

Problem of Non Performing Assets in Priority Sector Advances in India

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Abstract

The present paper mainly analyses the trend of Priority Sector Advances and of NPAs (Non Performing Assets) in Public, Private and Foreign Banks from 2001 to 2011. After nationalisation of the Banks directed lending to certain sectors, such as, Agriculture, Small Scale Industries 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. An important aspect about priority sector is whether lending to priority sector is as safe as to other sectors or not? In other words, it is important to investigate whether the level of NPAs or NPLs (Non performing lending) in PS (priority sector) is higher or lower than NPAs of other sectors of the economy in public Sector Banks as compared to Private Sector Banks, this issue is being discussed in this paper.

Keywords: NPAs, Priority Sector, Nationalisation, Agriculture, Weaker Sections, Non Priority Sector

1. Introduction

High level of Non-performing Assets (NPAs) is a matter of concern for everyone as credit is essential for economic growth and NPAs affect the smooth flow of credit. Banks raise resources not just from fresh deposits, but they also create credit by recycling the funds received back from the borrowers.

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Apart from the credit creation, NPAs affect the profitability as well, since higher NPAs require higher provisioning, which means a large part of the profits needs to be kept aside as provisions for bad loans. Therefore, the problem of NPAs is not the concern of the lenders alone, but also of policy makers as well who are involved in putting economic growth on the fast track. In India the concept of NPA came into existence after the financial sector reforms were introduced following the recommendations of the Report of the Committee on the Financial System (Narasimham, 1991). Broadly, Non Performing Advance is defined as an advance where payment of interest or repayment of installment of principal (in case of term loans) or both remains unpaid for a certain period. In India, the definition of NPAs has changed over time. According to the Narasimham (1991) committee report, those assets (advances, bills discounted, overdrafts, cash credit etc) for which the interest remain due for a period of four quarters (180 days) should be considered as NPAs. Subsequently this period was reduced, and from March 1995 onwards the assets for which the interest has remained unpaid for 90 days should be considered as NPAs.

Accordingly, with effect from March 31, 2004 a Non Performing Asset (NPA) should be a loan or an advance where;

- a) Interest and/or installment of principal remains overdue for a period of more than 90 days in respect of a term loan,
- b) The account remains 'out of order' for a period of more than 90 days, in respect of an over Draft / Cash Credit.
- c) The bill remains overdue for a period of more than 90 days in case of bills purchased and discounted,
- d) Interest and/or installment of principal remains overdue for two harvest seasons but for a period not exceeding two and a half years in the case of an advance granted for agricultural purpose, and
- e) Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.¹

2. Literature Review

In the conduct of the studies the researchers has gone through several studies undertaken in the past in this field.

They are in the nature of articles/research papers undertaken by the academicians, experts, officials in the field & the studies undertaken by study group, task forces & the committees, set up by the RBI or the Govt. The main findings of some of these studies are given below. There have been many researches & studies on Priority Sector Lending by banks in India. A brief review of these studies is highlighted in the following paragraphs.

Joshi (1972) has initiated or suggested to RBI to give clear & specific definition of the different component of priority sector as some of the bankers are not clear about the scope of agricultural lending.²The 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 limits 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.³

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 1985.⁴

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.⁵ 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.⁶

Singh (1987) identified many exogenous & 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.⁷ Muhammad Yunus (1988) identified that instead of blaming the defaulters the emphasis should be on proper loan recovery mechanism.⁸

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 P.S. revealed that bank credit to various constituents of PS 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.⁹

Rangarajan (1991) efficiency of banking system can be improved with the improvement in the quality of loan assets.¹⁰ 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.¹¹ 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.¹²

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.¹³

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.¹⁴

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.¹⁵

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.¹⁶

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.¹⁷

Department of Banking supervision (1999) studied the impact of priority Sector advances on NPAs & found that NPAs in priority Sector is much higher.¹⁸ 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.¹⁹

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.²⁰ 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.²¹

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.²² 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.²³ Shete (2002) analyses that PSBs are not able to reach the prescribed target of lending to Priority Sector during the post reform years.²⁴

Dasgupta (2002) has examined that there was an emphasis on weaker and neglected sector in pre reform period but after that in the post reform period the definition of priority sector has been regularly modified.²⁵ Rao (2002) in his paper argued that as subsidization of interest rates either with reference to priority sector or size of loans has virtually vanished, there is an imperative need to evolve a suitable information system in respect of Small Borrowal Accounts (SBA) at par with Large Borrowal Account (LBA), preferably through repetitive sample surveys. It has been observed that the share of credit at interest rates over 16 per cent was relatively high in respect of credit limit sizes up to Rs. 1 crore and tapered down thereafter as the size of the credit limit increased.²⁶

Banerjee, Cole and Duflo (2003) argued that there is no ground to believe that performance of bank will improve by putting an end to priority sector; inspite of that priority sector lending reduces the bank's tendency of making conservative loans only.²⁷ Ganguly Committee (2004), recommended the revision of tenure and interest rate structure of deposits kept by foreign banks with SIDBI in lieu of their shortfall in Priority sector lending.²⁸

The World Bank (2004) in its report "Sustaining India's Service Revolution" blamed strict PSL norms of RBI for foreign & domestic Banks due to which the commercial banks has become financially weak and observed that Govt ownership of Banks in India has reduces competition, raises the cost of lending to the public, and under lending to private sector.²⁹ The Advisory committee recommended that all public & private sector banks should increase their direct lending to agriculture to 12% of NBC in the next two years & to 13.5% in the two years thereafter. Banks that have already reached this level may continue to maintain the position, it would be best, if they would further improve their direct lending. The Committee advised that in the first two years the indirect lending to agriculture may be fixed to the extent of 6 percent against the 18 percent target, to assess the bank performance and thereafter the ceiling of 4.5 percent should apply. The committee felt that the entire issue of fixation of targets for lending to priority sector including agriculture, needed a comprehensive review.³⁰

RBI (2005) draft technical paper of internal working group identified the issues relating to necessity of PSL. The working group recommended the need for PSL prescriptions, the composition of priority sector which includes agriculture, SSI, small road & water transport operators, small business, professional & self employed persons, education, housing etc. In order to improve the flow of credit to the Priority Sector & to ensure that the certain proportion of funds out of the total Bank credit flows to this sector, the computation of PSL obligations of Banks could be linked to the total disbursements made by Banks during the previous year.³¹

Ahmed (2005) observed that inspite of the fact that commercial banks together have increased the quantum of advances to small industries but as compared to the share of priority sector in total bank credit, the share of small sector has not grown in the same ratio during the reform period.³² Bhati (2006) in his study suggested that the financial institutions should have the financial capacity to accept the lending risks.³³

Narasaiah & Naik (2007) observed that various measures have been adopted in the last decade to provide finance to micro enterprises but not more initiative have been taken to help SSIs.³⁴

