BANKWISE PRIORITY SECTOR LENDING IN INDIA

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ABSTRACT

The present paper mainly analyses the trend of PSAs by Public, Private and Foreign Banks from 1969 to 2011. After nationalisation of the Banks directed lending to certain sectors, such as, Agriculture, SSIs and weaker section and others, collectively known as Priority Sector was emphasized. Under this Sectoral and Sub-sectoral targets have been laid down from time to time, with the aim of upliftment of these sectors and to bring about a balanced development of the country. The comparative analysis of main categories of SCBs has been carried out to find out whether the aims of the policy have been met. If not, what are the gaps and how these lacunae can be overcome.

KEYWORDS- *Foreign Banks, Nationalisation, Priority Sector Advances, Public and Private Banks*

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1. INTRODUCTION

Adequate and cheap credit is a boon for the economic development of a country. Economic progress can easily be achieved by providing credit to farmers, industries, traders and business. The banks play a very crucial role in the process of economic development of any country that is why the availability of banking infrastructure is considered as pre condition for rapid and balanced development of the country. The impact of banking system on economic growth can be seen by enhancing resources to those sectors which are employment intensive and have greater contribution to GDP (Gross Domestic Product) of the country. The government of India through Reserve Bank of India (RBI) mandates certain type of lending on the banks operating in India to those Sectors which are neglected by the banks and cannot afford to pay high rate of interest due to their weak position. This type of sectors fall under the category of priority sectors and lending to those sectors are called priority sector lending. Financing of small scale industry, small business, agricultural activities, export activities & small transport operators fall under this category. In course of time, other priority sectors were also included such as retail trade, professional and self employed persons, education, housing loans for weaker sections and consumption loans.

2. Concept of Priority Sector Lending

The concept of priority sector lending is mainly intended to ensure that assistance from the banking sector flows in an increasing manner to those sectors of the economy which inspite of its greater contribution to national product, have not received adequate support of institutional finance in the past. Directed credit programme involving loans on preferential terms and conditions to priority sector was a major tool of development policy in both developed and developing countries in the 1960s, 1970s and mid-1980s. In India, the origin of priority sector prescriptions can be traced back to the credit policy for the year 1967-68, wherein it was emphasised that commercial banks should increase their involvement in the financing of priority sectors,, viz., agriculture, exports and small-scale industries as a matter of urgency. As a result of shortfall in agricultural output & slowing down of industrial production, severe imbalances had developed in the economy in 1965-66 & 1966-67. To overcome these imbalances, the government of India initiated measures for social control over banks in 1967-68, to extend the reach of bank credit to agriculture and other neglected sectors designated as priority sectors and for the better adaptation of the banking system to fulfill the needs of economic planning. One of the objectives of nationalisation of Banks was to ensure that no viable sector should suffer for lack of credit, whether the borrower was big or small. Thus the concept of priority sector was evolved to ensure that assistance from the banking system flowed in an increasing manner to the vital sectors of the economy and according to national priorities.[1]

At the second meeting of the National Credit Council held on July 24, 1968, it was emphasised that commercial banks should increase their involvement in financing of the priority sectors, viz., agriculture and SSI as a matter of urgency. In that context, a list containing various types of agricultural advances, which would qualify for the purpose, was prepared and forwarded to banks in March 1969. As regards SSI, no separate guidelines were issued, but it was indicated that direct loans given to road-transport operators, including operators of taxis and auto rickshaws (original book value of whose investment is less than Rs 7 lakh) and loans for setting up industrial estates would also qualify. The social control measures became formally effective in 1969. The nationalisation of the 14 major commercial banks in July 1969 led to a considerable reorientation of bank lending, especially to the priority sectors of the economy, which had not previously received sufficient attention from the commercial banks. It gave an impetus to the process of reallocation of banking resources to suit the socio-economic needs of the country. There was a greater involvement of banks in these and other socially desirable sectors. Moreover, institutional credit facilities at reasonable rates of interest were extended to a large number of borrowers of small means such as small farmers, small-scale manufacturers, retail traders, road transport operators, small businessmen, professionals and self-employed persons, and also for education. One of the objectives of nationalisation of 14 major commercial banks was to ensure that no viable productive endeavor should falter for lack of credit support, irrespective of the fact whether the borrower was big or small. Thus, the concept of priority sector lending was evolved further to ensure that assistance from the banking system flowed in an increasing measure to the vital sectors of the economy and according to national priorities. Priority sector plays an important role in the economic development of the country. Therefore, the Central (Federal) Government of any country gives this sector priority (first preference) in obtaining loans from banks at a low rate of interest. This is known as a ‘Priority Sector Lending.

