

# Region-Wise Priority Sector Lendings by Commercial Banks in India.

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## ABSTRACT

Priority Sector Lending (PSL) is now considered to be a vital component of national agenda after the nationalization of banks and is lending too those sectors of the economy which may not otherwise receive timely and adequate credit. This role is assigned by the Reserve Bank of India (RBI) to the commercial banks for providing a specified portion of the bank lending to few specific sectors like agriculture allied and other activities, Micro- and Small Medium Enterprises (MSME's), education and housing etc., According to priority sector standards, scheduled commercial banks have to disburse 40% of their loans to the identified priority sectors by the RBI directions. The present paper mainly focuses and analyses the selected region-wise distribution of Priority Sector Lending (PSL) by the Commercial Banks which include both public and private banks. This is essentially meant for an all-round development of the economy as opposed to focusing only on the financial sector. The study shows that there is a significant relationship between the selected regions and the amount of priority sector lending.

**KEYWORDS:** Priority Sector Lending (PSL), Agriculture, Micro Small and Medium Enterprises (MSME's), and Reserve Bank of India (RBI).

## 1 INTRODUCTION

Priority Sector occupied an importance place in the Indian economy and is an exceptional feature of the Indian banking system. Priority Sector Lending (PSL) is the essence of social banking system. Under the Priority Sector Lending (PSL), banks are provided the credit on liberal terms and conditions to various sectors. The socialization of bank credit is the main theme of priority sector lending by these bank groups. Priority Sector Lending (PSL) and will also remain, its importance by both ways, literally and figuratively, of an Indian economic development. Priority Sector Lending (PSL) is a significant part given by the Reserve Bank of India (RBI) to the banks for providing an identified ration of the bank lending also few clear areas like agriculture and allied activities, micro and small enterprises, export credit, education etc., Priority Sector Lending (PSL) has long by established as well as developing nations as an implement to channelize credit at special rates to have identified areas of the economy that may not get timely and sufficient credit in the absence of such extraordinary exemption.

## 2. REVIEW OF RELATED LITERATURE

A plethora of research studies have been conducted on various aspects of priority sector lending by the public and private sector banks in India. **Sooden and Kumar (2007)** discussed that the decrease in the share of priority sector, neglect of agriculture and small scale industries are some main problems which require an immediate attention for the policy-makers. **Kumar and Gupta (2008)** observed that lending by the public sector banks to the agriculture has somewhat festered. **Uppal (2009)** in his study stated that the public sector banks have unsuccessful to achieve the target of 40 percent, private sector banks have succeeded in achieving the overall target. **Shabbir (2014)** concluded that majority of public and private sector banks have achieved their target of overall priority sector lending but not are able to achieve the sub target of 18 percent in agriculture sector. **Harakantra, Sharda and Magadur (2014)** in their study found that priority sector loans and agriculture advances of both public and private sector of banks has improved manifold over the period of study. **Shilpa Rani and Diksha Garg (2015)** in their study examined the trends, issues, and strategies of priority sector lending, and they also pointed out the various issues in priority sector lending. **Pratibha Naruka and ManjuYadav (2017)** in their study found that the priority sector lending has marvelous importance in terms of upgrading the indicator of inclusive growth to the society. **Najmi Shabbir (2019)** in his study found that the priority sector lending was not uniform in different years among different states of the country. **Sunil Kumar, Ravindra Singh, Pratibha, Thombare, Pandurang and kale (2020)** in their study concluded that priority sector lending behavior of should be effectively monitored in the national interest. **Sanjeev Kumar (2021)** in his study stated that the public private sector banks could not deploy 18 percent of net bank credit in the agriculture sector and thus failed to accomplish the stipulated target of agricultural lending. **Mujibar Rahaman (2022)** in his study recommended that the government should move early towards policy making and also should pave the way for smooth mobilization of funds for priority sectors for the best achievement of Sustainable Development Growth (SDG) targets. **Provinder Kumar and Dinesh Kumar (2023)** in their study suggested that every bank should train their employees in the art of lending to priority sector and should be continued to encourage the improvement of their skill in the area of lending.

## 3. OBJECTIVES OF THE STUDY

The general objectives of the present study are to understand the nature and region - wise Priority Sector Lending (PSL). The following is the specific objectives are laid down for the purpose of study.

