CHAPTER 4

Sector-wise Allocation of Credit

The preceding chapter revealed that there was a declining trend of C-D ratio of all the states on an average for the entire period of our study. The striking fact was that the C-D ratio deteriorated unambiguously during the post-reform phase for almost all the selected states and all India level. Such a reduction of credit as a proportion of deposit needs to be analyzed by exploring the original sources of credit demand. There are three major sources of credit demand in the economy namely Agriculture, Industry and Services. The industrial sector holds the giant share of total credit allocation whereas the agriculture sector holds the moderate share. The service sector, being a conjugate of these two sectors, is expected to have a significant share out of the total. In this chapter, we try to explore the allocation of credit outstanding to these three prime sectors (which are commonly called the real sectors) for the entire group of 16 states. To get the share of credit of an individual state out of the total we have clubbed the credit of all 16 states. Since this clubbed figure of credit covers about 95 per cent of all India credit, treatment of this clubbed figure as all India figure may be justified. In the first case we would concentrate on an individual state’s share of a particular sector out of the clubbed value of credit allocated to this particular sector. After that we would try to analyze the share of a particular sector out of the total credit absorbed by a particular state. The first case would explain a state’s importance at all India level and the second case would explain the importance of a particular sector in a particular state.

4.1 Trend of Share of Agriculture Sector Credit of States

We know agricultural activity as the traditional and primary activities that include farming, forestry, plantation, fishery, etc. The present study considers only the allocation and utilization of the aggregate credit outstanding of the scheduled commercial banks in the head of agriculture. Figure 4.1 and Figure 4.2 highlight the trend of share of agriculture sector credit of the selected states with respect to the all India level. It is observed that through out the entire period of our study there is rising trend of
agricultural credit share in AP, MP, Rajasthan and UP whereas Assam and West Bengal have shown a falling trend.

**Figure-4.1**

Trend of Share of Credit in Agricultural Sector (16 states)

**Figure-4.2**

Trend of Share of Credit in Agricultural Sector (16 states)
Remaining ten states neither have upward nor downward trend through out the entire period. Decomposing the entire period of study into pre-reform and post-reform phases it is revealed that ten states out of sixteen have presented the importance of agriculture during the pre-reform period so far as allocation of credit to the sector is concerned because they demonstrate upward trends of credit share. The states are namely AP, UP, MP, Rajasthan, TN, Orissa, Punjab, Haryana, Bihar and Kerala. The states showing the declining trend of agricultural credit use during that particular regime are Delhi, Assam, Maharashtra, Gujrat, Karnataka and WB. If we consider the average share of allocation of agricultural credit during the pre-reform period (Table 4.1) it is observed that AP stays at the top of the list followed by Maharashtra, Karnataka, UP and TN.

**Table-4.1**

Pre and Post-reform Average Share of Agricultural Credit of a State out of a club of 16 states

<table>
<thead>
<tr>
<th>Periods</th>
<th>AP</th>
<th>Guj</th>
<th>Maha</th>
<th>Ori</th>
<th>TN</th>
<th>UP</th>
<th>Del</th>
<th>WB</th>
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<tr>
<td>Pre(1972-92)</td>
<td>11.18109</td>
<td>5.54345</td>
<td>10.6001</td>
<td>2.08174</td>
<td>9.9131</td>
<td>10.0724</td>
<td>2.2757</td>
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contd..

<table>
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<tr>
<th>Periods</th>
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<th>Bih</th>
<th>MP</th>
<th>Har</th>
<th>Pun</th>
<th>Raj</th>
<th>Kar</th>
<th>Kera</th>
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<tbody>
<tr>
<td>Post(1993-08)</td>
<td>0.789521</td>
<td>3.80591</td>
<td>6.51707</td>
<td>4.14715</td>
<td>6.1675</td>
<td>5.63881</td>
<td>10.265</td>
<td>4.4255</td>
</tr>
</tbody>
</table>

Orissa stays at the bottom of the series preceded by Delhi and Assam. West Bengal holds the credit share of under 6 per cent of all India agricultural credit. During the post-reform era states maintaining rising trends are AP, MP, Rajasthan, Maharashtra, Delhi, UP, Karnataka, Punjab and Kerala while the remaining states have maintained a downward trend. The policy of banking sector reform has an unfavourable consequence upon the states agriculture sector that is TN, Orissa, Bihar and Haryana. These are the states which were maintaining a healthy trend during the pre-reform period and lost their supremacy in the post-reform phase. Though they have demonstrated a diminishing trend, but on an average, they have improved their position of holding of agricultural credit from pre-to post reform regimes. AP still holds the top slot in the list and UP, TN and Karnataka to follow AP for the entire period. WB has revealed a further deterioration of its importance in the national level occupying a mere share of 3 per cent only after the reform.
Besides the analysis of a state’s importance in the all India credit of agriculture sector it is also required to explore the position of the agriculture sector out of the allocation of total credit within an individual state.