2.1 Targets and Sub- targets for PSL

Targets and sub-targets under various priority sectors for different categories of banks have been reviewed and revised periodically. The present targets and sub- targets for PSL have been summarised in the table given below:

Table 1: The Targets and Sub-targets Set under PSL for Domestic and Foreign Banks Foreign Banks

	Domestic commercial banks	Foreign banks
Total Priority Sector advances	40 per cent of Adjusted Net bank credit (ANBC) or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.	32 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.
Total agricultural advances	18 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.	No target.
	Of this, indirect lending in excess of 4.5% of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher, will not be reckoned for computing performance under 18 per cent target. However, all agricultural advances under the categories 'direct' and 'indirect' will be reckoned in computing performance under the overall priority sector target of 40 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.	
SSI advances	Advances to SSI sector will be reckoned in computing performance under the overall priority sector target	10 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.

	of 40 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.	
Micro enterprises within SSI	40 per cent of total SSI advances should go to units having investment in plant and machinery up to Rs 5 lakh, 20 per cent of total SSI advances should go to units with investment in plant & machinery between Rs 5 lakh and Rs. 25 lakh (Thus, 60 per cent of SSI advances should go to the micro enterprises).	Same as for domestic banks.
Export credit	Export credit is not a part of priority sector for domestic commercial banks.	12 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.
Advances to weaker sections	10 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.	No target.
Differential Rate of Interest Scheme	1 per cent of total advances outstanding as at the end of the previous year. It should be ensured that not less than 40 per cent of the total advances granted under DRI scheme go to scheduled caste/scheduled tribes. At least two third of DRI advances should be granted through rural and semi-urban branches.	No target.

Note: [ANBC or credit equivalent of Off-Balance Sheet Exposures denotes the outstanding as on March 31 of the previous year. For this purpose, outstanding FCNR (B) and NRNR deposits balances will no longer be deducted for computation of NBC for priority sector lending purposes. For the purpose of priority sector lending, Adjusted NBC (ANBC) denotes NBC plus investments made by banks in non-SLR bonds held in HTM category.]

Source: *http://www.rbi.org.in/scripts/publicationDraftReports.aspx?ID=488 (08 Nov 2006)*

There have been several changes in the composition of priority sector over the years. At present, the priority sector comprises agriculture, Micro and Small Enterprises, Micro Credit, Education, State sponsored Organisations for SC/ST for purchase and supply of inputs and marketing of outputs, Housing, SSI and other segments such as small business, retail trade, small road and water transport operators, professional and self-employed persons, housing, education loans, micro credit, software, etc.[2]

3. Literature Review

Joshi (1972) has suggested to RBI to give clear & specific definition of the different components of priority sector as some of the bankers are not clear about the scope of agricultural lending.[3]The Working Group on the Modalities of Implementation of the Priority Sector Lending recommended that out of the advances to priority sector, at least 40 per cent should be extended to agriculture sector by each bank. It also specified that out of total direct lendings under agriculture; at least 50 per cent should be to the weaker sections (small and marginal farmers and landless labourers and persons engaged in allied activities with borrowal limts not exceeding Rs 10,000). Housing loans upto Rs 5000 for construction of houses for SC/ST and weaker sections, assistance to any governmental agency for construction of houses for SC/ST and low-income groups (where loan component does not exceed Rs 5000 per unit) and pure consumption loans granted under the Consumption Credit Scheme was recommended for inclusion in priority sector. It also recommended that decision to increase the share of priority sector targets for public sector banks, should be applicable for private banks in the same way.[4]