- (i) To assess and compare the performance of total amount of Priority Sector Lending (PSL) among the selected five regions;
- (ii) To analyze the performance of Priority Sector Lending (PSL) towards the agriculture sectors;
- (iii) To evaluate the performance of Priority Sector Lending (PSL) to Micro, Small and Medium Enterprises (MSME's) in the selected five regions of the study.

## 4. RESEARCH METHODOLOGY

In order to accomplish the above mentioned objectives, the following methodology has been used in the present study.

a) **Sampling**

The study is based on the five regions (groups) and is predicated on Secondary data which have been collected from various reports especially Reserve Bank of India (RBI) published reports for the period from 2015-2016 to 2021-2022.

b) **Variables Used**

Total amount of Priority Sector Lending (PSL), PSL to Agriculture, and Micro, Small and Medium Enterprises (MSME's) and Regions.

c) **Hypotheses**

(i)  $H_0$ : There is no variation in the performance of total amount of Priority Sector Lending (PSL) among the five regions by the commercial banks in India;

$H_1$ : There is a variation in the performance of total amount of Priority Sector Lending (PSL) among the five regions by the commercial banks;

(ii)  $H_0$ : There is no difference in the performance of total amount of Priority Sector Lending (PSL) towards the agriculture sector among the five regions.

$H_1$ : There is a difference in the performance of total amount of Priority Sector Lending (PSL) towards the agriculture sector among the five regions.

(iii)  $H_0$ : There is no difference in the performance of total amount of Priority Sector Lending (PSL) towards the Micro, Small and Medium Enterprises (MSME's) in the selected five regions.

$H_1$ : There is a difference in the performance of total amount of Priority Sector Lending (PSL) towards the Micro, Small and Medium Enterprises (MSME's) in the selected five regions.

d) **Statistical Tools**

The objective of this research paper is to analyze the lending patterns and the levels within the priority sector over the past seven years from 2015-16 to 2021-2022. The collected data and information have been processed on computer. To reach the relevant results, the data collected from all resources have been tabulated, analyzed and interpreted with the help of appropriate statistical techniques. In order to analyze the data and draw conclusion in this study, various statistical tools like Descriptive Statistics and One-Way ANOVA have been applied using through SPSS Software.

## **5. DATA ANALYSIS AND INTERPRETATION**

### **TOTAL AMOUNT OF PRIORITY SECTOR**

Priority sectors are those sectors that the Government of India and Reserve Bank of India (RBI) consider as important for the development of the basic needs of the country and are to be given priority over the other sectors. A bank entity needs to lend 40 percent of the Adjusted Net Bank Credit (ANBC) to the so-called priority sector or

economically weaker sections such as agriculture, micro- enterprises and other economically disadvantaged sections.

Table 1 furnishes the details about the total amount of lending by Indian commercial banks in the selected five regions.

**TABLE1**

**STATEMENT SHOWING THE TOTAL AMOUNT OF PRIORITY SECTOR LENDINGS (PSL) IN FIVE DIFFERENT REGIONS**

(Rs.in Crore)

<b>YEARS</b>	<b>PSL BY NORTH REGION</b>	<b>PSL BY NORTH EASTERN REGION</b>	<b>PSL BY CENTRAL REGION</b>	<b>PSL BY EASTERN REGION</b>	<b>PSL BY WESTERN REGION</b>
<b>2015-2016</b>	511663.2	31107.43	330075.81	233125.25	750578.16
<b>2016-2017</b>	526661.92	34866.4	362063.1	245252.73	836885.09
<b>2017-2018</b>	558246.29	36419.9	4017181.16	264067.72	981295.1
<b>2018-2019</b>	647800.71	47970.83	470156.4	317812.84	1180978.44
<b>2019-2020</b>	662238.83	47533.56	4721179.17	347833.94	1293320.33
<b>2020-2021</b>	716151.43	55173.62	512121.96	372611.58	150330.38
<b>2021-2022</b>	809513.85	54810.23	577260.19	391285.61	1599092.46
<b>AVERAGE</b>	633180	43983	1570000	310280	970350
<b>S.D.</b>	108600	9806.98	1924810	63549.39	462359
<b>C.V. (%)</b>	17.15	22.29	122.59	20.48	43.65