Sooden & Kumar (2007) analysed the priority sector lending in the post reform period & suggested for a balanced approach, keeping in view the quantum of NPA in priority sector advances.³⁵ Sadhan Kumar shows that the share of credit to agriculture in total net bank credit had significantly declined, especially after the introduction of banking sector reforms. It is interesting to note that although the lending targets were fixed, direct and indirect finance were clubbed, interest rates were deregulated and lending procedures in the credit delivery system were simplified, banks could not achieve the targets set for agriculture lending. The analysis also shows that during the reform period banking sector mainly gone in favour of the medium and large farmers which is against the core principle of equity. On the other side, there is also a view that in the long run, concessional credit neither benefits the borrowers nor the lending institutions. It leads to adverse selection and diversion of funds. This in turn adversely affects the quality of assets. The study concludes that the key to success lies in the reduction in cost of lending, political non-interference and accountability of the borrowers.³⁶

Uppal's (2009) study concludes that priority sector advances of all the banking groups are increasing. In spite of increasing advances, Indian banks have not achieved some targets fixed by RBI. Lending to priority sector creates many problems for the Indian banks like low profitability, high NPAs, transaction cost etc. It is a need of the hour to find out solutions for these problems otherwise progress of the Indian banks will cease. If the proper priority sector advances are given they will be helpful in reducing the poverty level.³⁷

Jaynal Ud-din Ahmed's (2010) study reveals that the recovery position in agriculture and allied activities in comparison to other priority sectors is discouraging in three districts under consideration. With the increase of priority sector lending, there has been corresponding increase in the volume of NPAs. However, it cannot be said that PSL is the only factor in enhancing the volume of NPAs in the area under study, other factors like credit deposit ratio, ratio of NPA to advances, capital adequacy ratio are equally responsible of increased NPAs.³⁸

From the review of earlier studies it is revealed that most of the studies are confined to analyse role of overall institutional financing in growth and development, whereas an in-depth analysis of NPAs position in Priority Sector Lending has not been carried out. To assess and examine that whether the level of NPAs or NPLs in priority sector is higher or lower than NPAs of other sectors of the economy in public Sector Banks as compared to Private Sector Banks is being discussed in this paper.

3. Objectives

1. To assess and examine that whether the level of NPAs or NPLs in priority sector is higher or lower than NPAs of other sectors of the economy in public Sector Banks.
2. To compare the level of NPAs in Priority Sector in Public and Private sector Banks in India.
3. To examine that whether the level of NPAs or NPLs in priority sector is higher or lower than NPAs of other sectors of the economy in private Sector Banks.
4. To Compare the level of NPAs in Foreign Banks between Priority and Non Priority Sector.

4. Hypotheses

1. The level of NPAs is more in Non Priority Sector as compared to PS in Foreign Banks.
2. There are no differences in the level of NPAs in priority sectors between public and private sector banks.
3. The NPAs are higher in Priority Sector as compared to Non Priority Sector in Public Sector Banks
4. The NPAs are higher in Priority Sector as Compared to Non Priority Sector in Private Sector Banks

5. Data Sources and Methodology

The study is based on secondary data only. Data has been procured from secondary sources, such as, various publications of Reserve Bank of India and Commercial Banks.

Besides this other Government Publications such as Economic Survey etc. have also been consulted. Literature has also compiled from various books and journals.

6. Priority Sector Lending

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.³⁹

Now how Public and Private Sector Banks have performed while lending to Priority sector and a comparative analysis between Public and Private Sector Banks regarding their NPAs position is being discussed in this paper.

7. Performance of Public Sector Banks

A Public Sector bank is one in which, the Government of India holds a majority stake. Initially after nationalization the Public Sector Banks were wholly Government owned. But over the period of time, Government diluted its ownership although it continued to be a majority stakeholder. 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. There are currently 26 nationalised banks in India.

7.1 Priority Sector

As can be seen from table 1 that NPAs of priority sector in loan amount of Priority sector has declined from 16 per cent in 2001 to 3 per cent in 2009. This indicates marked improvements in the loan portfolio of PSBs in the category of 'priority sector'.

Table 1: Loan and NPAs of Public Sector Banks in Priority Sector

Years	PSA (Rs crore)	Total NPA (in crore)	Priority Sector NPAs (in crore)	% to total	% to loan	Growth rate of loan %	Growth Rate of NPAs %
1	2	3	4	5	6	7	8
2001	149116	53184	24,156	45	16	-	-
2002	171485	56514	25,139	44	15	15	4
2003	199786	52790	24,938	47	12	17	-1
2004	244456	50141	23,840	48	10	22	-4
2005	307046	47693	23,397	49	8	26	-2
2006	409748	41380	22,374	54	5	33	-4
2007	521376	38590	22,954	59	4	27	3
2008	610450	39750	25,287	64	4	17	10
2009	720083	43908	24,318	55	3	18	-4
2010	863777	57448	30,848	54	4	20	27
2011	102861 6	71015	41,245	58	4	19	34

Note: column 3 represents total NPA of Public Sector Banks in India, column 5 represent percentage of priority Sector NPAs to total NPA of PSBs, column 6 represent percentage of priority sector NPAs to loan amount of Priority Sector, column 7 represent growth rate of priority sector Advances, column 8 represent growth rate of priority Sector NPAs.

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

As can be seen from table 1, the percentage of priority sector NPAs to total NPA of Public sector Banks has increased from 45 percent in 2001 to 64 percent in 2008 and then came down to 58 percent in 2011, while percentage to loan amount has continuously decreased from 16 percent in 2001 to 3 percent in 2009 and somewhat increased in 2010 to 4 percent. The amount of loan to Priority sector has continuously increased from 2001 to 2011 with the highest growth rate of 33 percent in 2006, while the rate of NPAs has reduced from 2002-03 to 2005-06 and increased thereafter and was highest in 2011 at 34 percent. The reasons of higher proportion of NPAs in priority sector advances at the national level may be attributed to the directed and pre-approval nature of loans sanctioned under sponsored programmes, lack of effective follow up due to large number of small accounts, non-cost effective legal recovery measures, vitiation of the repayment culture consequent to the loan waiver schemes, willful defaulters and so on. The growth rate of loan to priority sector shows an improvement while the growth rate of NPAs shows deceleration but somewhat increased in 2009-10 and 2010-11.

(i) Agriculture Sector NPAs: As can be seen from Table 2, the share of Agriculture sector NPAs in loan amount has declined from 14 per cent in 2001 to 2 per cent in 2009.

