

Priority Sector Advances and Its Share in Development of Weaker Sections by Scheduled Commercial Banks in India

T. Vara Lakshmi¹, M. Srinivasa Reddy²

¹Research scholar, Department of Management, Sri Venkateswara University, Tirupathi

²Professor, Department of Management, Sri Venkateswara University, Tirupathi

Abstract: According to recent Human Development Index released by United Nations Development Programme (UNDP), India ranked at 130th position out of 188 countries. When compared to last year data India's rank was 135 according to the 2014 report. For this Sliding Up there are many reasons, along with consideration of Economically Weaker Sections (EWS) and Below Poverty Line (BPPL) Segment by the Central Government and Reserve Bank of India (RBI).

Priority Sector lending has become an important component of national agenda for RBI after nationalization of Banks to develop the EWS and BPL segments. Over the years there are many changes undergone through this concept with several new areas and sectors being brought within the purview of this sector. Priority Sector Lending 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, Allied activities, Micro and Small Enterprises, Rural housing, Students for Education, Women Development, Pavement Dwellers, Small Scale Sectors and other Low income Groups. Along with this category RBI recently attached some other Categories like: Medium Enterprises, Social Infrastructure and Renewable Energy will form part of the Priority Sector, in addition to the existing categories, with a cap of 15% to total outstanding. This study of this paper is to evaluate the Priority Sector Advances and its Share in total credit by Indian Banks for better understand of banks role in economy growth along with ground level sectors development.

Keywords: priority sector advances, economically weaker sections, credit

I. INTRODUCTION

Priority sector was first properly defined in 1972, after the National Credit Council emphasized that there should be a larger involvement of the commercial banks in the priority sector. The sector was then defined by Dr. K S Krishnaswamy Committee. The priority sectors include those sectors which may not get adequate institutional credit due to social, cultural and economic reasons. Common priority sectors include Agriculture Finance, Small Enterprises, Retail Trade, Micro Credit, Education Loans and housing loans. Now The Government has proposed to bring more sectors such as

medium enterprises and renewable energy under priority sector lending by banks.

Indian Banking System is faced by many ideas and challenges stemming from both policy and structure. The experts have suggested that the system is affected by Double Financial Repression. Latter, as pointed out by Economic Survey 2014-15, is a phenomenon when the banks are faced with financial repression both on the asset and liability side. Financial repression on asset side is a by-product of the SLR (Statutory Liquidity Ratio) i.e. the amount of liquid assets which banks are required to hold in form of cash, government bonds and gold. Even the provision of 40% of Priority Sector Lending has led the allocation of cash to less than fully efficient ways. Financial repression on the liability side is the result of continued inflation since 2007. This has led to negative interest rates and relative diminishing of household savings. Also, the private sector banking is plagued by structural issues covering lack of competition and ownership. It can be seen in the lack of share of private banks in the overall banking aggregates at a time when the economy is growing mainly due to the private sector banking.

The Reserve Bank of Indian has set a target of 40 per cent of total available resources for credit under priority sector loans for public and private sector banks. Priority sector refers to those sectors of the economy which may not get timely and adequate credit in the absence of this special dispensation. Typically, these are small value loans to farmers for agriculture and allied activities, micro and small enterprises, poor people for housing, students for education and other low income groups and weaker sections.

As of March 2015, the domestic banks and foreign banks with 20 and more branches have to disburse 40% of the Net Bank Credit (NBC) to Total Priority sector, out of which 18% should be total agricultural advances. The Foreign banks have been given a target of 32% of the Net Bank Credit to priority sector, however, there is no lower limit fixed for agriculture. Net Bank Credit is the figure reported in the fortnightly return submitted to RBI by the Banks. But, the outstanding deposits under the FCNR (B) and NRRR (Non-

Resident Non-Reportable Term Deposit Account) Schemes are excluded from net bank credit for computation of priority sector lending target/ sub-targets.

Current Priority Sector targets

s.no.	Type of Loan	Domestic banks and foreign banks with 20 or more branches	Foreign banks with less than 20 branches
1	Total Priority Sector advances	40 percent of NBC	32 percent of NBC
2	Total agricultural advances	18 percent of NBC	No target
3	SSI advances	No target	10 percent of NBC Export credit
4	Export credit	does not form part of priority sector	12 percent of NBC
5	Advances to weaker sections	10 percent of NBC	No target

Following have been defined by RBI have weaker sections of the society: Small and marginal farmers; Artisans, village and cottage industries where individual credit limits do not exceed 50,000; Beneficiaries of Swarnjayanti Gram Swarozgar Yojana (SGSY), now National Rural Livelihood Mission (NRLM); Scheduled Castes and Scheduled Tribes; Beneficiaries of Differential Rate of Interest (DRI) scheme; Beneficiaries under Swarna Jayanti Shahari Rozgar Yojana (SJSRY); Beneficiaries under the Scheme for Rehabilitation of Manual Scavengers (SRMS); Loans to Self Help Groups; Loans to distressed farmers indebted to non-institutional lenders; Loans to distressed persons other than farmers not exceeding 50,000 per borrower to prepay their debt to non-institutional lenders; Loans to individual women beneficiaries upto 50,000 per borrower; RBI Guidelines on weaker sections RBI keeps issuing guidelines for the Priority sector lending. The overall target set by the RBI for the priority sector lending is 40% of the adjusted net bank credit (ANBC) out of which 18% is fixed for agriculture sector.

