

## CHAPTER 4

### PRIORITY SECTOR LENDING BY PUBLIC SECTOR COMMERCIAL BANKS IN INDIA AND ASSAM

#### 4.1. Deposits Mobilisation in India and Assam

Deposit mobilization is the first and foremost function of any commercial bank. Deposits are the life blood of banking system and account for about 98 percent of bank liabilities. The primary business of a bank is of institutionalising/mobilizing savings and utilizing it for lending purpose. Deposits of the banks indicate the saving potential of the people of any economy. The mobilisation of deposits by banks serves as the basis for capital formation and facilitates the process of economic development. After nationalisation of commercial banks, there was a rapid growth in the banking sector in India which led to increase in volume of deposits.

**Table 4.1: Deposits of Public Sector Banks in India and Assam**

Year	India		Assam	
	Amount (₹ in crore)	Annual Growth (%)	Amount (₹ in crore)	Annual Growth (%)
2006-07	1836422	--	23375.5	--
2007-08	2292900	24.86	27283.3	16.72
2008-09	2898602	26.42	33557.2	23
2009-10	3424763	18.15	43128.3	28.52
2010-11	4046971	18.17	51944.1	20.44
2011-12	4615800	14.06	59281.9	14.13
2012-13	5246957	13.67	64904	9.48
2013-14	6076020	15.8	73756.4	13.64
CAGR (%)	18.64		17.84	

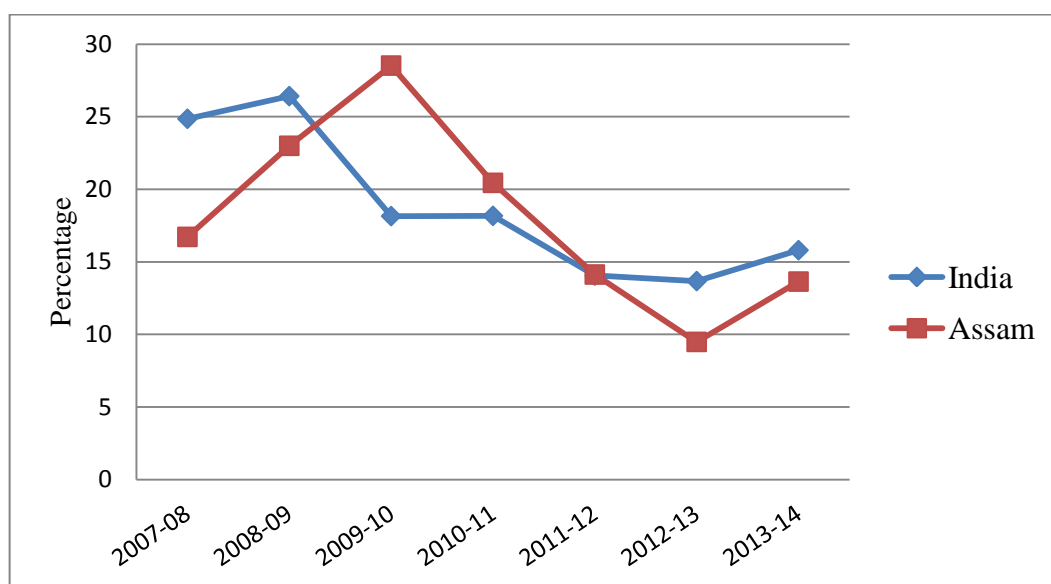
Source: Report on Trend and Progress of Banking in India, State Level Bankers Committee Report, Assam.

Table 3.1 exhibits the deposits of public sector banks in India and Assam for the period of 2006-07-2013-14. In India, deposits of public sector banks increased significantly from ₹ 1836422 crores in 2006-07 to ₹ 6076020 crores in 2013-14. During the study period the growth rate fluctuate in between 26.42 percent to 13.67 percent. The highest growth rate of 26.42 percent registered in the year 2008-09 and the lowest growth rate of 13.67 percent registered in 2012-13. Growth rate of deposits in India increased from 24.86 percent in 2007-08 to 26.42 percent in 2008-09 and thereafter it was continuously decreased to 13.67 percent in 2012-13.

In Assam, deposits of public sector banks increased significantly from ₹ 23375.53 crores in 2006-07 to ₹ 73756.36 crores in 2013-14. During the study period the growth rate ranges in between 9.48 percent to 28.52 percent. The highest growth rate of 28.52 percent registered in the year 2009-10 and the lowest growth rate of 9.48 percent registered in 2012-13. Annual growth rate of deposits has significantly increased from 16.72 percent in 2007-08 to 28.52 percent in 2009-10 and thereafter it has continuously decreased to 9.48 percent in 2012-13.

Annual growth of deposits in India is higher than that of Assam during the study period except 2009-10, 2010-11 and 2011-12. The above analysis indicates that the compound annual growth rate of deposits by public sector banks in India (18.64 percent) is higher than that of Assam (17.84 percent) by 0.80 percent. Hence, there is no high difference in the growth of mobilisation of deposits at the national as well state levels.

