



## Role of Public Sector Banks in Priority Sector Lending: A Study of Golaghat District of Assam

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### ABSTRACT

As a major lending institution, commercial banks have the major responsibility for attainment of the socio economic priorities of the Government like growth of agriculture production, promotion of SSI and small entrepreneurs and all-round development of backward area. After nationalisation of banks, the coverage of bank in both rural and urban areas has grown up and banks have significantly increased their loans and advances for the development of priority sector. Though public sector commercial banks started priority sector lending for the last few decades, it is essential to examine the extent of achievement of banks with regard to priority sector lending in micro level. The present study is an attempt to study the performance of public sector banks in Golaghat district in terms of priority sector lending.

### KEYWORDS

Rural development, priority sector lending, public sector banks and agriculture credit.

### Introduction

Priority sector lending is the most important objectives of government policy since bank nationalisation, has been to extend and expand credit not only to those sectors which were of crucial importance in terms of their contribution to national income and employment, but also to those sectors which had been severely neglected in terms of access to institutional credit (Shajahan, 1998). In February 1968, the National Credit Council was set up with a view to deciding priorities on an all India basis. The committee realized that traditional banking ethics were not compatible with the needs of economic development and balanced development was not possible without strengthening the hold of commercial banks in the backward or neglected areas (Patel 1996). Fourteen major commercial banks were nationalized in July, 1969 in order to more focus on the priority sector, which was underdeveloped. Another six commercial banks were nationalized in 1980 (Gangwar, 2011). The term priority sector indicates those activities, which have national importance and has been assigned priority for development. These sectors in particular agriculture, small industries and other small business were the neglected sector and for the purpose of bank credit, they have been categorized as priority sector (Uppal, 2009).

The attainment of the socio economic priorities of the government like growth of agriculture, promotion of small entrepreneurs and development of backward area etc is the major responsibility of commercial banks. Since seventies, Reserve Bank of India and government of India have stipulated guidelines for priority sector lending by banks (Ahmed, 2010). According to RBI Master Circular on Priority Sector Lending in July 2012, target for priority sector lending for all domestic commercial banks and foreign banks with 20 and above branches has fixed by 40 percent of Adjusted Net Bank Credit (ANBC), and 32 percent of ANBC for foreign banks with less than 20 branches. Within the priority sector, 18 percent of the ANBC have to be disbursed to agriculture and allied activities and 10 percent to weaker section by all domestic commercial banks and foreign banks with 20 and above branches. (RBI, 2012)

The present paper is an attempt to evaluate the performance of public sector commercial banks in priority sector lending in Golaghat district of Assam.

### Objectives of the Study

- To evaluate the deposit mobilization and credit deployment by public sector commercial banks in Golaghat district of Assam.
- To examine the components wise lending of public sector commercial banks in regards to priority sector lending in Golaghat District of Assam.

### Methodology of the Study

The present study is based on secondary data that has been collected from the Lead Bank Statement of Golaghat District of Assam of relevant years. Apart from this, Economic Survey of Assam, Statistical Hand Book of Assam has also been used for incorporating pertinent information related to the study. The period of the study is considered from 2006-07 to 2013-14. The scope of the study is within 12 public sector commercial banks and their branches operating in Golaghat District. In order to draw inference, percentage, Annual growth rate and Compound Annual Growth Rate have been calculated.

### Profile of the Golaghat District

Golaghat has notified as administrative district in 1987. It is surrounded by the river Brahmaputra in the North, Nagaland on the South, Jorhat district in the East and Karbi Anglong and Nagaon district in the West. Total Area of the District 3502.00 Sq. Km. In 2011, Golaghat had population of 10, 58,674 of which male and female were 539,949 and 518,725 respectively. Population density of Golaghat district for 2011 is 302 people per sq. km. Average literacy rate of Golaghat in 2011 were 78.31 percent compared to 69.38 percent of 2001 with male and female literacy were 84.20 and 72.18 percent respectively (<http://www.census2011.co.in>). Presently there are 13 commercial banks with 60 branches operating in Golaghat district out of which 8 are public sector commercial banks, Assam Gramin Vikash Bank, Assam Co-Operative Apex Bank and 3 Private sector Commercial Bank respectively.

### Analysis and Discussion

Public sector commercial banks play a vital role in economic development by mobilisation of deposits and deployment of credit to the priority sector of the economy. It is, therefore, important to analyse the performance of public sector commercial banks in terms of deposit mobilisation and credit deployment to priority sector and its various components.

**Table 1: Deposits and Credit Deployment by Public Sector Banks in Golaghat District (Amount in crores)**

Year	Deposit		Credit		C/D Ratio
	Amount	Annual Growth (%)	Amount	Annual Growth (%)	
2006-07	348.57		255.61		73.33
2007-08	501.07	43.75	279.28	9.26	55.74
2008-09	610.87	21.91	325.46	16.54	53.28
2009-10	668.23	9.39	357.64	9.89	53.52
2010-11	847.46	26.82	377.56	5.57	44.55
2011-12	890.58	5.09	433.75	14.88	48.7

2012-13	1095.84	23.05	495.16	14.16	45.19
2013-14	1224.76	11.76	563.02	13.70	45.97
CAGR	19.66		11.94		

Source: Lead Bank Statement of Golaghat District (Various Issues).