The working Group on the Role of Banks suggested that the existing target of 40 per cent of total credit to priority sector should remain unchanged. The Group suggested a target of 14 per cent of total bank credit for direct finance to agriculture and allied activities against the existing target of 16 per cent for both direct and indirect finance. It suggested that definition of weaker sections should include artisans, village and cottage industries and beneficiaries of IRDP and DRI scheme and SCs/STs and advances to weaker sections should account for 25 per cent of priority sector lending by March 1985.[5]Angadi (1983) analyses that because of rapid branch expansion, deposit mobilization, privileged cropped area, and adoption of high yielding variety, the concentration of PSL and agriculture advances is more in some states.[6] Joshi (1986) identified weak fund management capacity of banks due to SLR, CRR & PSL .He found that the low yield rate & rising cost contributed a lot to the declining trend in profitability of banks.[7] Singh (1987) identified many exogenous and endogenous factors contributed a lot to the declining trend in profitability of banks. Continuous increase in the SLR, CRR, emphasis on social goals, growing incidence of industrial sickness, rapid branch expansion in under banked areas are the factors responsible for low profitability of banks.[8] Muhammad Yunus (1988) identified that instead of blaming the defaulters the emphasis should be on proper loan recovery mechanism.[9]Chawala (1988) in his book has revealed that the pace of PSL of commercial banks has received impetus since nationalization. As per the analysis of 20 states, the aggregate PSA in Punjab went up more than 40 times during 1969-80. During the same period total credit in the state rose eleven times. The growth rate during the reference period turned out to be 40.16 percent p.a. The comparative position of Punjab state in the P.S. vis-à-vis other states in Indian union were fairly good. The percent share of PSA to total advances in Punjab was the third highest, the first two being Jammu & Kashmir and Haryana in India. In 1980, Punjab relative position continued to be the same. Lending to P.S. in Punjab has got an important place since nationalization of 14 commercial banks. It has continued to grow at a fast rate even after crossing the target of 40 percent.

Sector-wise growth of commercial banks credit to Priority Sector revealed that bank credit to various constituents of Priority Sector during 1972-82 in Punjab grew significantly, but among all the constituents of PS, sectors like agriculture, the self employed and professional and transport operators grew faster than sectors like small industry and retail trade. During the study period the advances to agriculture and allied activities grew almost 37 times and those to the transport operators 54 times. Although advances to small scale industries grew 6.5 times only, this was slightly better than the growth of advances to the total industrial sector which was only five times.[10] Rangarajan (1991) efficiency of banking system can be improved with the improvement in the quality of loan assets.[11] The Narasimham committee (1991) has suggested that the priority sector should be redefined. It proposed that priority sector should be redefined to comprise the small and marginal farmer, the tiny sector of industry, small business and transport operators, village and cottage industries, rural artisans and other weaker sections and priority sector should be 10 per cent of aggregate credit. The Narsimham 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 target of 40 percent of all credit to priority sector should be stopped.[12] Rajagopal (1994) suggested that concessional credit or low rate of interest should be restricted only to the poorest of the poor and to the underprivileged sections of the society and recommended that commercial rate of interest should be charged from those who can afford it.[13]The committee of Gupta had analysed that the target of 18 percent for lending to agriculture was fixed when the reserve requirements were 63 percent but the total lendable resources of banks have increased due to progressive reduction of the reserve requirements over the years. The committee suggested that to maintain the same share, the banks have to double their lending to agriculture because the base on which the target of 18 percent was calculated had doubled. The committee further analysed that the system of fixing targets on outstanding had its drawbacks; outstanding decrease with improved recoveries, as was the case between 1991 and 1995, when recoveries went up from 48.8 per cent to 59.5 per cent.. The committee suggested that banks should set targets for themselves for agricultural lending based on the flow of credit. They needed to prepare Special Agricultural Credit Plans (SACPs), with Reserve Bank indicating every year the expected increase in the flow of credit over the previous year. The committee felt that once such plans were put in place, the 18 percent target based on outstandings would cease to have much relevance.[14] Patel (1996) in his paper realized that without strengthening the hold of commercial banks in the backward & neglected areas, economic development & the balanced development were not possible.[15] Kohli (1997) has suggested that inspite of the fact that directed credit programme for PSL is effective in India; support to small scale units is required.[16] Ajit (1997) examined the issue of para banking activities & suggested that bank should be allowed to undertake these activities, particularly use of capital as risk, from the experience of other countries like USA.[17]

The Narasimham committee (1998) observed that directed credit had led to an increase in non- performing loans and had adversely the efficiency and profitability of banks. It was observed that 47 percent of all NPAs have come from the priority sector. At the same time, the committee also accepted that a sudden reduction of priority Sector targets could have the danger of a disruption in the flow of credit to these sectors. In its report, the committee recognized that the small and marginal farmers and the tiny sector of industry and small businesses have problems with regard to obtaining credit and some earmarking may be necessary for this sector. Under the present dispensation, within the priority sector, 10 percent of NBC is earmarked for lending to weaker sections.