**Figure 4.1: Annual Growth rate of Deposits of Public Sector Banks in India and Assam**



#### **4.2. Deployment of Credit in India and Assam**

Credit deployment is the second important function of public sector commercial banks. They are the service institutions which supply lubricants in the form of loans and advances to agriculture, trade, commerce and industry of the country for their smooth running and growth. The banks should organise their lending function in such a way that it guarantees safety of deposits and proper circulation of credit to the advantage of growth of economy on the one hand and profitability of the bank on the other hand.

With the increasing role of commercial banks in capital formation, employment generation and production facilitation, the credit operations of commercial banks in general and the nationalised banks in particular are expected to channelize keeping in mind the requirements of the economic system. Table 4.2 exhibits the credit deployment by public sector banks in India and Assam for the study period of 2006-07 to 2013-14.

**Table 4.2: Credit Deployment by Public Sector Banks in India and Assam**

Year	India		Assam	
	Amount (₹ in crore)	Annual Growth (%)	Amount (₹ in crore)	Annual Growth (%)
2006-07	1377486	---	9892.79	---
2007-08	1702042	23.56	12587.5	27.24
2008-09	2102486	23.53	14128.2	12.24
2009-10	2513117	19.53	16651.2	17.86
2010-11	3056317	21.61	18773.6	12.75
2011-12	3551757	16.21	21714.5	15.66
2012-13	4054040	14.14	25225.6	16.17
2013-14	4481448	10.54	28503.5	12.99
CAGR (%)	18.36		16.32	

Source: Report on Trend and Progress of Banking in India, State Level Bankers Committee Report, Assam.

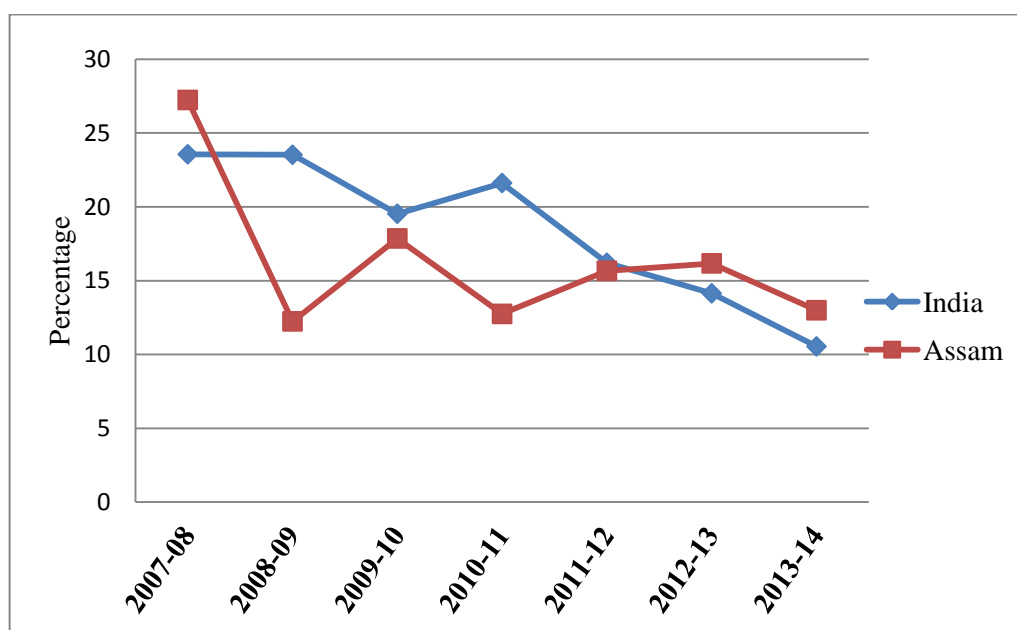
Credit deployment by public sector commercial banks in India has significantly increased from ₹ 1377486 crore to ₹ 4481448 crore during the study period. Though annual growth rate of credit deployment was positive during the reference period but it was significantly decreases during the period. Growth rate of credit was the highest (23.56 percent) in the year 2007-08 which was and the lowest (10.54 percent) in the year 2013-14. Compound annual growth rate of credit deployment during the period was 18.36 percent which was slight lower than the compound growth rate of deposits (18.64 percent).

In Assam, credit deployment by public sector commercial banks has increased from ₹ 9892.79 crore to ₹ 28503.46 crore during the study period. Though annual growth rate of credit deployment in Assam was positive during the reference period but it was fluctuating during the period. Growth rate of credit was the highest (27.24 percent) in the year 2007-08 and the lowest (12.24 percent) in the year 2008-09. Compound annual

growth rate of credit deployment during the period was 16.32 percent which was lower than the compound growth rate of deposits.

Compound annual growth rate of credit deployment by public sector banks in India (18.36 percent) is higher than that of Assam (16.32 percent) by 2.04 percent. Hence, there is no high difference in the growth of mobilisation of deposits at the national as well state levels.