**SOURCE:** Statistical Tables Relating to Banks in India RBI.

It is evident from the table that the amount of priority sector lending by the commercial banks in North Region from Rs.511663.2 crore in 2015- 2016 to Rs. 809513.85 crore in 2021- 2022. The boost ups over the period was 1.6 times. In the case of North Eastern Region, the amount of priority sector lending is Rs.31107.43 crore in 2015- 2016 went up to Rs.54810.23crore in 2021- 2022.The hike over the period was 1.8 times. The amount of priority sector lending in the Central Region Rs. 330075.81crore in 2015- 2016 increased to Rs.577260.19 in 2021- 2022.The hike over the period was 1.7 times. The total amount of priority sector lending in the Eastern Region from Rs.233125.25 crore in 2015-2016 which further amplified to Rs. 391285.61crore in 2021-2022. The hike over the period was 1.7 times, and the total amount of priority sector lending in the Western Region from Rs.750578.16 crore in 2015- 2016 which further increased to Rs.1599092.46 crore in 2021- 2022.

By comparing the performance in terms of mean values for the period, it has been noted that the average is very high in case of Central Region because of the mean value is 1570000. Next is the place of Western Region whose mean

value is 970350 and it is lowest in the case of Eastern Region as the mean value is 310280. The degree of variation is low in North Region as the CV(%) is 17.15 and the variation is very high in case of Central Region as the percent of CV is 122.59. It is found to be more consistent as the percent of CV of the North Region is 17.15 which is less than that of other regions.

In order to examine the differences in the performance of total priority sector lending among the five regions (groups), One-Way ANOVA tool was performed and for which the below mentioned hypotheses have been formed and tested.

**H<sub>0</sub>: Variances of five groups is equal (Null Hypothesis)**

There is no variation in the performance of total amount of Priority Sector Lending (PSL) among the five regions;

**H<sub>1</sub>: Variances of five groups is not equal (Alternative Hypothesis)**

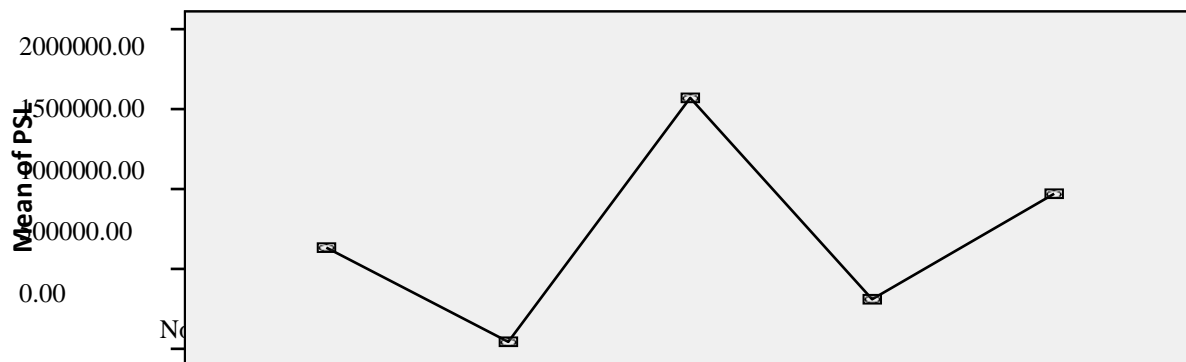
There is a variation in the performance of total amount of Priority Sector Lending (PSL) among the five regions. The test results are given in the following Table 2.

**TABLE 2**  
**ANOVA**

PSL					
	Sum of Squares	df	Mean Squares	F	Sign.
Between Groups	9.916E12	4	2.479E12	3.150	.028
With in Groups	2.361E13	30	7.869E11		
Total	3.352E13	34			

F-value is the ratio between-groups mean square and within-group mean square. The F ratio in this case equals 3.150 and its associated p-value (sig.) is reported as .028 (which is less than the .05 alpha level). This means there is a statistically difference between the means of the groups.

**Means Plots**



## Region

A closer examination of the Mean Plot reveals that performance in terms of the priority sector lending by the Eastern Region is high when compared with other regions.