Table 2: Loan and NPAs of Public Sector Banks in Agriculture Sector

Years	Loans to Agriculture (Rs crore)	Total NPA (in crore)	NPAs of Agriculture (in crore)	% to total	% to loan	Growth rate of loans %	Growth rate of NPAs %
1	2	3	4	5	6	7	8
2001	53571	53184	7377	14	14		
2002	58143	56514	7822	14	13	9	6
2003	70502	52790	7707	15	11	21	-1
2004	84435	50141	7240	14	9	20	-6
2005	109917	47693	7254	15	7	30	0
2006	155220	41380	6203	15	4	41	-14
2007	202614	38590	6506	17	3	31	5
2008	249397	39750	8268	21	3	23	27
2009	298211	43908	5708	13	2	20	-31
2010	372463	57448	8330	15	2	25	46
2011	414990	71015	14487	20	3	11	74

Note: column 3 represents total NPA of Public Sector Banks, column 5 represent percentage of Agriculture sector NPAs to total NPA of Public Sector Banks, column 6 represent percentage of Agriculture Sector NPAs to loan amount of Agriculture Sector, column 7 represent growth rate of Agriculture Sector advances, column 8 represent growth rate of Agriculture Sector NPAs.

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

In 2001 the NPAs of public sector banks in Agriculture sector amounted to Rs. 7377 crore and formed 14 percent of loan amount and 14 percent of total NPAs of PSBs. In 2001 the percentage of NPA to loan amount was at a high level of 14 percent, which continuously decreased and reached a level of 2 percent in 2009 and then increased to 2 percent and 3 percent in 2010 and 2011 respectively. The NPAs to agriculture increased by 6 percent from Rs 7377 crore in 2001 to Rs 7822 crore in 2002 and it was 14 percent to total NPAs. While the growth rate of NPAs in Agriculture sector was negative from 2003 to 2006, but it was higher in 2010 and 2011. The growth rate of loan has increased from 2004-05 to 2005- 06 and for the same period the growth rate of NPAs was negative. The percentage of Agriculture sector NPAs to total NPA of Public sector Banks has increased from 14 percent in 2001 to 20 percent in 2011, while its share to loan amount has reduced from 14 percent in 2001 to 3 percent in 2011.

This indicates marked improvement in the loan portfolio of Public sector Banks in Agriculture sector. (Table 2) NPAs in Agriculture sector has declined from 2002-03 to 2005-06 but growth rate of NPAs in Agriculture Sector was higher in 2009-10 and 2010-11. The growth rate of loan has increased from 2004-05 to 2005-06 and at the same period the growth rate of NPAs was negative.

(ii) *Small Scale Industries (SSI)*: It can be seen from table 3 that the share of SSI NPAs in loan amount of SSI has declined from 21 per cent in 2001 to 4 per cent in 2009. This indicates marked improvements in the loan portfolio of PSBs to Small Scale industries.

Table 3: Loan and NPAs of Public Sector Banks in SSI

Years	Advances to SSI (Rs crore)	Total NPA (in crore)	NPAs of SSI (in crore)	% to total	% to loan	Growth rate of loan %	Growth Rate of NPAs %
1	2	3	4	5	6	7	8
2001	48400	53184	10339	19	21		
2002	54268	56514	10584	19	20	12	2
2003	52646	52790	10162	19	19	-3	-4
2004	58311	50141	8838	18	15	11	-13
2005	67999	47693	7835	16	12	17	-11
2006	82434	41380	6917	17	8	21	-12
2007	102550	38590	5843	15	6	24	-16
2008	148651	39750	5805	15	4	45	-1
2009	191307	43908	6984	16	4	29	20
2010	276319	57448	11537	20	4	44	65
2011	376625	71015	14340	20	4	36	24

Note: column 3 represents total NPA of public sector Banks in India, column 5 represents percentage of SSI NPAs to total NPA of public sector Banks, column 6 represents percentage of SSI NPAs to loan amount of SSI, column 7 represents growth rate of SSI advances, column 8 represent growth rate of SSI NPAs.

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

The analysis shows that the percentage of SSI NPAs to loan amount has reduced from 21 percent in 2001 to 4 percent in 2008 and remained constant till 2011, whereas the rate of NPAs has been negative from 2003 to 2008, after that it increased by 65 percent in 2010, while the growth rate of loans has been increasing from 2004 to 2010. The percentage of NPAs to total NPA of PSBs has also shown a downward trend from 2001 to 2008 and increased after 2008 till 2011. Growth rate of SSI NPAs was more in 2010 and 2011. NPAs of SSI has reduced from 2002 to 2008 and from 2009 to 2011 the growth rate of NPAs in SSI was high and the percentage of SSI NPAs to total NPA has also increased from 15 percent in 2008 to 20 percent in 2011 but its share to loan amount had remained constant to 4 percent from 2008 to 2011. This shows marked improvement in the loan portfolio of Public sector Banks in Small Scale industries from 2008 to 2011. (Table 3)

(iii) *Weaker section NPAs*: As can be seen from table 4 that the share of weaker section NPAs in loan amount has declined from 23 per cent in 2001 to 3 per cent in 2010. This shows that over a period of time lending to weaker sections has improved.

Table 4: Loan and NPAs of Public Sector Banks in Weaker Section

Years	Advances to weaker sections (Rs crore)	Total NPA (in crore)	NPAs (in crore)	% to total	% to loan	Growth rate of loan %	Growth rate of NPAs %
1	2	3	4	5	6	7	8
2001	24899	53184	5606	11	23		
2002	26459	56514	5744	10	22	6	2
2003	29655	52790	5749	11	19	12	0
2004	35493	50141	6706	13	19	20	17
2005	51445	47693	5752	12	11	45	-14
2006	59471	41380	5023	12	8	16	-13
2007	79038	38590	5238	14	7	33	4
2008	99994	39750	5388	14	5	27	3
2009	122894	43908	5074	12	4	23	-6
2010	168433	57448	5053	9	3	37	0
2011	220250	71015	7929	11	4	31	57

Note: column 3 represents total NPA of PSBs, column 5 represent percentage of weaker sections NPAs to total NPA of Public sector Banks, column 6 represents percentage of weaker section NPAs to loan amount of weaker sections, column 7 represents growth rate of loans to weaker sections, column 8 represents growth rate of weaker section NPAs.

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

The percentage of weaker section NPAs to total NPA of Public sector Banks remained more or less same at 11 percent but its share to loan amount has reduced from 23 percent in 2001 to 4 percent in 2011, this shows marked improvement in the loan portfolio of Public sector Banks to weaker sections. Growth rate of loan to weaker section had increased from 2002 to 2005, then after some drop in 2008 and 2009, increased in 2010. Growth rate of weaker section NPAs was 2 percent in 2002 as compared to 2001, remained zero percent in 2003, and was negative in 2005 and 2006 or NPAs reduced in 2004-05 to 2009-10 and increased by 57 percent in 2010-11 (Table 4)

7.2 Non Priority Sector NPAs

The share of NPS (Non priority sector) NPAs of Public sector Banks in loan amount has declined from 15 per cent in 2001 to 2 per cent in 2009.