**Figure 4.2: Growth rate of Advances by Public Sector Banks in India and Assam**



### 4.3. Credit Deposit Ratio of Public Sector Banks in India and Assam

Credit deposit ratio (CDR) is a useful tool to assess the performance of banking sector. It refers to the proportion of the credit sanctioned by banks in a region to the deposits collected in that region. In 1980, Reserve Bank of India (RBI) first advised to public sector banks to achieve a CDR of 60 percent in their rural and semi-urban branches. The CDR has become more important after nationalisation of banks to assess the extent of deployment of credit by commercial banks to benefit the society in general and targeted group in particular. The CDR expressed in terms of percentage reflects the trends of the flow of credit during the year.

**Table 4.3: Credit Deposit Ratio of Public Sector Banks in India and Assam**

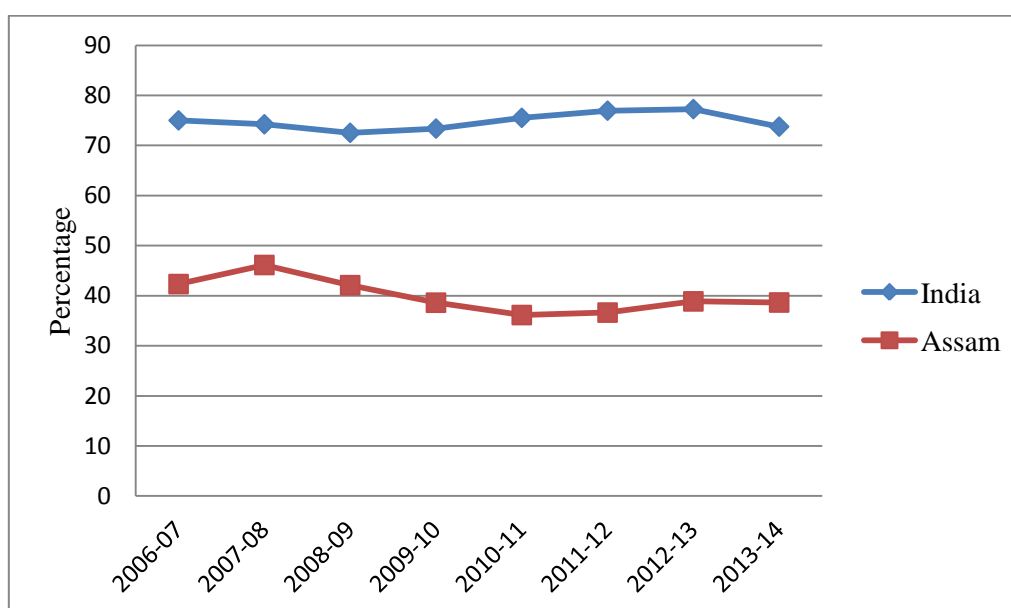
Year	C/D Ratio in India	C/D Ratio in Assam
2006-07	75.01	42.32
2007-08	74.23	46.14
2008-09	72.53	42.1
2009-10	73.38	38.61
2010-11	75.52	36.14
2011-12	76.95	36.63
2012-13	77.26	38.87
2013-14	73.76	38.65

Source: Report on Trend and Progress of Banking in India, State Level Bankers Committee Report, Assam.

From the above table, it is clear that the credit-deposit ratio of public sector banks in India was more than 70 percent during the study period. Credit-deposit ratio of public sector banks was more than the target of 60 percent stipulated by the Reserve Bank of India.

The credit deposit ratio of public sector banks in Assam was very low and below the norms specified by RBI during the study periods i.e., 60 percent. Credit deposit ratio of Assam is far below than India during the study periods, which was very much clear from the figure 4.3:

**Figure 4.3: Credit Deposit ratio of Public Sector banks in India and Assam**



#### 4.4. Priority Sector Lending by Public Sector Banks in India and Assam

The term ‘priority sector’ indicates those activities which have national importance and have assigned priority for development. Hence, the adoption of priority sector concept for the purpose of bank lending reflects the effort to synchronize the lending activities of each bank with the national priorities. The scope and extent of priority sector lending has undergone a significant change in the past reform period with several new areas and sectors being brought under its purview such as weaker section, infrastructure, retail trade, exports, education loan, housing loan within the ambit of priority sector.