**AGRICULTURE**

The Priority Sector Lending (PSL) norms, which facilitate credit service to economically weaker sections, were brought in by the central bank to promote business and entrepreneurship among those sections. Sections like agriculture micro, small and medium enterprises, export credit, education, housing, social infrastructure, renewable energy, etc., are included for lending purposes under PSL. According to the norms, a set target of 40 percent of the adjusted net bank credit or in simple words, advances, of a banking entity should be made towards the sectors what has been prescribed under PSL. The total amount of priority sector advances to the agriculture in the five regions is demonstrated by commercial banks in Table 3.

**TABLE 3****STATEMENT SHOWING THE TOTAL AMOUNT OF PRIORITY SECTOR LENDING (PSL) TOWARDS THE AGRICULTURE IN THE FIVE DIFFERENT REGIONS****( Rs. In Crore)**

<b>YEARS</b>	<b>NORTH REGION</b>	<b>NORTH EASTERN REGION</b>	<b>CENTRAL REGION</b>	<b>EASTERN REGION</b>	<b>WESTERN REGION</b>
<b>2015-2016</b>	212499.53	10931.77	152546.5	83979.11	305703.28
<b>2016-2017</b>	218181.18	12688.35	173643.79	85419.63	344657.17
<b>2017-2018</b>	227714.81	13644.41	185320.4	94922.24	393515.39
<b>2018-2019</b>	238111.08	15524.64	204802.07	102977.06	492244.2
<b>2019-2020</b>	238746.52	14160.96	200966.97	115232.03	547717.59
<b>2020-2021</b>	263854.64	15456.81	213217.22	119993.81	635767.8
<b>2021-2022</b>	280479.3	13350.91	232206.51	131473.96	681545.89
<b>TOTAL</b>	1679587.06	95757.85	1362703.46	733997.84	3401151.32
<b>AVERAGE</b>	233940	13680	194670	104860	485880
<b>S.D.</b>	24481.3	1604	26455.01	18079.26	144657
<b>C.V.( %)</b>	10.5	12	14	17	30

**SOURCE:** Statistical Tables Relating to Banks in India RBI-Data Base.

It is very clear from the above table that the amount of PSL to agriculture by the commercial banks in North Region from Rs.212499.53 crore in 2015- 2016 to Rs. 280479.3 crore in 2021- 2022. The rise over the period was 1.3 times. In the case of North Eastern Region, the amount of PSL from Rs. 10931.77 crore in 2015- 2016 went up to

Rs.13350.91 crore in 2021- 2022. The amount of PSL in the Central Region from Rs.152546.5 crore in 2015- 2016 increased to Rs. 232206.51 crore in 2021- 2022. The rise over the period was 1.5 times. The total amount of PSL to agriculture by the Eastern Region from Rs. 83979.11 crore in 2015- 2016 which further greater than before to Rs. 131473.96 crore in 2021- 2022. The rise over the period was 1.6 times and the amount of PSL in agriculture in the Western Region from Rs. 305703.28 crore in 2015-2016 which further increased to Rs. 681545.89 Crore in 2021-2022 which shows a significant sign of growth.

By comparing the performance on the basis of the mean values for the period, it has been noted that the average is very high in case of Western Region, as the mean values are 485880. Next is the place of North Region whose mean value is 233940 and it is lowest in the case of North Eastern Region as the mean value is 13680. The degree of variation is very low in North Region as the C.V. (%) is 10.5 and the variation is very high in Western Region as the percent of CV is 30. Hence, North Region is found to be more consistent than that of the other four regions.

In order to examine the differences in the performance of total priority sector lending among the five regions (groups), One-Way ANOVA tool was employed and for which the under-mentioned hypotheses have been formed and tested.

**H<sub>0</sub>: Variances of five groups is equal (Null Hypothesis)**

There is no variation in the performance of total amount of Priority Sector Lending (PSL) among the five regions;

**H<sub>1</sub>: Variances of five groups is not equal (Alternative Hypothesis)**

There is a variation in the performance of total amount of Priority Sector Lending (PSL) among the five regions. Tables 4 demonstrate the results.

