gross NPAs of Priority Sector and Non-priority Sector by Public Sector Banks in India**



inevitable. But the growth in NPAs affects the growth in advances; it poses threat to the Bank's credit performance. The above Table1 and Table 2 states clearly that while the compound annual growth rate in gross advances to priority sector is higher than the non-priority sector but the compound annual growth rate in NPAs is much higher in non-priority sector rather than the priority sector. However the higher rate of growth in Gross Advances to priority sector

maybe indicative of that the demand for loans is more in priority sector. The higher rate of growth in gross advances of priority sector is showing increase in lending to priority sectors.

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