**Table 4.4: Priority Sector Lending by Public Sector Banks in India and Assam**

Year	India			Assam		
	Amount (₹ in crore)	Annual Growth (%)	PSL Share to ANBC	Amount (₹ in crore)	Annual Growth (%)	PSL Share to ANBC
2006-07	521376	-	39.7	4341.74	-	43.89
2007-08	610450	17.08	44.7	6146.71	41.57	48.83
2008-09	724150	18.63	42.7	8226.97	33.84	58.23

2009-10	863777	19.28	41.6	8285.31	0.71	49.76
2010-11	1028615	19.08	41.3	9521.7	14.92	50.72
2011-12	1130700	9.92	37.2	11267.9	18.34	51.89
2012-13	1283600	13.52	36.36	14110.4	25.23	55.94
2013-14	1619000	26.13	36.13	15158.7	7.43	53.18
CAGR (%)	17.57			19.56		

Source: Report on Trend and Progress of Banking in India and State Level Bankers Committee Report, Assam

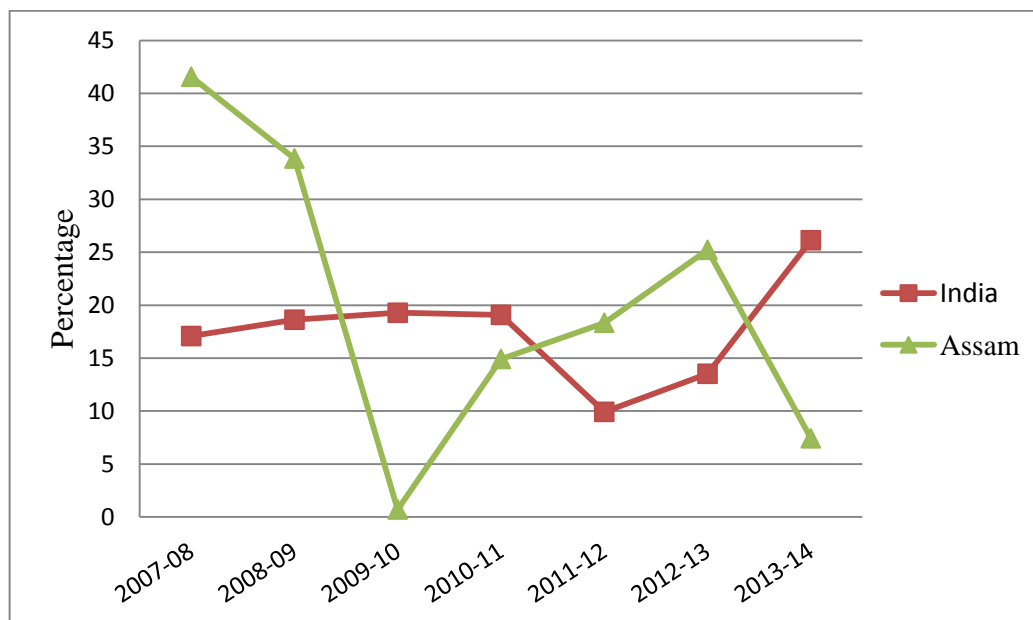
Table 4.4 exhibits the progress of priority sector lending by public sector banks in India and Assam as well as percentage share of priority sector lending to ANBC during the reference period. Priority sector lending by public sector banks in India had increased from ₹ 521376 crores in 2006-07 to ₹ 1619000 crores in 2013-14. Growth rate of priority sector lending varied between 9.92 percent and 26.13 percent during the reference period. Growth rate of priority sector lending in India was the highest (26.13 percent) in 2013-14 with and the lowest (9.92 percent) in the year 2011-12. Compound annual growth rate of priority sector lending is 17.57 percent, which was lower than that of credit deployment during reference period.

In Assam, priority sector lending had consistently increased from ₹ 4341.74 crore to ₹ 15158.73 crore during reference period. During the study period the growth rate ranges in between 41.57 percent to 0.71 percent. The highest growth rate of 41.57 percent registered in the year 2007-08 and the lowest growth rate of 0.71 percent registered in 2009-10. Compound annual growth rate of priority sector lending (19.56 percent) in Assam is higher than that of credit deployment (16.32 percent) in Assam during reference period.

Compound annual growth rate of priority sector lending in Assam (19.56 percent) was higher than that of India (17.57 percent) during the study period.



