

Priority Sector Lending of Commercial Banks in North Kanara District: An Overview



Economics

KEYWORDS : Priority Sector Lending, Public Sector, Private Sector Banks and Commercial Banks

H.N. Harakantra

Research Scholar, Department of Economics, Karnatak University, Dharwad-580003

Dr(Smt).V.Sharadha

Associate Professor and Head, Department of Economics, Karnatak Arts College, Dharwad.

Dr.N.S.Mugadur

Assistant Professor, Department of Economics, Karnatak University, Dharwad-580003

ABSTRACT

The present paper is related to the role of Public Sector and Private Sector Banks in priority sector lending. For the purpose of study secondary data has been collected from statistical tables relating to banks in India. Report on trend and progress of banking in India. The period from 2002-03 2012 has been chosen for the study. The scope of study covers the data of Public Sector Banks and Private Sector Banks in India. It is found from the study that priority sector advances and agricultural advances of both the types of banks had improved manifold over the study period. But, they were still lacking behind to achieve the target set for them by RBI in agriculture sector. It was observed that the priority sector lending of private sector higher than public sector banks in this study area.

INTRODUCTION:

The diversification of a large fraction of bank credit from the traditional sector to the priority sector is a remarkable feature of credit deployment in the post nationalization era. The concept of priority sector lending is mainly intended to ensure that assistance from the banking system in an increasing manner to those sectors of the economy which have not received adequate support of institutional finance. The Reserve Bank of India (RBI) emphasized that the priority sector comprised of agriculture (direct and indirect finance) Small Scale Industries, Small Road and Water Transport Operators, small business, professional and self employed persons, education, housing, micro credit, weaker sections etc. RBI monitors the priority sector lending of (PSL) Commercial Banks through periodical returns received from the banks and the performance of banks is reviewed in various foray setup under the Lead Bank Scheme (RBI) 2009. Since seventies, RBI and Government of India have stipulated some guidelines viz., financing in the priority sector on an increasing scale, more deployment of credit to backward regions, preparation and implementation of credit plan and measures for enhancing productivity, employment and Economic Growth with Social Institute (Narasimham 1994)

The Narasimham Committee (1991) on financial sector reform has drawn attention to the problem of low and declining profitability and stated that there is need for gradual phasing out of the directed credit programme, i.e. the stipulations that 40 percent of all credit should go to the priority sector should be scrapped. The priority sector should be redefined and the proportion small be fixed at 10 percent of the aggregate credit subsequently, the committee (1998) indicated that timely and adequate availability of credit rather than its costs is very indispensable for intended beneficiaries. The impact of Narasimham Committee recommendations with regard to lending to priority sector has not been encouraging (Majumdar, 2001). It appears that there is a growing anxiety that the process of financial sector reforms has by-passed the priority sector. In this respect, Dr. Y.V. Reddy (February 3, 2001) Deputy Governor of RBI, remarked that the flow of credit to priority sector /rural areas has not been up to the mark owing to accumulation of losses in Public Sector Banks (PSBs) an account of mounting NPAs. The internal working group was setup by RBI under the chairmanship of C.S. Murthy to examine the need of continuance of priority sector lending prescriptions.

The PSBs are not able to reach the prescribed target of lending to priority sector. The small entrepreneurs and farmers are continued to be both credit and demand constraints. It has been reported that the constraints facing by the banker's with regard to deployment of credit to priority sector are lack of viable credit products. Implying lack of demand for credit etc (Shetal 2002) On the other hand, there exists an informal section which

provides credit to priority sector particularly agricultural credit at higher rates of interest, which indicates that there are no demand constraints. Thus, it can be observed that the demand for funds for priority sector viz small entrepreneurs and agricultural sector is enormous. The present paper is an attempt to diagnose empirically the various lacunas of priority sector advances by commercial banks in the area under consideration in the context of national scenario.

This study aims at: (1) To study the contribution of Public Sector Banks and Private Sector Banks in financing priority sector, and (2) To examine the trends of priority sector lending in India and North Kanara district.

GROWTH OF PRIORITY SECTOR IN INDIA

An attempt has been made to present here the performance of Commercial Banks in India this regard after banking sector reforms. Both Public Sector Banks and Private Sector Banks play a vital role in Economic development by financing the priority sector of the economy. It is, therefore important to analyze the performance of Commercial Banks in India with respect to priority sector lending and its various components.