The Committee recommended that given the special needs of this sector, the current practice may continue. The Committee also proposed that given the importance and needs of employment oriented sectors (like food processing and related service activities in agriculture, fisheries, poultry and dairying), these sectors should also be covered under the scope of priority sector lending. It, however, recommended for the removal of concessional rates of interest on loans up to Rs 2 lakh and a phased moving away from overall priority sector targets and sub-sector targets. Debt securitisation concept was suggested within the priority sector. This would enable banks, which are not able to reach the priority sector target, to purchase the debt from other institutions.[18]

Department of Banking supervision (1999) studied the impact of priority Sector advances on NPAs & found that NPAs in priority Sector is much higher.[19] Puhazhendhi and Jayaraman (1999) argued that accelerating the pace of capital formation in public sector, remunerative prices for agricultural produce, infrastructure development with focus on transportation, marketing and other post-harvest facilities etc. would enable the rural sector to absorb more credit from institutional sources. It also feels that ensuring credit discipline through a ban on loan waiver would help in effective recycling of funds and creating a conducive environment for lending.[20] The technical group on computation of Priority Sector lending recommended that the PSL targets could be linked to the previous year's NBC & upscale by the estimated growth in credit during the year. The technical group also recommended withdrawal in a phased manner of the facility of exclusion of FCNR (B)/NRNR deposits from NBC for computation of priority sector lending targets.[21] Vyas committee (2001) observed that commercial Banks seem to have shied in extending rural credit as they are dealing vast number of small accounts. The Committee recommended that the mandated rates of 18 per cent of credit outstanding for agricultural loans and 40 per cent for priority sector loans should be reviewed after five years. It also recommended a substantial reduction in RIDF interest rates to cover the interest cost of deposits. The committee suggested retaining the upper limit of 4.5 per cent on indirect credit while reckoning the achievement of 18 per cent target for agricultural lending.[22]

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 due to accumulation of losses in public Sector Banks on account of high NPAs.[23] Niranjana & Anbumami (2002) analyses that due to highly subsidised lending rates, there is curiosity among the Bankers that the advances to Priority Sector resulted in a loss of interest income.[24]Shete (2002) analyses that PSBs are not able to reach the prescribed target of lending to Priority Sector during the post reform years.[25]

4. Priority Sector Advances by Scheduled Commercial Banks in India

The Scheduled Commercial Banks consists of Public, Private, Foreign and Regional Rural Banks. Table 2 indicates the PSAs by Scheduled Commercial Banks. The outstanding advances granted by Scheduled Banks to the Priority Sector increased from Rs 504 crore (14 % of bank credit) in 1969 to Rs. 1239386 crore (31.4% of bank credit) in 2011. The setting up of lending targets for priority sector as a whole, and sub-targets for major sectors, has had a very positive impact on the channeling of credit to neglected sectors of the economy while giving ample access to small borrowers in institutional credit. Thus, whereas, in 1969 bank credit extended to priority sectors was Rs 504 crore out of a total net bank credit of Rs.3,599 crore, i.e. 14 per cent, the share of priority sector bank lending had increase to Rs 38086 crore (42.8 per cent) out of a total net bank credit of Rs. 89080 crore by 1989. The best year in terms of the share of priority sector lending was 1989 when 42.8 per cent of total bank lending was accounted for by the priority sector (Table 2).

However, the nationalisation of banks in 1969, introduction of Regional Rural Banks (RRBs) and priority sector lending has had the desired impact in stepping up the supply of credit to priority sector. The percentage of priority sector lending to net bank credit has increased immediately after Nationalisation and it was highest in 1989 (42.8 percent), but the percentage of priority sector lending to net bank credit has continuously decreased after reforms till 2003. The growth rate of priority Sector lending has increased immediately after nationalisation to 27.90% after that it became moderate and then decreased after reforms from 20.49% in 1989 to 13.50% in 2002. The growth rate of Bank credit was highest in 2005-06 (39.58%). One of the important contributing factors to the rapid growth rate of PSL during the period was the policy decision to slash CRR and SLR to increase the availability of funds to the banking sector.