**Figure 4.4: Growth Rate of Priority Sector Lending in India and Assam**

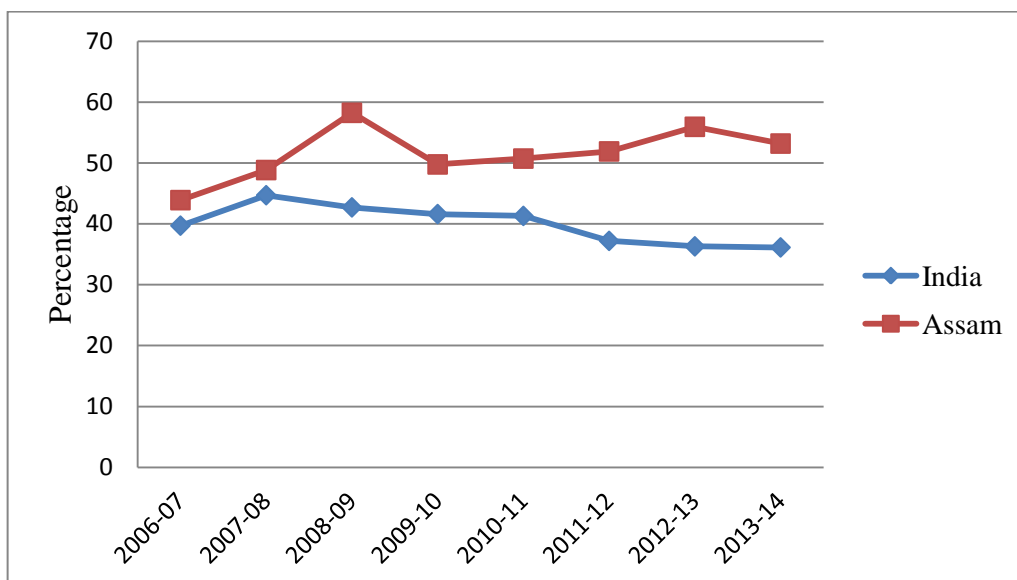


Public sector banks in India had achieved the target of priority sector lending set by RBI i.e., 40 percent of ANBC till 2010-11 except the year 2007 (figure 4.5). After 2010-11 onwards, there was a decreasing trend in percentage share of priority sector lending to ANBC and failed to achieve the target set by RBI. Percentage share of PSL to total credit deployment in India was the highest (44.70 percent) in the year 2007-08 and the lowest (36.13 percent) in the year 2013-14.

In Assam, the percentage of priority sector advances to total advances by public sector banks during the study period had shown a healthy scenario and above the target prescribed by RBI (figure 4.5). Share of priority sector advances to total advances was the highest (58.23 percent) in the year 2008-09 and the lowest (43.89 percent) in the year 2006-07. Percentage share of priority sector advances to total advances in Assam was higher than India in all the years during the study period. The above analysis indicates

that public sector banks in Assam shown better performance than India in priority sector lending during the study period in terms of compound annual growth rate and target set by RBI.

**Figure 4.5: Percentage Share of PSL to ANBC in India and Assam**



#### **4.5. Agriculture Finance by Public Sector Commercial Banks in India and Assam**

Agriculture plays a crucial role in the economic development of India and about two third of the working population is dependent on the sector. The availability of bank credit to agriculture and allied sectors are very much essential for economic development and poverty alleviation. Recognising the importance of this sector in India's development, the Government and the Reserve Bank of India (RBI) have been reviewed agriculture lending policies from time to time to maintain pace with the changing requirements of the agriculture sector.

**Table 4.5: Agriculture Finance by Public Sector Banks in India and Assam**

Year	India			Assam		
	Amount (₹ in crore)	Annual Growth (%)	Percentage Share to ANBC	Amount (₹ in crore)	Annual Growth (%)	Percentage Share to ANBC
2006-07	202614	---	15.4	915.45	---	9.25
2007-08	249397	23.09	18.3	1588.31	73.5	12.62
2008-09	299415	20.06	17.6	1902.47	19.78	13.47
2009-10	372463	24.4	17.9	2564.77	34.81	15.4
2010-11	414991	11.42	16.5	2952.46	15.12	15.73
2011-12	478600	15.33	15.8	3807.89	28.97	17.54
2012-13	530600	10.87	15	4253.62	11.71	16.86
2013-14	687300	29.53	15.34	4816.52	13.23	16.9
CAGR (%)	19.06			26.77		

Source: Report on Trend and Progress of Banking in India & State Level Bankers Committee Report, Assam.

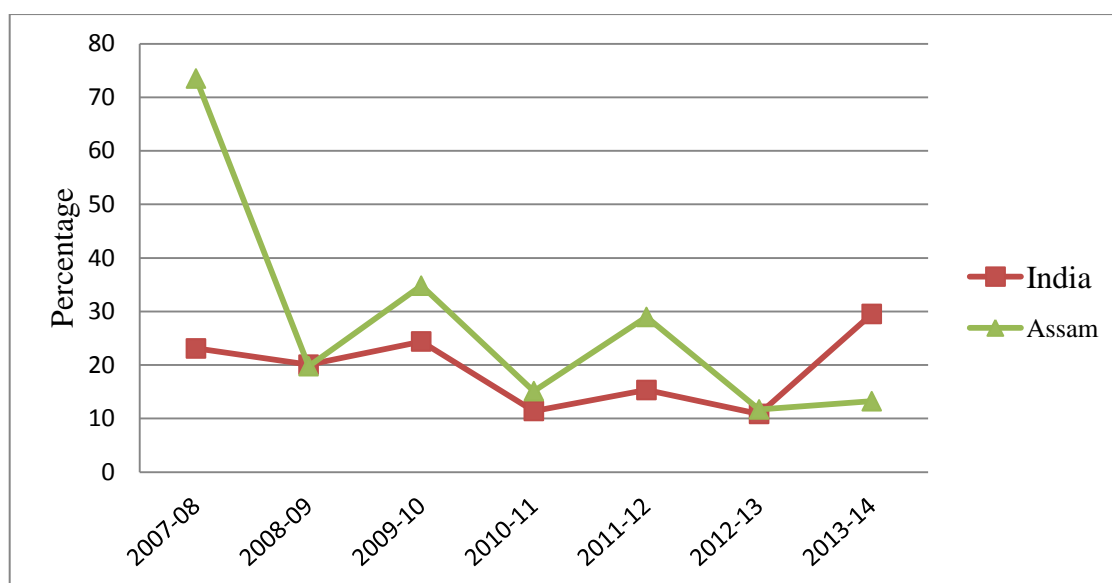
Table 4.5 depicts agricultural finance by public sector banks in India and Assam, their share to aggregate net bank credit, annual growth and compound annual growth of agricultural lending during the study period.