Table 5: Loan and NPAs of Public Sector Banks in Non Priority Sector

Years	Advances (Rs crore)	Total NPA (Rs crore)	NPAs of NPS (Rs crore)	% to total	% to loan	Growth rate of Advance %	Growth Rate of NPAs %
1	2	3	4	5	6	7	8
2001	192175	53184	29,018	55	15		
2002	222579	56514	31,367	56	14	16	8
2003	285485	52790	27,869	53	10	28	-11
2004	316363	50141	26,308	52	8	11	-6
2005	410373	47693	24,299	51	6	30	-8
2006	607908	41380	19,004	46	3	48	-22
2007	792464	38590	15,648	41	2	30	-18
2008	753818	39750	14,462	36	2	-5	-8
2009	973354	43908	19,725	45	2	29	36
2010	1240598	57448	26,453	46	2	27	34
2011	1461977	71015	30,081	42	2	18	14

Note: column 3 represents total NPA of PSBs in India, column 5 represent percentage of Non priority sector NPAs to total NPA of Public sector Banks, column 6 represents percentage of Non priority sector NPAs to loan amount of Non priority sector, column 7 represent growth rate of NPS advances, column 8 represents growth rate of Non priority sector NPAs

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

The percentage of Non Priority sector NPAs to loan amount has decreased from 2001 to 2007 and remained constant at 2 percent from 2007 to 2011. The growth rate of NPAs has declined from 2002 to 2008, but it shows some increase in 2009 and 2010. The percentage of Non Priority sector NPAs to total NPA reduced between 2002 to 2008 but somewhat increased in 2009 and 2010. As compared to 2001 the percentage of Non Priority Sector NPAs to both loan amount and to total NPA of Public sector Banks has reduced in 2011 (Table 5).

8. Performance of 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 in India. They have a highly developed organisational structure and are professionally managed. In the past few years they have grown faster and stronger. Presently there are 28 Private sector Banks in India.

There are two categories of the private-sector banks: "old" and "new". The old private-sector banks may be referred to those banks, which are in operation from before 1991 and all those banks that have commenced their business after 1991 are called as new private-sector banks. Housing Development Finance Corporation Limited (HDFC) was the first private bank in India to receive license from RBI as a part of the RBI's liberalisation policy of the banking sector, to set up a bank in the private-sector. The banks, which came in operation after 1991, with the introduction of economic reforms and financial sector reforms are called "new private-sector banks". Banking regulation act was then amended in 1993, which permitted the entry of new private-sector banks in the Indian banking sector. However, there were certain criteria set for the establishment of the new private-sector banks, some of these criteria being:

1. The bank should have a minimum net worth of Rs. 200 crore.
2. The promoters holding should be a minimum of 25 percent of the paid-up capital.
3. Within 3 years of the starting of the operations, the bank should offer shares to public and their net worth must increase to Rs. 300 crore.⁴⁰

8.1 Priority Sector NPAs

The share of Priority sector NPAs in loan amount of Priority sector in Private sector Banks has declined from 10 per cent in 2002 to 2 per cent in 2009 (Table 6). In 2001, the NPAs of private Sector banks in priority Sector was Rs.1835 crore and formed 9 percent of loan amount and 29 percent of total NPAs of private sector banks, the NPAs to priority Sector increased to Rs 2546 crore in 2002 with 10 percent of loan amount. In 2002 the percentage of NPAs to loan amount has increased while the percentage of NPAs to total NPA of private banks has decreased

From 2001 to 2010, the amount of loan to priority sector has increased by Rs 194001 crore while NPAs has increased by Rs 2957 crore. The percentage of NPAs to loan amount has come down from 10 percent in 2002 to 2 percent in 2010, while its

Table 6 : Loan and NPAs of Private Sector Banks in Priority Sector

Years	Loans (Rs crore)	Total NPA (in crore)	NPAs of PS (in crore)	% to total	% to loan	Growth rate of loans %	Growth rate of NPA %
1	2	3	4	5	6	7	8
2001	21550	6,410	1,835	29	9	-	-
2002	25709	11,667	2,546	22	10	19	39
2003	36332	11,866	2,445	21	7	41	-4
2004	51383	10,352	2,482	24	5	41	1
2005	69025	8,800	2,188	25	3	34	-12
2006	104383	7,829	2,284	29	2	51	4
2007	142044	9,239	2,884	31	2	36	26
2008	163218	12,976	3,419	26	2	15	19
2009	190175	16,887	3,640	22	2	17	6
2010	215551	17,384	4,792	28	2	13	32
2011	N.A.	17,971	4,823	27	-	-	1

Note: column 3 represents total NPA of Private Sector Banks in India, column 5 represent percentage of PS NPAs to total NPA of Private Banks, column 6 represent percentage of Priority sector NPAs to loan amount of Private Banks, column 7 represents growth rate of loans to priority sector, column 8 represents growth rate of NPAs in priority sector

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

Share in total NPA has reduced from 29 percent in 2001 to 27 percent in 2011. The growth rate of loans to priority sector has experienced a decline from 2008 onwards due to a worldwide recession impacting both the financial sector as well as the real sectors.

(i) *Agriculture Sector NPAs*: The percentage of Agriculture sector NPAs to loan amount of this sector has declined from 6 percent in 2001 to 2 percent in 2010, while its share to total NPA has increased from 5 percent in 2001 to 12 percent in 2011. This shows that the loan amount has increased at a higher rate in comparison to the rate of increase of NPAs in this sector.

Table 7 : Loan and NPAs of Private Sector Banks in Agriculture Sector

Years	Loans to Agriculture (Rs crore)	Total NPA (in crore)	NPAs of Agriculture (in crore)	% to total NPA	% to loan	Growth rate of loan	Growth rate of NPAs
1	2	3	4	5	6	7	8
2001	5,394	6,410	322	5	6	-	-
2002	8,022	11,667	439	4	5	49	36
2003	11,873	11,866	537	5	5	48	22
2004	17,652	10,352	459	4	3	49	-14
2005	21,636	8,800	465	5	2	23	1
2006	36,185	7,829	515	7	1	67	11
2007	52,056	9,239	861	9	2	44	67
2008	57,702	12,976	1467	11	3	11	71
2009	76,062	16,887	1441	9	2	32	-2
2010	89,768	17,384	2023	12	2	18	40
2011	N.A.	17,971	2172	12			7

Note: column 3 represents total NPA of Private Sector Banks, column 5 represent percentage of Agriculture sector NPAs to total NPA of Private sector Banks, column 6 represents percentage of Agriculture sector NPAs to loan amount of Agriculture sector, column 7 represents growth rate of loans to Agriculture sector, column 8 represents growth rate of NPAs in Agriculture sector

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

It is observed from the table 7 that NPAs of the Private sector banks in agriculture credit increased continuously year after year. During the early periods of the study the private sector banks suffered much, because of higher NPAs from agricultural sector due to low capital formation in agriculture resulting in poor credit absorption leading to non recovery of agricultural credit.

