

## PRIORITY SECTOR LENDING AND NPAs

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### Abstract:

The issue of increasing NPA is alarming for the banks. There is great essence of finding solution to this situation when NPA is moving towards double digit. Large percentage of Priority sector lending has been found to turn into NPA, however the contribution of non-priority sector towards NPA is no less.

The basic reason for the emergence of priority sector lending is to provide financial assistance to the priority sectors by providing priorities in taking loans. The Government always looks at the wider prospects of the country. When the Government wants the development at large, it promotes the schemes which is supposed to be implemented at large let it be medical facilities, job opportunities, government schemes for unprivileged, the senior citizens, and so on.

As we know the country prospers by the citizens who prove themselves to be asset to the country. Government found the need of providing initiative to the people who could better prove themselves to be the contributor to the increasing GDP of the country. This initiative arose in the form of priority sector lending.

Priority sector lending is to serve specific sectors of economy like agriculture, education, housing and food for the poorer population. Total priority sector lending involves 40 percent of Adjusted net bank credit or credit Equivalent amount of off balance sheet exposure whichever is higher. Agriculture 18%, Micro enterprises 7.5%, Advance to weaker section 12%. In recent time of covid pandemic medical service is also desired to be considered under priority sector lending.

As per the study of Dave K.S. (2016) - 'A study of priority sector lending for selected public sector bank of India' it is concluded that banks have to increase their priority sector lending for the development of the economy.

In the study by Mukherjee A. CogitASI staff (2020)- Stop forcing banks to lend to India's priority sector lending. It is highlighted that the need of priority sector lending could be the necessity in 1970s, but today after half century there is need to upgrade the slowdown of economy. There is alarming urge to resolve the NPA problem. A step forward in this line can be by making reform in priority sector lending. There is

requirement of more efficient credit allocation for the capital needs of emerging and productive sectors of the economy.

Kandela R. IOSR-JBM (Analysis of priority and non-priority sector NPAs of Indian public sector. The study shows the sector-wise NPAs of public sector banks for twelve years from 2005 to 2016. The priority sector NPAs increased till 2011 and decreased from 2011-2016 while non priority sector NPAs increased substantially after 2011 to 2016. It was concluded that the particular sector contributing towards NPA should be identified and reduced by governmental efforts rather than priority or non-priority sector.

Gaur D., Mohapatra D.R. (2020) in “The nexus of economic growth, priority sector lending and non-performing assets: case of Indian banking sector.” South Asian Journal of Business Studies. The findings show that there exists a positive correlation and bidirectional causal relationship between PSL and GDP, which implies that PSL brings additional growth for the whole economy. In addition to it, PSL is found to be insignificant for the NPA ratio, and thus, it can be inferred that credit extended to government-specified sectors does not bring any major increase in the bad loan portfolio of banks.

Recommendations of First & Second Narasimham Committee and Verma Committee: Narasimham Committee has not directly supported to banks in privatization, it suggested certain recommendations for market strategy and profit seeking banks. Effect of Norms: The new banking culture protected by reforms, is reflected in ignoring the priority sectors and fully unfair treatment of opportunities offered by capital market related activities.

As the chairman of State Bank of India correctly pointed out, “this approach Breaks faith of an innocence of realities of Indian economy” These brings following changes in activities: Priority Sector Lending: The general perception of the priority sectors is that prescription of 40% of net bank credit, which have led to the higher level of Non-Performing Assets (NPAs). The accepted fact that increase in Non-Performing Assets will definitely affect the Indian Banking System.

Babu M.R., Kumar A. (2018) “Evaluating the nationalization & privatization effect: a case of Indian banking industry. It has been determined that the performance of banks after nationalization enabled to direct the credits to priority fields of small scale, exports and agriculture, which cannot be expanded in rural areas. By integrating such processes, public confidence can be improved on banks and ultimately the performance of banks can be increased.

Andrews. M.1 “IMF Working Paper Monetary and Financial Systems Department State-Owned Banks, Stability, Privatization, and Growth: Practical Policy Decisions in a World Without Empirical Proof.” Authorized for distribution by Hoelscher D.S. (2005). It is claimed that the Working Paper should

not be reported as representing the views of the IMF. The views expressed in this Working Paper are those of the author(s) and do not necessarily represent the views of IMF. Promote economic efficiency and reduce government interference in the economy

In 1993-94 government had to make capital injections in 19 banks since half of them showed negative net worth and one PSB showed net loss. The government banks made little substantive progress in expectation of continued capital injection by the government. Priority sector lending is considered as “non-commercial mandate” and Indian bank reforms were such as to retain non-commercial mandates, and not to go for privatisation of banks.

Sinha J. & Goyal R. (2021) Converting some part of priority sector lending to a grant paid directly by the government can unlock large amounts of efficiency in the system, dramatically increase the valuation of public sector banks, and be of immense help to weaker segments (PTI)

According to Janmejaya Sinha, chairman BCG and Ruchin Goyal senior partner BCG, agriculture sector getting 18% of the total 40% of ANBC is still striving for sustainment. As far as agriculture is concerned 59.4% of population is engaged in agriculture, their main problem is less productivity due to insufficient credit finance. The covid 19 pandemic draws attention to increase in PSL for providing medical facilities and medical aids.

Chandrashekhar G. *Business Line* (24 Mar, 2022) “Credit alone isn’t sufficient. There is need to step up funding of farm research and introduce ESG principles.”

**Conclusion:** It can be derived that after more than half century of setting the priority sector concept, there is required a review in accordance with the present scenario. It can be compared with idea of revamping the vehicle after a long run. The double digit NPA, increasing burden on banks, increasing corruption via sanctioning of loans to underprivileged, competition arising in front of public banks with private banks. The public banks in tune with RBI norms for PSL sanctions are sufferers; in comparison to private sector banks which pay penalty for non-fulfilment of PSL percentage criteria.

The political influence, the media, the human resource persons all create hindrance for making appropriate decisions to strengthen the financial system, so it is the need of the day to rethink on the policies to ascertain better future of the country.