Agricultural credit by public sector banks in India had increased from ₹ 202614 crore in 2006-07 to ₹ 687300 crore in 2013-14. Annual growth was the highest (24.40 percent) in 2009-10 and the lowest (10.87 percent) in 2012-13. Compound annual growth rate of agriculture finance in India was 19.06 percent which was higher than that of total credit disbursement during the study period.

In Assam, agricultural finance by public sector banks had rose from ₹ 915.45 crore in 2006-07 to ₹ 4816.52 crore in 2013-14. Annual growth rate of agriculture finance was the

highest (73.5 percent) in 2007-08 and the lowest (11.71 percent) in the year 2012-13. Compound annual growth of agriculture finance was 26.67 percent which was higher than compound growth of total credit and priority sector lending during the study period. Compound annual growth rate of priority sector lending in Assam (26.67 percent) was higher than that of India (19.06 percent) during the study period.

**Figure 4.6: Growth Rate of Agricultural Lending in India and Assam**

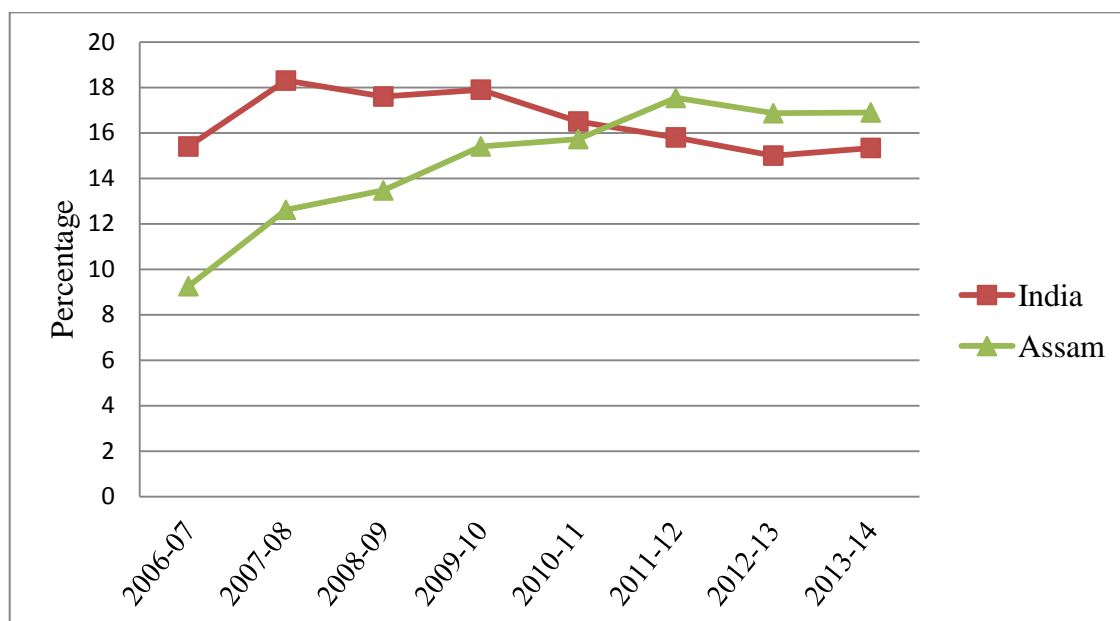


Public sector banks in India have not achieved the target of agricultural lending set by RBI except 2007-08. Percentage share of agricultural lending to ANBC was the highest (18.3 percent) in 2007-08 and the lowest (15 percent) in 2012-13.

In Assam, the percentage of agricultural credit to total advances by public sector banks during the study period had shown unhealthy scenario and below the target prescribed by RBI. Share of agricultural advances to total advances was the highest (17.54 percent) in the year 2011-12 and the lowest (9.25 percent) in the year 2006-07.

Percentage share of agricultural credit to total advances in Assam was lower than that of India till 2010-11 and after that it was higher than that of India during the study period.

**Figure 4.7: Percentage Share of Agriculture Finance to ANBC in India and Assam**



#### 4.6. Credit to Micro and Small Enterprise

Micro and Small Enterprise (MSE) has emerged as an engine of growth in several developed and developing economies of the world. In India, MSE sector creates largest employment opportunities for the Indian populace next only to agriculture and played a key role in equitable distribution of national income, value addition, export earnings, regional dispersal of industries, use of local resources, mobilization of resources and exportability of products, productive utilization of entrepreneurial skill and capital.