In 2001 the amount of NPAs in Agriculture Sector of Private Sector banks amounted to Rs 322 crore against the loan amount of Rs 5394 crore and formed 6 percent to loan amount and 5 percent to total NPA of Private Sector banks. From 2001 to 2010 the amount of loan to Agriculture has increased by Rs 84374 crore while NPAs has increased by Rs 1701 crore. The percentage of NPAs to loan amount has continuously decreased from 2001 to 2010.

In 2007-08 the growth rate of loan was 11 percent while the growth rate of NPAs was highest at 71 percent and turned negative i.e. -2 percent in 2009. The percentage of NPAs in Agriculture Sector to total NPAs of private banks has decreased from 2001 to 2004 and then increased till 2011.

(ii) **SSI NPAs:** As can be seen from table 8 that percentage of SSI NPAs to loan amount has come down from 12 percent in 2001 to 1 percent in 2009

Table 8: Loan and NPAs of Private Sector Banks in Small scale Industries

Years	Advances to SSI (Rs crore)	Total NPA (in crore)	SSI NPAs (in crore)	% to total	% to loan	Growth rate of loans %	Growth rate of SSI NPAs %
1	2	3	4	5	6	7	8
2001	8,158	6,410	1,001	16	12	-	-
2002	8,613	11,667	1,485	13	17	6	48
2003	6,857	11,866	1,262	11	18	-20	-15
2004	7,897	10,352	1,262	12	16	15	0
2005	8,592	8,800	964	11	11	9	-24
2006	10,421	7,829	807	10	8	21	-16
2007	13,063	9,239	645	7	5	25	-20
2008	46,069	12,976	651	5	1	253	1
2009	47,916	16,887	670	4	1	4	3
2010	N.A	17,384	1,139	7	-	-	70
2011	N.A	17,971	1,298	7	-	-	14

Note: column 3 represents total NPA of Private Sector Banks, column 5 represent percentage of SSI NPAs to total NPA of Private sector Banks, column 6 represents percentage of SSI NPAs to loan amount of SSI, column 7 represents growth rate of loans in SSI, column 8 represents growth rate of NPAs in SSI

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

The amount of SSI NPAs of Private Sector banks in 2001 was Rs 1001 crore against the loan amount of Rs 8158 crore and formed 12 percent of loan amount and 16 percent to total NPAs of Private Sector banks. From 2001 to 2009 the amount of loan has increased by Rs 39758 crore and NPAs has decreased by Rs 331 crore. The percentage of NPA to loan amount has increased till 2003 and then continuously decreased from 2004 to 2009 and reached 1 percent of loan amount in 2009.

The percentage of SSI NPAs to total NPAs of Private Sector banks had remained more or less same from 2001 to 2006 and then decreased from 2006-07 to 2008-09 and slightly increased in 2009-10 and 2010-2011. The amount of NPAs in SSI had reduced from 2002 to 2007 and increased from 2008 onwards. The amount of NPAs in SSI had reduced from 2002 to 2007 and increased from 2008 onwards (table 8). The growth rate of NPAs was highest in 2009-10 at 70 percent, while growth rate of loan was highest in 2007-08 at 253 percent and came down to 4 percent in 2008-09. This was due to several favourable policy initiatives undertaken by the Central Government and the Reserve Bank including, *inter alia*, the policy package for stepping up of credit to Small and medium enterprises (SMEs) announced on August 10, 2005, have had a positive impact, that is why growth rate of lending to SSI was highest in 2006-07 and 2007-08.

(iii) *Weaker section NPAs*: The percentage of weaker section NPAs to loan amount has come down from 20 percent in 2001 to 1 percent in 2011 (see table 9)

Table 9: Loan and NPAs of Private Sector Banks in Weaker Section

Years	Loans (Rs crore)	Total NPA (in crore)	NPAs (in crore)	% to total	% to loan	Growth rate of loan %	Growth rate of NPAs %
1	2	3	4	5	6	7	8
2001	948	6,410	187	3	20		
2002	899	11,667	93	1	10	-5	-50
2003	982	11,866	165	1	17	9	78
2004	1,280	10,352	156	2	12	30	-6
2005	1,581	8,800	208	2	13	24	34
2006	2,932	7,829	276	4	9	85	33
2007	3,862	9,239	149	2	4	32	-46
2008	5,032	12,976	117	1	2	30	-22
2009	15,052	16,887	91	1	1	199	-22
2010	26,000	17,384	130	1	1	73	43
2011	28,300	17,971	283	2	1	9	118

Note: column 3 represents total NPA of Private Sector Banks, column 5 represent percentage of weaker sections NPAs to total NPA of Private sector Banks, column 6 represents percentage of weaker sections NPAs to loan amount of weaker sections, column 7 represents growth rate of loans to weaker sections, column 8 represents growth rate of NPAs in weaker sections

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

The percentage of weaker section NPAs to total NPA of Private Sector Banks has come down from 3 percent in 2001 to 2 percent in 2011. The percentage of weaker section NPAs to loan amount of this section had decreased in 2001-02, increased to 17 percent in 2003, and then continuously decreased from 2003 to 2009 and remained constant from 2009 to 2011. The amount of NPAs has reduced by 50 percent in 2001-02 and increased by 78 percent in 2002-03 and again decreased in 2006-07, 2008-09 and increased by 43 percent and 118 percent in 2010 and 2011 respectively. It can be concluded that the amount of NPA in weaker sections was more in 2010 and 2011 (table 9)

8.2 Non Priority Sector NPAs

As can be seen from table 10, the share of Non Priority Sector NPAs in loan amount of this sector in Private sector Banks has declined from 25 per cent in 2002 to 3 per cent in 2007.