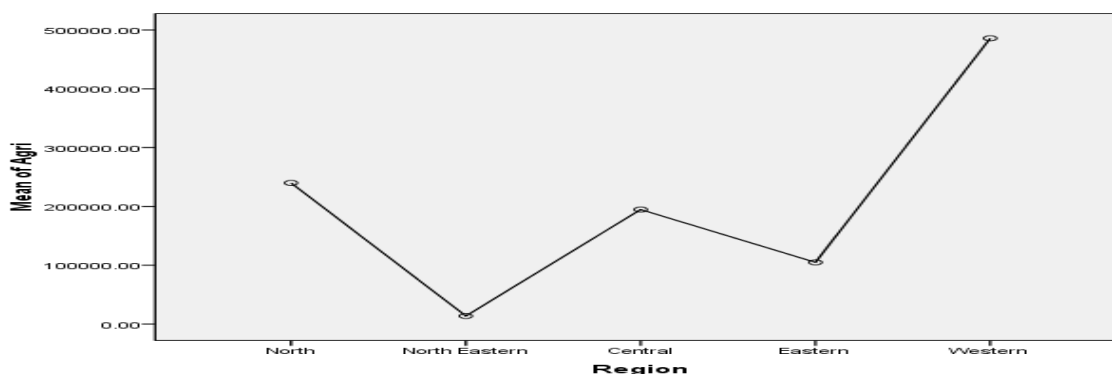
**TABLE 4**

**ANOVA**

<b>AGRICULTURE</b>					
	<b>Sum of Squares</b>	<b>df</b>	<b>Mean</b>	<b>F</b>	<b>Sign.</b>
Between Groups	8.877E11	4	2.219E11	49.197	.000
With in Groups	1.353E11	30	4.511E9		
Total	1.023E12	34			

F-value is the ratio between-groups mean square and within-group mean square. The F ratio in this case equals 49.197 and its associated p-value (sig.) is reported as .000 (which is less than the .05 alpha levels). This means there is a statistically difference between the means of the groups.

**Means Plots**



Mean plot exhibits that performance in terms of the priority sector lending by the western region is high when compared with other regions.

**TABLE 5**

**STATEMENT SHOWING THE TOTAL AMOUNT OF PRIORITY SECTOR LENDING (PSL) TOWARDS THE MICRO, SMALL AND MEDIUM ENTERPRISES (MSME) IN THE FIVE DIFFERENT REGIONS**

**(Rs. In Crore)**

YEARS	NORTH REGION	NORTH EASTERN REGION	CENTRAL REGION	EASTERN REGION	WESTERN REGION
2015-2016	227679.64	15510.58	128051.21	108150.94	267708.07
2016-2017	234493.06	17133.05	134946.65	116398.68	303132.44
2017-2018	266676.37	17597.66	159302.85	128630.97	364138.04
2018-2019	321531.62	25574.63	194621.55	165564.46	454823.11
2019-2020	313937.8	26853.42	199583.46	176644.8	527887.73
2020-2021	351158.5	30674.74	223058.4	192411.96	629027.7
2021-2022	426805.69	28100.83	258959.89	205581.6	672316.25
<b>TOTAL</b>	2142282.68	161444.91	1298524.01	1093383.41	3219033.34
<b>AVERAGE</b>	306040	23064	185500	156200	459860
<b>S.D</b>	70393.18	6138.22	47663.45	38532.32	157616
<b>C.V.(%)</b>	23	27	26	25	34

**SOURCE:** Statistical Tables Relating to Banks in India RBI-Data Base.

Table 5 depicts that the amount of PSL to MSME’s by the commercial banks in a north region from Rs.227679.64 crore in 2015-2016 to Rs.426805.69 crore in 2021- 2022; the amount of PSL to MSME’s of north-eastern region from Rs. 15510.58 crore in 2015- 2016 increased to Rs. 28100.83 crore in 2021- 2022. The amount of PSL to MSME’s in the Central Region from Rs. 128051.21 crore in 2015-2016 which increased to Rs. 258959.89 crore in 2021- 2022. The increase over the period was 2.02 times. The total amount of PSL to MSME’s in the Eastern Region from Rs. 108150.94 crore in 2015- 2016 and further amplified to Rs. 205581.6 crore in 2021- 2022 and the total amount PSL of MSME’s in the Western Region from Rs. 267708.07 crore in 2015- 2016 which further increased to Rs. 672316.25 crore in 2021- 2022.

By comparing the performance on the basis of the mean values for the period, it has been noted that the average is very high in case of Western Region, as the mean values 459860. Next is the place of North Region whose mean value is 306040 and it is lowest in the case of North Eastern Region as per the value is 23064. The degree variation is very low in North Region, as the C.V. (%) is 23 and the variation is very high in case of Western Region as the percent of C.V.(%) is 34. It is found to be more consistent as the percent of CV of the North Region is less than that of other four regions.

