

Priority Sector Lending in Banks : Trends and Performance in India with special reference to Punjab

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Abstract

Priority sectors form the foundation and base-structure of an economy. Providing adequate financial aid to these important sectors can lead to development of an economy in real terms. These sectors include Agriculture, MSMEs, Housing, Education and other sections of an economy. Reserve Bank of India, since 1968 have specified separate targets and sub-targets for priority sector lending, falling short of which funds are transferred to RIDF. The present study aims to analyse trends and performance patterns of priority sector lending at all India level and Punjab in particular from 2004-05 to 2017-18. Analysis has been done sector-wise, year-wise, bank-wise, state-wise, region-wise and district-wise. Priority sector lending has manifold benefits to uplift an economy and therefore this study analyses the trends and performance, pin-point the problem areas and suggests some policy implications to improve the lending to priority sectors.

JEL Code : F5, F34, G21, G24, H81, L1, P4, P27

Keywords : Bank, Performance, Economy, Loans, RBI, Punjab, India

I. Introduction

PRIORITY SECTOR LENDING is summation of all the activities directed towards extending financial assistance to the priority sectors of society. Priority sectors are the segments of society which form the backbone of an economy and can help in national development if financially supported. As these sectors are funds deprived and neglected, so government has referred these as priority sectors, thereby giving them priority in credit disbursement and ultimately priority to national development and achievement of national goals (Bhatt, 1986). These segments include agriculture sector, small scale industries, housing,

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with adequate means, it can give new heights to development of economy. So, a trend analysis of priority sector lending from 2004-05 to 2017-18 has been done to study its pattern and discuss its policy implications. Priority sectors in public sector banks has higher quantum than in private sector banks which clearly tells some efforts have to be increased in private sector banks and the urge must be included as a part of their moral obligation rather than only restricting to its target achievement. This can be done through awareness campaigns among bank staff, setting up of some extra perks by RBI for some extra-ordinary achievements in this field, so that this can have more of carrot approach than stick approach. Secondly, a sound buffer must be ensured by each and every bank so that their lending pattern and therefore priority sectors are not affected during the times of financial turbulence. Because if economy is already in crisis and priority sectors which form the base of economy, suffer due to that, it can give multi-fold downfall to the economy. Another area which requires strenuous efforts is to reduce the variations in lending pattern of banks. After studying the trends state-wise and bank-wise, it is clearly seen that variations are high (nearly sixty percent) which needs to be controlled. Varying lending trends do not represent a sound and firm economy and an economy which is not sound at its base, cannot flourish. So, this is the huge concern to be catered by RBI. Comparing to Punjab economy, though variations are better off, but they also need to be reduced further. Whereas the concentration level of lending is not a big concern and can improve along with the variation reduction. Steady growth rates and CAGRs are observed which depicts that economy is working hard to provide adequate funds to its most-needed sectors which have the potential to give manifold benefits like employment generation, capital formation, industrial development, poverty reduction and ultimately provide prosperity to the nation. Targets and Achievements of Priority Sector Lending of Punjab economy are analysed thoroughly. Figures clearly depict that targets are being achieved adequately. Ratio analysis also gives a positive note of fulfilment of all the national goals set by RBI. But beyond these figures and ratios, priority sector lending needs moral obligation and social intent of banking sector. This intent needs to be inculcated in policy framework through special focussed schemes, awareness programs which aim to achieve beyond targets.

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