Table 10: Loan and NPAs of Private Sector Banks in Non Priority Sector

Years	Loan (Rs crore)	Total NPA (in crore)	NPAs of Non PS (in crore)	% to total	% to loan	Growth Rate of loan %	Growth rate of NPAs %
1	2	3	4	5	6	7	8
2001	34864	6410	4575	71	13		
2002	37149	11667	9121	78	25	7	99
2003	45964	11866	9422	79	20	24	3
2004	54505	10352	7871	76	14	19	-16
2005	90403	8800	6611	75	7	66	-16
2006	142447	7829	5545	71	4	58	-16
2007	192395	9239	6356	69	3	35	15
2008	179170	12976	9558	74	5	-7	50
2009	216218	16887	13247	78	6	21	39
2010	254060	17384	12592	72	5	18	-5
2011	N.A.	17971	13300	74			6

Note: column 3 represents total NPA of Private Sector Banks, column 5 represent percentage of NPS NPAs to total NPA of Private sector Banks, column 6 represents percentage of NPS NPAs to loan amount of NPS, column 7 represents growth rate of loans to NPS, column 8 represents growth rate of NPAs in NPS

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

In 2001 the NPAs in Non priority sector by private Sector banks amounted to Rs. 4575 crore and formed 13 percent to loan amount of Non Priority Sector and 71 percent of total NPAs of Private Sector Banks. From 2001 to 2010 the amount of loan has increased by Rs 219196 crore while the amount of NPAs has increased by Rs 8017 crore. In 2001-02 the growth rate of loan was only 7 percent while the growth rate of NPAs was highest i.e. 99 percent, after that from 2003 to 2006 the growth rate of loan has increased while in case of NPAs it has decreased in 2003 and turned negative from 2004 to 2006 (table 10).

The percentage of non Priority Sector NPAs to loan amount has come down from 25 percent in 2002 to 5 percent in 2010 while percentage of non priority sector NPAs to total NPA of Private Sector banks has increased from 71 percent in 2001 to 74 percent in 2011, this indicates that Private Sector Banks have increased their lending to Non Priority Sector.

9. Performance of Foreign Banks

9.1 Priority Sector

The percentage of priority sector NPAs to loan amount of priority sector in Foreign Banks has increased from 1 percent in 2007 to 2 percent in 2011. As can be seen from table 11 the amount of NPAs in Priority sector by foreign banks has increased from 2007 to 2010 and then decreased in 2010-11.

Table 11: Loan and NPAs of Foreign Banks in Priority Sector

Years	Loans (Rs crore)	Total NPA (in crore)	NPAs of PS (in crore)	% to total	% to loan	Growth rate of loans %	Growth rate of NPAs %
1	2	3	4	5	6	7	8
2007	37,831	2,452	331	13	1		
2008	50,301	3,114	402	13	1	33	21
2009	55,483	7155	649	9	1	10	61
2010	60290	7,125	1170	16	2	9	80
2011	66618	5065	1141	23	2	10	-2

Note: column 3 represents total NPA of Foreign Banks in India, column 5 represent percentage of PS NPAs to total NPA of Foreign Banks, column 6 represents percentage of PS NPAs to loan amount of PS, column 7 represents growth rate of loans to PS, column 8 represents growth rate of NPAs in PS

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

The percentage of priority sector NPAs to total NPA was 13 percent in 2007 which came down to 9 percent in 2009 and then increased in 2009-10 and 2010-11 to 16 percent and 23 percent respectively. The amount of loan to priority sector by Foreign Banks had continuously increased from 2007 to 2011, but the rate of increase declined in 2008-09 and 2009-10 and then increased again in 2010-11.

The share of Priority sector NPAs to loan amount as well as to total NPA has increased. The growth rate of loan shows deceleration, while growth rate of NPAs shows acceleration. The rate of increase of loan to priority sector by Foreign Banks was more in 2007-08, after that there is some deceleration in loan amount in 2008-09 and 2009-10 and shows some increase in 2010-11, while the rate of NPAs has increased from 2007 to 2010 and reduced in 2010-11(table 11).

9.2 Non Priority Sector NPAs

The percentage of Non Priority Sector NPAs to total NPA of Foreign Banks had increased from 2007 to 2009 and came down in 2010 and 2011.

Table 12: Loan and NPAs of Non Priority Sector by Foreign Banks

Years	Loans (Rs crore)	Total NPA (in crore)	NPAs of Non PS (in crore)	% to total	% to loan	Growth rate of loans %	Growth rate of NPAs %
1	2	3	4	5	6	7	8
2007	75435	2,452	2,120	86	3		
2008	77043	3,114	2,712	87	4	2	28
2009	106275	7155	6506	91	6	38	140
2010	111555	7,125	5956	84	5	5	-8
2011	103998	5065	3924	77	4	-7	-34

Note: column 3 represents total NPA of Foreign Banks in India, column 5 represent percentage of NPS NPAs to total NPA of Foreign Banks, column 6 represents percentage of NPS NPAs to loan amount of N PS, column 7 represents growth rate of loans to NPS, column 8 represents growth rate of NPAs in NPS

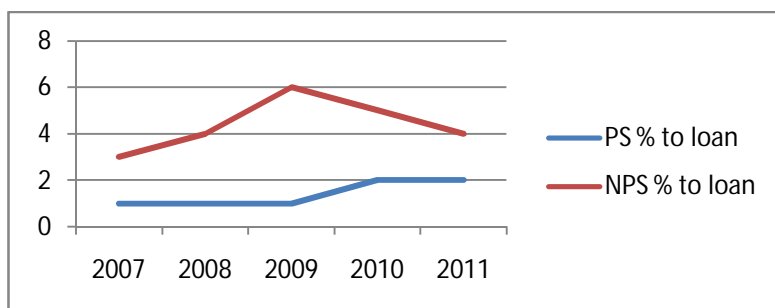
Source: RBI, Report on Trend and Progress of Banking in India, various issues

As compared to Priority sector, Foreign Banks had provided more credit to Non Priority Sector. The percentage of Non Priority sector NPAs to loan amount

had increased from 2007 to 2009 and then came down in 2010 and 2011 to 5 percent and 4 percent respectively. Growth rate of Loan to Non Priority Sector was highest in 2008-09, which shows increase of credit by 38 percent, which turned negative in 2010-11, showing a reduction in loan amount by 7 percent.

The rate of increase of Non Priority sector NPAs was highest in 2008- 2009 at 140 percent because the growth rate of loan to Non Priority Sector was highest in 2008-09 which turned negative in 2010 and 2011. This means that NPAs of Non Priority in Foreign Banks declined in 2009-2010 and 2010-2011 (table 12). The amount of NPAs of Non Priority Sector by Foreign Banks had increased in 2009 and 2010 because amount of loan had also increased in 2009 and 2010.

Graph 1 : A comparative analysis of NPAs percentage to loan amount of Foreign Banks in Priority and Non Priority Sectors



Note: PS represent priority sector and NPS represent Non priority sector

Source: Based on data placed in table 11 and 12

H₁: The levels of NPAs are more in Non Priority Sector as compared to PS in Foreign Banks.