Table 2: Priority Sector Advances by Scheduled Commercial Banks

Years	Bank Credit (Rs crore)	Growth rate of Bank Credit %	Priority Sector Advances (Rs crore)	Growth rate of PSA %	Share in NBC %
1969	3599	-	504	-	14.0
1979	19116	18.17	5906	27.90	30.9
1989	89080	16.64	38086	20.49	42.8
1999	339477	14.31	114611	11.65	33.8
2000	398205	17.30	131827	15.02	33.1
2001	467206	17.33	154414	17.13	33.1
2002	535063	14.52	175259	13.50	32.8
2003	668576	24.95	211609	20.74	31.7
2004	763855	14.25	263834	24.68	34.5
2005	1005235.9	31.60	381476	44.59	37.9
2006	1403126.3	39.58	510738	33.88	36.4
2007	1801603.3	28.40	635966	24.52	35.3
2008	2204660.7	22.37	748073	17.63	33.9
2009	2601948.8	18.02	932459	24.65	35.8
2010	3244788	24.71	1092179	17.13	33.7
2011	3942083	21.49	1239386	13.48	31.4

Source: Economic Survey, Various issues.

The CRR declined from 15 per cent of demand and time liabilities in 1991 to 5.0 per cent in 2005, while the SLR declined from 38.5 per cent to 25 per cent during the same period. Besides, the borrowing from RBI was stepped up after 1991 to facilitate more funds to the Scheduled Commercial Banks (SCBs) (table 2)

4.1 Priority Sector Advances by Public Sector Banks

A Public Sector Bank is a bank that is owned by the national government. The government owns and controls the banks operations. The chairman, managing director and other senior officials of the bank are answerable to the ruling government regarding their functions and operations. They are also called Nationalised Banks or Public Banks. For example, State Bank of India, Indian Bank, Indian Overseas Bank are all famous nationalized/government owned banks in India. [26] Table 3 provides the data on priority Sector advances by the public sector banks.

The outstanding advances granted by public sector banks to the Priority Sector increased from Rs.441 crore (14.6 percent of bank credit) in 1969 to Rs. 1021495 crore (41 percent of bank credit) in 2011. The outstanding advances granted by public sector banks to the priority sector were Rs. 863778 crore in 2010 (41.6% of net bank credit) as compared with 1969 when it was 441 crore i.e. 14.6% of net bank credit. The outstanding priority sector advances of public sector banks, which increased by 27.2 per cent during 2006-07 as compared with 33.4 per cent in 2005-06, constituted 39.7 per cent of net bank credit against the target of 40 per cent (table 3).

Table 3: Priority Sector Advances by Public Sector Banks

Years	NBC (Rs. crore)	Growth rate of NBC %	Priority sector advances (Rs. crore)	Growth rate of PSA %	Share in NBC %
Jun-69	3017		441	_	14.6
Jun-79	16233	18.3	5210.85	28	32.1
Jun-89	78,178	17	34,874	21	44.6
Mar-99	265554	11.6	104094	12	39.2
Mar-00	316427	22.5	127478	22.5	40.3
Mar 01	341291	17	149116	17	43.7
Mar 02	394064	15	171485	15	43.5
Mar 03	485271	16.5	199786	16.5	41.2
Mar 04	560819	22.4	244456	22.4	43.6
Mar 05	717419	25.6	307046	25.6	42.8
Mar 06	1017656	33.4	409748	33.4	40.3
Mar 07	1313840	27.2	521376	27.2	39.7
Mar 08	1364268	16.8	608963	16.8	44.6
Mar 09	1693437	18.2	720083	18.2	42.5
Mar 10	2078397	20	863778	20	41.6
Mar 11	2493499	18.3	1021495	18.3	41

Source: Report on Trend and Progress of Banking in India, Various issues

PSBs, as a group, continued to meet the target from 2000 to 2006 (table 3). Priority sector lending by the PSBs, as a group, however, marginally fell short of the target of 40 per cent by 0.3 per cent in 2007.The outstanding priority sector advances of PSBs increased by 18.2 per cent during 2008-09 as compared to 16.8 per cent during 2007-08 and formed 42.5 per cent of adjusted net bank credit (ANBC) in 2009.

4.2 Priority Sector Advances by Private Sector Banks

All those banks where greater parts of stake or equity are held by the private shareholders and not by government are called "private-sector banks". These are the major players in the banking sector as well as in expansion of the business activities India.