**Table 4.6: MSE finance by Public sector banks in India and Assam**

Year	India		Assam	
	Amount (₹ in crore)	Annual Growth (%)	Amount (₹ in crore)	Annual Growth (%)
2006-07	102550	---	929.37	---
2007-08	151137	47.38	1172.09	26.12
2008-09	191408	26.65	1220.49	4.13
2009-10	276319	44.36	1489.44	22.04

2010-11	376625	36.3	1796.33	20.6
2011-12	396600	5.3	1883.22	4.84
2012-13	478400	20.63	3314.72	76.01
2013-14	587400	22.78	3616.52	9.1
CAGR	28.32%		21.42%	

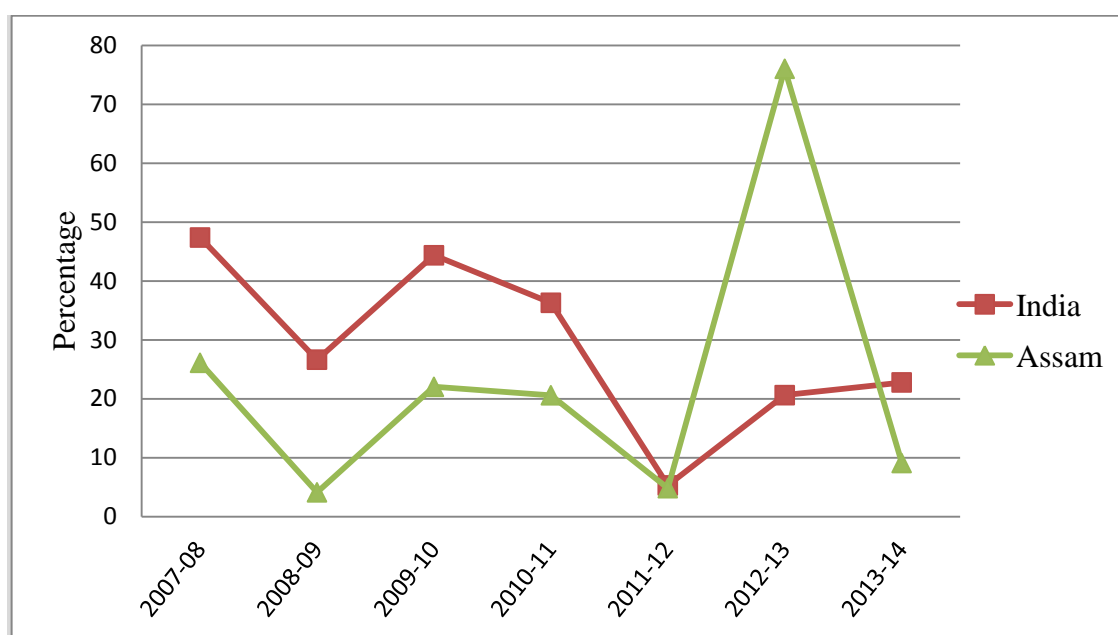
Source: Report on Trend and Progress of Banking in India & State Level Bankers Committee Report, Assam.

Micro and small enterprise finance (MSE) finance by public sector commercial banks in India has significantly increased from ₹ 102550 crore to ₹ 587400 crore during the study period. Though annual growth rate of credit deployment in India was positive during the reference period but it was significantly fluctuating during the period. Annual growth rate of MSE finance was the highest (47.38 percent) in the year 2007-08 and the lowest (5.30 percent) in the year 2011-12. Compound annual growth rate of credit deployment during the period was 28.32 percent which was higher than that of priority sector lending and agricultural credit.

In Assam, MSE finance by public sector commercial banks has increased from ₹ 929.37 crore to ₹ 3615.52 crore during the study period. Though annual growth rate of credit deployment was positive during the reference period but it was fluctuating during the period. Growth rate of credit was the highest (76.01 percent) in the year 2012-13 and the lowest (4.13 percent) in the year 2008-09. Compound annual growth rate of credit deployment during the period was 21.42 percent which was lower than the compound growth rate of agriculture finance.

Compound annual growth rate of MSE finance by public sector banks in India (28.32 percent) is higher than that of Assam (21.42 percent) by 6.89 percent. Hence, there is a difference in the growth of mobilisation of MSME finance at the national as well state levels.

**Figure 4.8: Annual Growth of Micro & Small Enterprise Lending in India & Assam**



#### 4.7. Other Priority Sector Lending by Public Sector Banks

Other priority sector includes education loans, housing loan, loan to weaker sections, export credit, loan to Self Help groups, loan to state sponsored organisation for scheduled castes/scheduled tribes, loan to social infrastructure development etc. Credit deployment by public sector commercial banks in India and Assam was shown in the table 4.7.