As can be seen on the basis of chart given above, the percentage of NPAs in loan amount of Foreign Banks in Priority sector was much less in comparison to that in the Non Priority sector, because Foreign Banks had given more credit to the latter sector (graph 1)

10. A Comparative Analysis between Public and Private Sector Banks

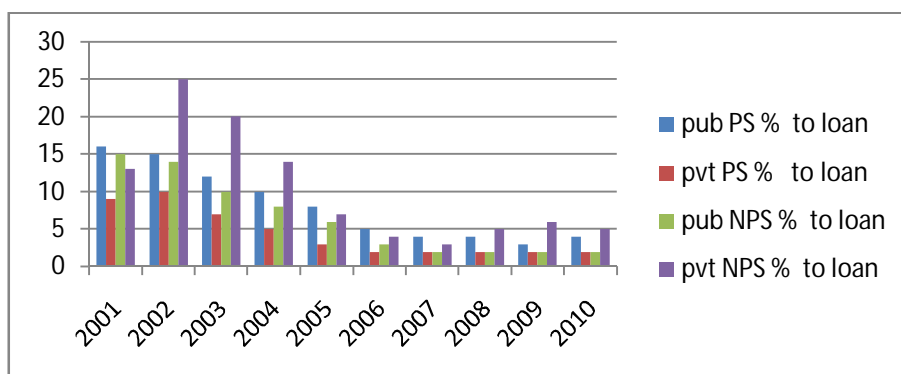
A comparison of NPAs in Priority Sector between Public and Private Sector Banks shows that these have been more in public Sector Banks as compared to Private Sector Banks. This is because advances by public sector banks to the priority sector were high, whereas in Non Priority Sector NPAs has been more in Private Sector Banks; this is because private sector banks preferred to lend the non-priority sector than to the priority sector.(Graph 2)

H₂: There are no differences in the level of NPAs in priority sectors between public and private sector banks.

The analysis shows that there is difference in the level of NPAs in priority sectors between public and private sector banks, NPAs have been more in public Sector Banks as compared to Private Sector Banks.

This is because advances by public sector banks to the priority sector were high, whereas in Non Priority Sector NPAs has been more in Private Sector Banks; this is because private sector banks preferred to lend the non-priority sector than to the priority sector

Graph 2 : A Comparison of NPAs percentage to Loan Amount in Priority Sector and Non Priority Sector between Public and Private Sector Banks



Note : Pub PS represent percentage of priority sector NPAs to loan amount of PS in public sector banks

Pvt PS represent percentage of priority sector NPAs to loan amount of PS in private sector banks

Pub NPS represent percentage of Non priority sector NPAs to loan amount of NPS in public banks

Pvt NPS represent percentage of Non priority sector NPAs to loan amount of NPS in private banks

Source: Based on data placed in table 1, 5, 6 and 10.

An important limitation of Priority Sector Advances (PSA) is supposed to be a high rate of default or non performance in PSA as compared to other non Priority Sector advances.

The following Table 13 shows the NPA percentage of non priority sector advances and priority sector advances as well as different sub sectors of the priority sector itself from 2001 to 2011 of Public sector Banks in India.

Table 13: Sector-wise Percentage of NPAs to Loan Amount of Public Sector Banks

Years	Non Priority sectors %	Priority Sector %	Agriculture %	SSI %	weaker sections %	OPS %
1	2	3	4	5	6	7
2001	15	16	14	21	23	14
2002	14	15	13	20	22	11
2003	10	12	11	19	19	9
2004	8	10	9	15	19	8
2005	6	8	7	12	11	6
2006	3	5	4	8	8	5
2007	2	4	3	6	7	5
2008	2	4	3	4	5	5
2009	2	3	2	4	4	5
2010	2	4	2	4	3	5
2011	2	4	3	4	4	5

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

When we look at NPA percentage of Non Priority sector advances, we find that the NPA percentage of Non Priority Sector was very high at 15 percent, however there has been substantial improvement since then and for the last five years it is at 2 percent and when we compare it with NPA percentage of Priority sector we find that the Priority sector NPA percentage has always been higher than the Non Priority Sector percentage.

Even though there has been a decline in the last ten years, in the recent years this percentage is at a lower level of 4 percent, which is double of NPA percentage of Non Priority Sector.

H₃: The NPAs are higher in Priority Sector as compared to Non Priority Sector in Public Sector Banks

The results shows that Priority sector NPAs to loan amount has always been higher than the Non Priority Sector NPAs in Public Sector Banks

Now, we look at NPA percentage of different sub sectors of the priority sector advances. Here we have divided them into four categories only Agriculture, SSI, Weaker sections and other Priority Sectors.

In Agriculture Sector within the priority sector in 2001, the percentage of NPA to loan amount was 14 percent, after this there has been a steady decline and in the last two to three years it was 2 to 3 percent only.

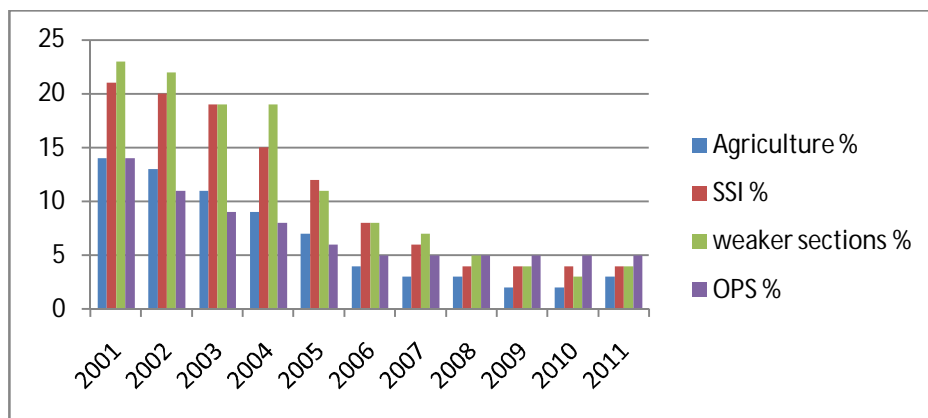
Then we look at the next column of SSI sector, here the NPA percentage was at a very high level of 21 percent in 2001. However after this there has been a substantial improvement and for the last several years, it is at a relatively low level of 4 percent only. The percentage of weaker section NPA's to loan amount of weaker section was at a high level of 23 percent in 2001, after this there has been a steady decline and in the last two years it was 3 to 4 percent only.

When we look at the last column of other priority sectors (OPS), it was found that NPA's percentage of other priority sectors to loan amount of other priority sectors was at a high level of 14 percent in 2001, after this there has been some improvement and from the last 4 to 5 years it was 5 percent only (table 13)

As can be seen from Graph 3 till 2004 the percentage of NPAs in weaker section to its loan amount was highest till 2004 which, however, were overtaken by the NPAs of the SSI sector till 2006. Thereafter, the percentage of NPAs is found to be highest in OPS. From 2001 to 2011, there has been a drop in NPAs percentage which was at a very high level in 2001; presently the NPA percentage is relatively low, but still not sustainable.

There is still need to improve the NPA percentage by better assessment of loan applications and follow up. Banks will be motivated to give more loans to priority sectors only if NPAs of priority sector are brought down further.