There are two categories of the private-sector banks: "old" and "new".

The old private-sector banks have been operating since a long time and may be referred to those banks, which are in operation from before 1991 and all those banks that have commenced there business after 1991 are called as new private-sector banks. Example: Axis Bank, HDFC Bank and ICICI Bank [27]

Table 4 gives the data on Priority Sector Advances by Private Sector Banks in India. The outstanding advances to Priority Sector by Private Sector Banks has increased to Rs. 215552 crore (46 percent of NBC) in 2010 from 1422 crore in 1989 (37 percent of NBC). Table 4 indicates the priority Sector advances by the private Sector Banks. The outstanding advances granted by private Sector Banks to the Priority Sector increased from Rs.1421.93 crore (36.7 percent of bank credit) in 1989 to Rs. 1504 crore (35%of NBC) in 1990. The outstanding priority sector advances extended by private sector banks in 2010 were at Rs.215552 crore, constituting 45.9 per cent of NBC. The private sector banks, did not achieve the overall lending target of 40 per cent till 2001. The target was first achieved during 2002 and continued to achieve it till 2010. Total priority sector advances extended by private sector banks in 2002 amounted to Rs.25, 709 crore and constituted 41 per cent of the NBC as compared with Rs.21, 550 crore (38 per cent of NBC) a year ago. In the case of private sector banks, the priority sector advances increased by 16 per cent during 2008-09 as compared to 14 per cent during the last year and formed 47 per cent of ANBC in 2009.

Table 4: Advances by Private Sector Banks to Priority Sector

Years	NBC (in crore)	Growth Rate of NBC %	PSA (in crore)	Growth Rate of PSA %	% to NBC
1989	3874		1422	-	37
1990	4311	11	1504	6	35
1995	15659	29	4226	23	27
2000	48337	25	18368	34	38
2001	56414	17	21550	17	38
2002	62858	11	25709	19	41
2003	82669	32	36705	43	44
2004	103425	25	48920	33	47
2005	160289	55	69886	43	44
2006	249033	55	106586	53	43
2007	336944	35	144549	36	43

2008	343238	2	164068	14	48
2009	406425	18	190207	16	47
2010	469612	16	215552	13	46

Source: RBI, Report on Trend and Progress of Banking in India, Various issues

It is noteworthy that this increase in priority sector lending at an accelerated pace has come against the backdrop of general slowdown in the economy and a decelerating total bank credit. The rate of lending of Bank Credit as well of Priority Sector was highest in 2004-05 and 2005-06 at 43 percent and 53 percent respectively. The best year in terms of the share of priority sector lending was 2004 and then 2009 when 47 per cent of total bank lending was accounted for by the priority sector by Private sector Banks (table 4)

4.3 Priority Sector Advances by Foreign Banks in India

These banks are registered and have their headquarters in a foreign country but operate their branches in our country. Some of the foreign banks operating in our country are Hong Kong and Shanghai Banking Corporation (HSBC), Citibank, American Express Bank, Standard & Chartered Bank etc. The number of foreign banks operating in our country has increased since the financial sector reforms of 1991.[28] Table 5 indicate the Priority Sector Advances by Foreign Banks in India. Foreign banks operating in India have to achieve the target of 32.0 per cent of NBC for priority sector with sub-targets of 10 per cent of NBC for SSI and 12 per cent of NBC for exports.

The outstanding advances granted by Foreign Banks to the Priority Sector increased from Rs 741 crore (8 percent of bank credit) in 1992 to Rs. 60, 290 crore (35% of NBC) in 2010. Lending to priority sector by foreign banks at Rs.13, 414 crore constituted 34 per cent of NBC in March 2002. The outstanding priority sector advances by foreign banks, having offices in India, increased from Rs.741 crore (8 per cent of NBC)) as on the last reporting Friday of March 1992 to Rs 9934 crore as on the last reporting Friday of March 2000, constituting 35 per cent of net bank credit (Table 5)