**Table 4.7: Other Priority Sector Lending by Public Sector Banks in India and Assam**

Year	India		Assam	
	Amount (₹ in crore)	Annual Growth (%)	Amount (₹ in crore)	Annual Growth (%)
2006-07	216212	--	2496.91	--
2007-08	209916	-2.91	3386.31	35.62
2008-09	233327	11.15	5104.01	50.72
2009-10	214995	-7.86	4231.1	-17.1
2010-11	236999	10.23	4772.91	12.81

2011-12	255500	7.81	5576.77	16.84
2012-13	274600	7.48	6542.09	17.31
2013-14	344300	25.38	6725.7	2.81
CAGR	6.87%		15.21%	

Source: Report on trend and progress of Banking in India & State Level Bankers Committee Report, Assam.

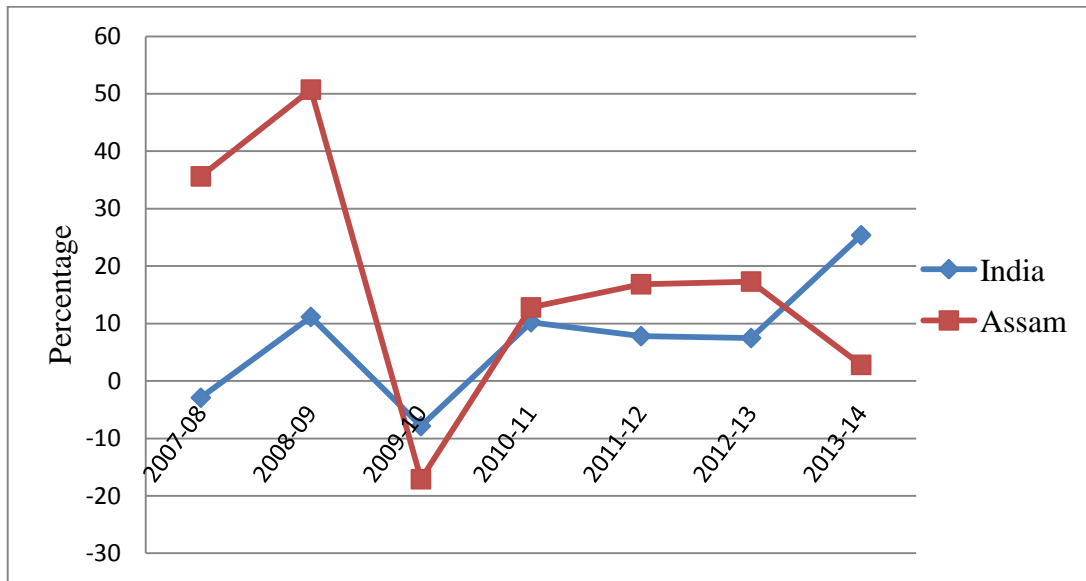
Table 4.7 shown other priority sector advances by public sector banks in India and Assam, annual growth and compound annual growth during the study period.

Other priority sector advances by public sector banks in India had increased from ₹ 216212 crore in 2006-07 to ₹ 344300 crore in 2013-14. Annual growth of other priority sector credit varied between -7.86 percent in 2009-10 and 25.38 percent in 2013-14 during the period. Compound annual growth of other priority sector finance was 6.87 percent which was less than that of priority sector lending, agricultural credit and micro and small enterprise finance.

In Assam, other priority sector finance by public sector banks had increased from ₹ 2496.91 crore in 2006-07 to ₹ 6725.70 crore in 2013-14. Annual growth rate of other priority sector finance was the highest (50.72 percent) in 2008-09 and the lowest (-17.10 percent) in the year 2009-10. Compound annual growth of other priority sector finance in Assam was 15.21 percent which was higher than that of India. Annual growth rate of other priority sector advances by public sector banks in India and Assam shown graphically in Figure 4.9.



**Figure 4.9: Growth of Other Priority Sector Lending in India & Assam**



### Testing of Hypotheses

The following null hypotheses were framed for the 1<sup>st</sup> objective:

- H1. There is no significant difference between the growth rate of total advances at the state and national levels.
- H2. There is no significant difference between the growth rate of priority sector advances at state and national levels.

Mann-Whitney test has been used to analyze whether there is any significant difference between the growth rate of total advances, priority sector lending of public sector commercial banks at the state and national levels.

To test the hypotheses, U values were calculated for growth rates of total advances and priority sector lending are given in table below

#### Mann-Whitney Test (level of significance 0.05)

Growth Rate	Calculated Value	Critical Value	Result
Total Advances	17	8	Accept H <sub>1</sub>
priority sector advances	24	8	Accept H <sub>2</sub>

The results of Mann-Whitney test confirm that there is no significant difference between the growth rate of total advances and priority sector lending by public sector commercial banks at the state and national levels. Hence the hypotheses H<sub>1</sub> and H<sub>2</sub> are accepted.