II. OBJECTIVE

To highlight the role of banks in Priority sector advances to total credit.

III. METHODOLOGY

This study is based on the secondary data, which is collected from the statistical tables and annual report on trend and progress in banking produced by Reserve Bank of India. The researcher has applied the statistical tools like percentage analysis, regression analysis, trend analysis and Exponential growth rate to analyse and to interpret the results.

IV. ADVANCES TO PRIORITY SECTOR

- Among other things, the PSL target was increased to 75 percent of total outstanding from the existing 60 percent. The PSL norms have been revised considering the growing significance of RRBs in pursuit of financial inclusion agenda.
- As on March 2015, there were 56 RRBs operating in the country with a network of 20059 branches. They cover 644 notified districts in 26 states and the Union Territory of Puducherry.
- Loans to individual farmers, for the purpose of PSL, was increased to 50 lakh rupees from the present 10 lakh rupees against pledge/ hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months.
- The RBI has lowered the quantum of loans that will qualify as PSL. Against the earlier limit of 25 lakh rupees, loans to individuals up to 20 lakh rupees only are considered as PSL as per revised guidelines. Housing loans to banks' own employees will be excluded from this limit.
- As per the new norms released, rural banks will have to advance 18 percent of total outstanding towards agricultural activities. A target of 7.5 percent of total outstanding will be diverted towards micro enterprises and another 15 percent for weaker sections.
- The new norms will be implemented from January 1, 2016 and will be monitored on a quarterly and annual basis.
- Categories of the Priority Sector: Medium Enterprises, Social Infrastructure and Renewable Energy will form part of the Priority Sector, in addition to the existing categories, with a cap of 15% to total outstanding.
- Agriculture: 18% of the total outstanding should be advance to activities mentioned under Agriculture.
- Small and Marginal Farmers: A target of 8% of total outstanding has been prescribed for small and marginal farmers within Agriculture.
- Micro Enterprises: A target of 7.5% of total outstanding has been prescribed for Micro Enterprises.
- Weaker Sectors: A target of 15% of total outstanding has been prescribed for Micro Enterprises.

V. RESULTS AND ANALYSIS

Table: Advances to Priority Sectors of Scheduled Commercial Banks in India (Rupees in Billion)

Year	Advances to Priority Sector	Trend%	Share of PSA in Total Credit (%)	Trend(%)
2002	2056.04	100	34.8	100
2003	2509.89	122	34.6	99
2004	3113.35	151	37.1	106
2005	4007.75	194	36.7	105
2006	5467.74	265	37.2	106
2007	7037.56	342	36.5	104
2008	8247.73	401	34.9	100
2009	9657.73	469	34.8	100
2010	11384.06	553	35.1	100
2011	13373.33	650	33.9	97
2012	14909.15	725	32.3	92
2013	16952.67	824	32.2	92
Average	8226.42	399	35	100
r	0.97		0.99	

Source: Compiled from trend and Progress of banking, various issues.

Analysis

The above table describes the priority sector advances and the share of priority sector advances in total credit. The priority sector advances have been raising from 2056.04 Billion in 2002 to 16952.67Bioon in 2013. on the other side the share of the priority sector in total credit is decreased from 31.8% in2002 to 32.2% in 2013. The trend analysis shows a growth rate of 824% with an Average Growth Rate of 399 % and the same has a declining rate of 8% with an average decline rate of " zero"% over the years from 2002 to 2013. The degree of relationship of Priority sector advances over the years is calculate as a high positive correlation of 0.97 and the same is high positive correlation of 0.99 for the share of priority sector advances in Total credit.

VI. CONCLUSION

This study presents an overview of the performance of priority sector advances and its share by scheduled commercial banks in India. Commercial Banks are playing a significant role in Indian Financial System and are regulating by Reserve Bank of India. The advances to priority sector by the commercial banks are gradually increased from 2002 to 2013 without any deviations. On the other side Share of priority sector in total advances is also steadily improving over the years. This shows the appreciable performance of Scheduled Commercial Banks India. RBI also played a spectacular role in reformation and supervisory of Banks, as time to time over

the years. In this regard RBI attached few more categories to the existing priority sector categories and significant targets were implemented as per the new era to all Public Sector Banks, Private Sector Banks, Foreign Banks, Rural Regional Banks and to Co-operative Banks.

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