Table 5: Advances by Foreign Banks to Priority Sector

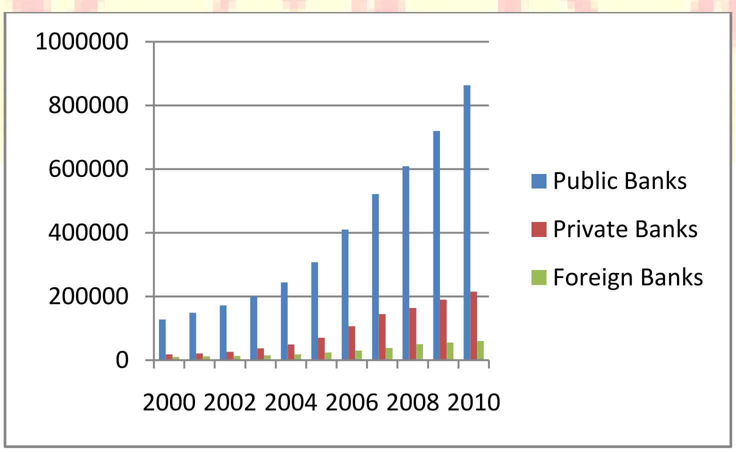
Years	NBC (Rs. crore)	Growth Rate of NBC %	PSA (Rs. crore)	Growth Rate of PSA %	% of PSA to NBC
1992	9324		741		8
1993	10619	14	947	28	9
1994	11574	9	2234	136	19
1995	15183	31	3136	40	21

1996	22497	48	4470	43	20
1997	16284	-28	6139	37	38
1998	20233	24	6940	13	34
1999	22351	10	8270	19	37
2000	28222	26	9934	20	35
2001	34809	23	11,835	19	34
2002	39453	13	13,414	13	34
2003	43799	11	14848	11	34
2004	52669	20	17960	21	34
2005	67544	28	23,843	33	35
2006	88485	31	30,439	28	34
2007	113266	28	37,831	24	33
2008	127225	12	50,254	33	40
2009	161758	27	55,483	10	34
2010	172257	6	60,290	9	35

Source: RBI, Report on Trend and Progress of Banking in India, Various issues

Foreign banks, as a group, have been achieving the overall priority sector lending target of 32 percent of NBC since 1997.Out of 29 foreign banks operating in India, five banks (Abu Dhabi Commercial Bank, Bank of Tokyo-Mitsubishi, Citibank, HSBC Ltd. and Mizuho Corporate Bank) could not achieve the priority sector lending target of 32 per cent of NBC as on the last reporting Friday of March 2007.[29]

Graph 1: A Comparative Analysis of Priority Sector Lending between Public, Private and Foreign Banks



Source: Based on data placed in table 3, table 4 and table 5

The best year in terms of the share of priority sector lending was 2008 when 40 per cent of total bank lending was accounted for by the priority sector. The Priority Sector has grown immediately after reforms from 28 percent in 1993 to 136 percent in 1994. In 1993-94 the growth rate of lending was only 9 percent but growth rate of PSL was 136 percent. It means that in 1993-94 Foreign Banks had lent more to Priority Sector as compared to other Sectors.

Comparing Priority Sector Lending between Public, Private and Foreign Banks shows that Public Sector banks had given more credit to Priority Sector as compared to both Private and foreign Banks (Graph 1). As is clear from the chart given above the contribution of foreign banks to PSL has been the least.

5. Conclusion

The percentage of SCBs in priority sector lending to net bank credit has increased immediately after nationalisation and it was highest in 1989 (42.8 percent), but the percentage of priority sector lending to net bank credit has continuously decreased after Reforms till 2003. Public Sector Banks as a whole continued to meet the target of 40 percent of net bank credit (NBC) from 2000 to 2011.

The private sector banks did not achieve the overall lending target of 40 per cent till 2001. The target was first achieved during 2002 and continued thereafter. The best year in terms of the share of priority sector lending was 2004 and then 2009 when 47 per cent of total bank lending was accounted for by the priority sector.

Foreign banks did not achieve the target of 32 percent of NBC till 1996 and continued to achieve the overall priority sector lending target of 32 percent of NBC since 1997. Out of these three categories of banks, the PSAs by PSBs have been highest throughout the selected period of the present Study.

At end-March 2010, domestic (public and private sector) and foreign banks had more than met their overall priority sector lending targets of 40 and 32 per cent, respectively. Regional Rural Banks had achieved more than the target from 1992 to 2009. Over the period of time PSA by RRBs has increased.

A Comparative Analysis of Priority Sector Lending between Public, Private and Foreign banks shows that Public Sector banks had given more credit to Priority Sector as compared to both Private and foreign Banks and the contribution of foreign banks to PSL has been the least.

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