TABLE-1
YEAR-WISE PRIORITY SECTOR ADVANCES OF COMMERCIAL BANKS IN INDIA
(In crore)

Years	Public Sector Banks			Private Sector Banks		
	TPS (Rs)	Total advance (Rs)	% share of PS to total Advances	TPS Advances (Rs)	Total Advances (Rs)	% share of PS to Total advances
2002-03	2,03,095	5,29,244	38.37	36,705	1,43,091	35.65
2003-04	2,44,456	6,16,570	39.65	48,920	1,74,107	28.10
2004-05	3,10,093	8,17,344	37.94	69,384	2,26,944	30.57
2005-06	4,09,748	10,75,073	38.11	1,06,586	3,02,941	35.18
2006-07	5,21,180	13,74,327	37.92	1,43,768	3,90,064	36.86
2007-08	6,08,963	17,02,039	35.78	1,63,223	4,70,745	34.67
2008-09	7,20,083	20,99,938	42.5	1,90,207	4,19,655	46.8
2009-10	8,64,564	25,12,358	34.41	2,15,552	5,84,576	46.0
2010-11	10,09,676	30,59,870	32.99	2,42,272	7,32,310	33.08
2011-12	11,17,575	35,50,389	31.47	2,80,992	8,80,445	31.91

Source: RBI Bulletin-2008-12 and Overview of Banking Development- 1947-2007.

Table-1 depicts that priority sector advances of Public Sector Banks increased from Rs. 2,003,095 crore to Rs. 11,17,575 crores with the growth rate of 34.66 percent and that of private sector increased from 35,705 crores to 2,80,992 crore with the growth rate of 33.84 percent during 2002-03 to 2011-12.

BACKGROUND OF THE STUDY AREA

The North Kanara is one for the three coastal district of Karnataka State is known for its picturesque land scapes silver white beaches cool palm groves, beautiful valleys and rivers. The district stretches alongwith west coast. The district stretches along with west coast. The predominant economic activities prevalent in the district include fishing, agriculture, dairy, agro-processing and non farm sector activities which include handicraft, general engineering, forest based industries, food processing, chemical, hosiery and textiles, leather ware etc. The Commercial Banks can be classified into three groups in the district that is Major Public Sector Bank, other Nationalised Banks and other Commercial Banks. The major Public Sector Banks like Syndicate Bank, Canara Bank, Vijay Bank, state Bank of India, State Banks and Corporation Banks and other Nationalised Banks like Indian Overseas Bank, Indian Bank, Central Bank of India, Bank of Maharashtra, Punjab National Bank, Union Bank of India and Bank of Baroda and other Private Sector Commercial Banks like Karnataka Bank Limited, ING Vysya Bank Limited, ICICI Bank Limited, Axis Bank Ltd and Federal Bank Limited are working in the district for full filling national goals.

GROWTH OF PRIORITY SECTOR IN NORTH KANARA

TABLE-2

YEAR-WISE PRIORITY SECTOR ADVANCES BY COMMERCIAL BANKS IN INDIA AND NORTH KANARA

(In thousands)

Years	Public Sector Banks			Private Sector Banks		
	TPS Advances (Rs)	Total Advances	% of share PS total Advances	TPS Advances (Rs)	Total Advances	% of share PS total Advances
2002-03	6,61,718	30,41,363	21.75	64,862	1,64,091	39.52
2003-04	6,99,170	31,94,132	21.88	57,910	1,78,692	32.40
2004-05	13,33,868	46,21,977	28.85	59,527	1,81,851	32.73
2005-06	13,01,265	52,27,979.99	24.89	80,444	2,04,654	39.30
2006-07	18,09,692	4,97,289.6	36.39	54,387	2,23,521	24.33
2007-08	30,68,275	82,65,326	37.12	1,13,067	2,89,792	39.01
2008-09	31,22,499	3,98,913.3	33.15	1,55,035	3,23,722	47.89
2009-10	33,64,680	1,13,55,741	29.62	1,52,745	3,13,392	48.73
2010-11	51,14,406	1,41,40,681	36.16	3,11,424	3,31,190	46.22
2011-12	64,98,408	1,82,76,169	35.55	3,27,396	5,67,278	57.71

Source: District Credit Plan- 2002-2012.

Table-2 depicts that priority sector advances of Public Sector Banks increased from Rs. 6,61,716 thousand to Rs. 64,98,408 thousand with the growth rate 36.70 percent and that of Private Sector Banks increased from Rs. 64,862 thousand to Rs. 3,27,396 thousand with the growth rate of 49.55 percent during 2002-03 to 2011-12. The percentage share of priority sector advances to total advances of Private Sector Banks also increased and remained between 39.52 percent and 57.71 percent whereas that of Public Sector Banks between 21.75 percent and 35.55 percent during the same period.

CONCLUSION:

The percentage of priority sector advances to total advances of Private Sector Banks also increased and remained between 34 percent to 46 percent whereas that of Public Sector Banks between 38 percent to 42 percent during the same period. It tells us that the priority sector lending of Private Sector Banks higher than Public Banks in the district.

SUGGESTIONS:

- 1) The Public Sector Bank and Private Sector Banks should speed up their performable regarding priority sector banking.
- 2) Considering the importance of priority sector advances in the country like India and North Kanara district where agriculture is the major occupation, it is suggested that both Public and Private Sector Banks should make committed efforts to achieve the national targets for agriculture sector. So that the major proportion of beneficiaries may be benefited.
- 3) Both Banks should provide more advances to Small Scale Industries which neglected by Banks in India as well as North Kanara district.
- 4) Banks should be given some incentives to achieve the target set for priority sector.
- 5) Proper awareness should be created to public regarding the schemes of priority sector by RBI.

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