Graph 3: Public Sector Banks Percentage of NPAs to Loan in Various Sub-Sectors of Priority Sector



Note: % represent percentage of particular sector NPAs to loan amount of that particular sector.

Source: Based on data placed in table 13

Table 14: Sector wise Percentages of NPAs to Loan Amount in Private Sector Banks

Years	Non Priority sector %	Priority sector %	Agriculture %	SSI %	weaker sections %	OPS %
1	2	3	4	5	6	7
2001	13	9	6	12	20	6
2002	25	10	5	17	10	7
2003	20	7	5	18	17	4
2004	14	5	3	16	12	3
2005	7	3	2	11	13	2
2006	4	2	1	8	9	2
2007	3	2	2	5	4	2
2008	5	2	3	1	2	2
2009	6	2	2	1	1	2

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

When we look at NPA percentage of Non Priority sector advances in Private Sector Banks we find that the NPA percentage of this sector was very high at 13 percent which increased to 25 percent in 2002. However, there has been substantial improvement thereafter and in 2009 it was 6 percent. When we compare it with NPA percentage of Priority sector we find that the NPA percentage in PS has always been lower than the Non Priority Sector percentage. Even though, there has been a decline in the last ten years, in the recent years this percentage is at a lower level of 2 percent.

Now, we look at NPA percentage of different sub sectors of the priority sector advances. In 2001, the percentage of NPA to loan amount in the Agriculture sector was 6 percent, after this there has been a steady decline and in the last two to three years it was 3 to 2 percent only.

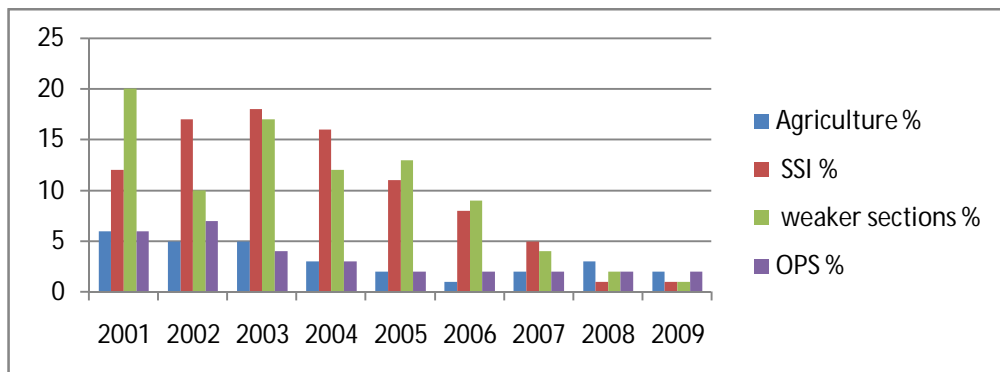
In the SSI sector, the NPA percentage was at a high level of 12 percent in 2001. However, after this there has been a substantial improvement and for the last several years, it is at a relatively low level of 1 percent only. The percentage of weaker section NPAs to loan amount of weaker section was at a high level of 20 percent in 2001, after this there has been a steady decline and in the last year it was 1 percent only.

As far as OPS is concerned, it was found that percentage of NPAs to its loan amount was at a level of 6 percent in 2001, after this there has been some improvement and from the last 4 to 5 years it was 2 percent only (table 14)

H₄: The NPAs are higher in Priority Sector as compared to Non Priority Sector in Private Sector Banks

The results shows that NPAs are more in Non Priority Sector as compared to PS in Private Sector Banks because Private Sector Banks preferred to lend to Non PS.

Graph 4 : Private Sector Banks Percentage of NPAs to Loan in Various Sub-sectors of Priority Sector



Note: % represent percentage of particular sector NPAs to loan amount of that particular sector.

Source: Based on data placed in table 14

As can be observed from the above graph the percentage of NPAs in Private sector Banks has shown a similar trend of consistent decline as witnessed in case of Public Sector Banks. In the initial years the percentage of NPAs of SSIs was higher, but after 2005 to 2006 weaker section NPAs occupied the highest position. In 2008-09, however, Agriculture sector NPAs are highest although there has been a significant decline in NPA percentage of all the sectors of Priority Sectors (Graph 4)

11. Conclusion

A comparison of NPAs in Priority Sector between Public and Private Sector Banks shows that NPAs have been more in public Sector Banks as compared to Private Sector Banks. This is because advances by public sector banks to the priority sector were high, whereas in Non Priority Sector NPAs has been more in Private Sector Banks; this is because private sector banks preferred to lend the non-priority sector than to the priority sector.

In Agriculture Sector within the priority sector in 2001, the percentage of NPA to loan amount was 14 percent, after this there has been a steady decline and in the last two to three years it was 2 to 3 percent only in Public Sector Banks.

The NPA percentage to loan amount in SSI sector in Public Sector Banks was at a very high level of 21 percent in 2001. However after this there has been a substantial improvement and for the last several years, it is at a relatively low level of 4 percent only. The percentage of weaker section NPA's to loan amount of weaker section was at a high level of 23 percent in 2001, after this there has been a steady decline and in the last two years it was 3 to 4 percent only.

The percentage of Agriculture sector NPAs to its total loan amount by Private Sector Banks has declined from 6 percent in 2001 to 2 percent in 2010, while its share to total NPA has increased from 5 percent in 2001 to 12 percent in 2011. During the early periods of the study the private sector banks suffered severely because of higher NPAs from agricultural sector. There is an increase in NPAs due to non recovery of agricultural credit.

The amount of NPAs in SSIs has shown a decline in 2007 in comparison to 2002 and has increased from 2008 onwards in Private sector banks. The growth rate of NPAs was highest in 2009-10 at 70 percent, while growth rate of loan was highest in 2007-08 at 253 percent and came down to 4 percent in 2008-09. The amount of NPAs was more in 2010 and 2011 to the weaker sections in Private sector Banks. The percentage of Priority sector NPAs to loan amount as well as to total NPA of Foreign Banks has increased over the selected period of time.

A Comparative analysis between Public and Private Sector Banks of NPAs in Priority Sector shows that NPAs in priority Sector has been more in public Sector Banks as compared to Private Sector Banks in India. It clearly indicates that NPAs in priority sector were more in public sector banks when compared to private and foreign banks. This is because the public sector banks have been enthusiastically following Government norms and have been giving loans to the priority sector.

In Public Sector Banks, from 2001 to 2011 there has been a drop in NPAs percentage which was at a very high level in 2001; presently the NPA percentage is relatively low, but still not sustainable. The percentage of NPAs in Private sector Banks has shown a similar trend of consistent decline as witnessed in case of Public Sector Banks. There is still a need to improve the NPA percentage by better assessment of loan applications and follow up. Banks will be motivated to give more loans to priority sectors only if NPAs of priority sector are brought down further.

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