PREFACE

Commercial banks are supposed to play an important role in achieving the economic development by providing effective institutional credit support to various regions/sectors/sections. Banking has been viewed as a catalytic agent that must develop and support not only single element of national economy, but, also provide an effective link between the productive, distributive and consumption side of it.

One of the most important objective of government policies since bank nationalization has been to extend and expand credit not only to those sectors which were of crucial importance in terms of their contribution to national income and employment, but, also to those sectors which have been severely neglected in terms of access to institutional credit. Those sectors which were to be initially identified for this purpose were agriculture, small scale industries and self employed persons. These sectors were accorded priority status in credit allocation by the banks.

In fact, priority sector is still the butter and bread, both, literally and figuratively of Indian economic growth. Therefore, they require a special status. Though, there is no known formal decision by the government regarding curtailment in priority sector credit, yet, serious attempts have been in recent years to dilute the norms of priority sector lending. New banking culture after banking sector reforms is set to focus on credit to customer durables’, to corporate allied and to capital market related activities. Since the aim of banking reforms is to make public sector banking more proficient in treasury operations, the importance of investing in priority sector seems to have lost its relevance for banks.

The present study seeks to analyze the growth and structure of priority sector lending in different states during the pre and post-reform period in India. Further, an attempt is also made to probe the trends in disparities in priority sector lending across the selected states of India. The scope of the study is confined to priority sector lending by the public sector banks only. Since public sector banks represent majority of the commercial banking activities in India, the overall trend can be easily determined by analyzing the data of priority sector lending of the public sector banks alone. Public sector banks are those, which are included in the second schedule of Reserve Bank of India Act 1934. However, the regional rural banks are not included in the present study.
The main objective of the study is to analyze the level and structure of priority sector lending in India during the pre and post-reform period. How with economic reforms, the growth and composition of priority sector lending has been affected needs to be analyzed. Further, to what extent the different stipulated targets of priority sector lending are met also remains to be examined. Whether, priority sector credit is evenly disbursed across different states/sectors or is confined to few states/sectors remain to be studied.

So, the present study is an attempt to evaluate the performance of public sector banks during the pre and post-reform period in priority sector lending. The study comprises eight chapters in all. The first chapter contains the role of commercial banks in the process of economic development and the genesis of priority sector lending in India. Also, various issues relating to non-performing assets (NPAs) in priority sector lending is discussed in this chapter. Further, a brief review of literature on priority sector lending by the public sector banks has been presented in the second chapter. The third chapter outlines the need, scope, objectives, hypothesis, limitations and methods of investigations used in the study.

In the fourth and fifth chapter, the performance of public sector banks in financing agriculture and small scale industries has been analyzed respectively. In the sixth chapter, the performance of banks with respect to ‘other priority sector’ has been evaluated. In the seventh chapter, the performance of public sector banks with respect to overall priority sector lending has been examined. The growth and structure of NPAs in priority sector lending are also analyzed in the seventh chapter.

Finally, summing up of the findings and conclusions of the present study and suggestions for improving the quality of priority sector lending by public sector banks finds a place in the eighth (last) chapter of the study.