In order to examine the differences in the performance of total priority sector lending among the five regions (groups), One-Way ANOVA tool was employed and for which the under-mentioned hypotheses have been formed and tested.

**H<sub>0</sub>: Variances of five groups is equal (Null Hypothesis)**

There is no variation in the performance of total amount of Priority Sector Lending (PSL) among the five regions;

**H<sub>1</sub>: Variances of five groups is not equal (Alternative Hypothesis)**

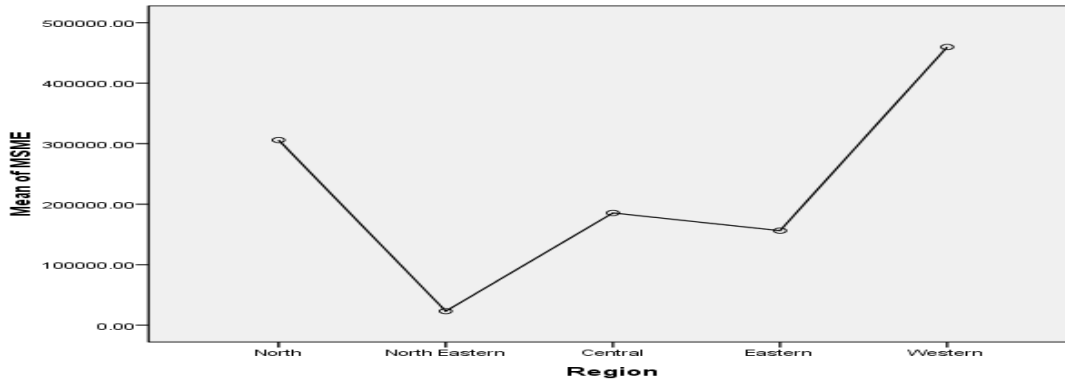
There is a variation in the performance of total amount of Priority Sector Lending (PSL) among the five regions. Table 6 portrays the results.

**TABLE 6**  
**ANOVA**

MSME’s					
	Sum of Squares	df	Mean	F	Sign.
Between Groups	7.616E11	4	1.904E11	28.338	.000
With in Groups	2.016E11	30	6.718E9		
Total	9.631E11	34			

F-value is the ratio between-groups mean square and within-group mean square. The F ratio in this case equals 28.338 and its associated p-value (sig.) is reported as .000 (which is less than the .05 alpha levels). This means there is a statistically difference between the means of the groups.

### Means Plots



Mean Plot discloses that performance in terms of the priority sector lending (MSME) by the Western Region is high when compared with other regions in the study.

### FINDINGS OF THE STUDY

- Total amount of priority sector lending by the commercial banks of the selected five regions reveals that the central regions performed well as the average of PSL is found to be high.
- The study divulges that there is a significance variation of total amount of PSL disbursed among the selected five regions.
- As far as the amount of PSL disbursed to the agricultural sector in the selected five regions is concerned, western region has deployed maximum amount of PSL as the average shows high. There is a significance difference of total amount of PSL disbursed among the selected five regions that is what the statistical tools portrayed.
- The study visualized that the amount of PSL disbursed to MSME's, western region has deployed maximum amount of PSL when compared to the other four regions. It is proved with the help of statistical tool that there is a significance difference of total amount of PSL disbursed among the selected five regions during the period of study.

### CONCLUSION AND RECOMMENDATIONS

Considering the present scenario of exiguity of studies in literature on the trend of PSL among the regions, this research paper is a small attempt to explore such area. It has been observed that that some of the regions have performed well and not all the regions. On the basis of the study result, some recommendations can be offered to the Government and the policy-makers that Government should move early towards policy making and also should have path the way for smooth and speedy mobilization of funds for priority sectors for the ST development of an economy.

### LIMITATIONS OF THE STUDY

The data are based on historical accounting concept, which ignores the impact of inflation. The result is based on secondary data that has its own limitations.

### SCOPE OF FURTHER FUTURE OF STUDY

The research paper and its findings may be considerable use to banking organizations, policy- makers and academic and researchers in the area of priority sector lending.

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