Table1 exhibits the deposit mobilisation and credit deployment by public sector banks in Golaghat district from 2006-07 to 2013-14. Deposit mobilisation by public sector banks increased from 348.57 crore in 2006-07 to 1224.76 crore in 2013-14. Credit deployment by public sector commercial banks was also significantly increased from 255.61 crore in 2006-07 to 563.02 crore in 2013-14. Compound annual growth rate of deposit mobilisation (19.66%) was higher than the compound growth rate of credit (11.94%) in Golaghat district during the study period.

Credit-Deposit ratio of public sector banks in Golaghat district was very poor during the study period. Credit-Deposit ratio of public sector banks was below the norms specified by RBI during the study periods i.e., 60 percent except the year 2007.

**Table 2: Sector-wise Priority Sector Lending by Public Sector Banks Golaghat District (Amount in crores)**

Year	Agriculture		SSI/MSME		Other priority Sector		Total Priority Sector Advance	
	Amount	Annual Growth	Amount	Annual Growth	Amount	Annual Growth	Amount	Annual Growth
2006-07	32.67 (12.78%)		16.18 (6.33%)		41.03 (16.05%)		89.88 (35.16%)	--
2007-08	47.42 (16.98%)	45.17	20.56 (7.36%)	27.06	67.93 (24.32%)	65.55	135.91 (48.67%)	51.21
2008-09	64.9 (19.94%)	36.85	22.32 (6.86%)	8.55	64 (19.67%)	-5.78	151.22 (46.67%)	11.26
2009-10	91.78 (25.66%)	41.43	53.1 (14.85%)	137.88	42.28 (11.82%)	-33.94	187.16 (52.33%)	23.77
2010-11	98.81 (26.17%)	7.66	54.8 (14.51%)	3.21	48.93 (12.96%)	15.74	202.55 (53.65%)	8.22
2011-12	146.88 (33.86%)	48.64	47.24 (10.89%)	-13.8	70.83 (16.33%)	44.75	264.94 (61.08%)	30.81
2012-13	169.17 (34.16%)	15.17	51.73 (10.45%)	9.51	77.82 (15.72%)	9.87	298.71 (60.33%)	12.75
2013-14	245.14 (43.54%)	44.91	49.69 (8.83%)	-3.95	79.3 (14.08%)	1.9	374.13 (66.45%)	25.25
CAGR (%)	33.37		17.38		9.87		22.60	

Source: Lead Bank Statement of Golaghat District (Various Issues).

Note: Figure within bracket indicates percentage share to Aggregate Advances. Author's Calculation.

Agricultural credit by public sector banks in Golaghat District had increased manifold from Rs. 32.67 crore in 2007 to Rs. 245.14 crore in 2014. Percentage share of Agriculture finance to Aggregate Net Bank Credit (ANBC) in Golaghat district has continuously increased from 12.78 percent in 2007 to 43.54 percent in 2014. Percentage share of agriculture credit to ANBC had below the target set by RBI in the year 2007 and 2008 and after that the percentage is improving as well as above the target set by RBI i.e., 18 percent of ANBC.

Finance to MSME has significantly increased from Rs. 16.18 crore in 2006-07 to Rs. 54.80 crore in 2010-11 and thereafter sudden decrease to Rs. 47.24 crore in 2011-12. Annual growth rate of MSME finance was not positive in all the years during the reference period and it was significantly fluctuating during the period.

Other priority sector lending by public sector banks in Golaghat district had shown fluctuating trend during 2006-07 to 2009-10. After that it had continuously increased from Rs.

42.28 crore in 2009-10 to Rs. 79.30 crore in 2013-14. Annual growth rate had shown positive during the study period except the year 2008-09 and 2009-10.

Priority sector lending by public sector banks in Golaghat district had increased from Rs. 89.88 crore in 2007 to Rs 374.13 crore in 2014. Annual growth of priority sector lending shown positive during the period and varied within 51.21 percent to 8.22 percent during the study period. Public sector banks in Golaghat district had achieved the target of priority sector lending set by RBI i.e., 40 percent of ANBC in all the year except 2007.

Compound annual growth rate was highest in agricultural credit (33.37%) followed by priority sector lending (22.60 %) during the study period. Compound annual growth rate of MSME credit and other priority sector credit by public sector banks was 17.38 percent and 9.87 percent respectively.

### Conclusions

Public sector commercial banks made remarkable progress in deposits mobilization and deployment of credit to priority sector for rural development. The percentage of priority sector

advances to total advances by public sector banks in Golaghat district during the study period had shown a healthy scenario and above the target prescribed by RBI i.e., 40 percent of ANBC. Compound annual growth of priority sector lending and agricultural credit in Golaghat district was more than compound annual growth of priority sector lending during the study period. In nutshell, it can be said that public sector banks in Golaghat district have achieved remarkable success in credit deployment to priority sector. Though the public sector banks achieve quantitative target prescribed by RBI, there are some qualitative issues, which is a matter of discussion such as credit gap, cost of borrowings, timeliness and adequacy of loan, proper utilisation of credit, repayment performance, overdues position and impact of credit on borrowers' economic condition etc.

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