**Figure 4.3**

State-wise Share of Agriculture Credit of an Individual State

**Figure 4.4**

Share of Agriculture Credit of Individual States
It is observed from Figure 4.3 and Figure 4.4 that during the pre-reform phase except Assam, WB and Delhi, all the states have demonstrated an upward trend of allocation of credit to this sector. Though Assam has presented a downward trend of credit share to this sector, it has been the top rank state in terms of pooling average credit allotted to this sector (Figure 4.5). It has allotted about 28 per cent of total credit outstanding to this sector whereas Delhi, Maharashtra and WB are states with a respective share of 3 per cent, 7 per cent and 8 per cent proving the degree of irrelevance of this sector in their own economy. If we consider the fact that credit has an influence on the growth of the economy in any way then it can thus be said that most of the states were agriculture rich or agriculture dependent, except a few one, in the era before to the introduction of the major banking sector reform. But the scenario has changed drastically in the phase of the major economic reforms. All the states, except a mild degree of rising trend for the state of Delhi, have produced downward direction of credit allotted to the agriculture sector of the states. This is the situation by which this traditional sector lost its importance after the major reform programme started. Largest reduction of the share is observed for Assam that was observed as the top state in the pre-reform regime. Though Bihar has a downward trend it has shown some sort of bright sign on an average. Its average agricultural credit share has improved from 19 per cent to 22 per cent in the reform
period. Such a huge magnitude of reduction of agricultural credit share of all the states have proven the least importance of this sector in the formal banking sector credit in the reform phase. The banking sector in the reform phase has shifted their lending planning from the agricultural sector to the others. Therefore, one of the major grounds for the overall declining trend of C-D ratio of almost all the states could be the sluggish credit allocation to the agriculture sector.

The reduction of share of agricultural credit for most of the states over time could be explained by the combination of supply and demand side factors. There are several supply side factors operating in the Indian economy during the period of our study. The directed credit programmes should be mentioned first. According to Sahu and Rajasekhar (2005) directed credit programmes at concessional rates leads to negative effects on the commercial banks operating in Indian states and so the institutional credit to this sector has been affected severely. The study on developing countries experience on directed credit programmes by Odedokun (1996) has shown that the directed credit programme is ineffective than market based allocation of credit. Besides the failure of the directed credit programmes there are the factors like agricultural credit subsidy and rising transaction cost of lending to this sector have a worsening effect on the delivery of credits for most of the Indian states. Credit subsidy is the difference between the cost of supplying to the sectors including bad debts and the rate of interest received from that sector out of lending. As credit subsidy rises the outstanding credit might be decreased. Sahu and Rajasekhar (in the work cited) has shown that credit subsidy has a significant detrimental effect on the allocation of credit to the agriculture sector at the all India level. The work by Gadgil (1994) has pointed out that the rising transaction cost including salaries and allowances of the bank staffs, rent, postage, telegram, travel, etc. of the banking sector in the reform period has led to the reduction of credit delivery to the agriculture sector in particular. Another important factor responsible for such a down turn credit share would be the extent of non-performing assets appeared in the name of bad debts. As there is high chance of NPA (because of the problems appearing in assessment of feasibility of primary sector lending) on the assets delivered to the agricultural sector there is the lack of bindings of the formal credit institutions to supply credit to this sector.
(Rajasekhar & Vyasulu, 1993). As the degree of NPA rises, the formal lending institutions would be proactive to trade off the risky loans with the relatively less risky investment in government and other approved securities. As envisaged by Sahu & Rajasekhar there is an inverse relationship between shares of agricultural credit and proportion of total deposit invested in government and approved securities. All these above mention grounds would be expected to explain the declining trend of the agricultural credit share so far as supply side related factors are concerned.

On the other hand, the demand side factors that creates the base for absorption of loans and advances needs to be mentioned too. The major factors falling under the demand side would be the growth rate of the sector and the infrastructure development of the entire economy. It has been pointed out in the previous chapter that there is a strong positive correlation between growth of agricultural output and growth of credit allotted to the agriculture sector. This finding establishes that there has been lower degree of credit absorptive capacity of this sector. In another side of the story we can point out the fact of relation between the infrastructure development in agriculture (gross capital formation or in short GCF) and agriculture share of credit. As the magnitude of the gross capital formation in the sector rises then it is expected to have attracting more credit to this sector for extra production and processing. It has been pointed out in Misra & Puri (2003) that the GCF in agriculture as percentage to gross domestic product in agriculture has fallen continuously in the reform period. On the other hand agriculture GCF as percentage to the total GCF has also declined partly in the pre-reform period but unquestionably declined during the post-reform period. According to Economic Survey (2002-03) such a decline in the capital formation in the agriculture sector of the country is due mainly to near stagnation or fall of public investment in this sector since the early 1990's when the major reform launched. Another important factor, which could well explain the credit absorptive capacity of this sector, could be the productivity growth of the factors associated with this sector. If the total factor productivity of the sector rises then the growth of the sector is expected to rise and as a result the margin of NPA would fall which would lead to the confidence of the credit institutions to deliver more credit to the sector. The study by Janaiah et al. (2005) has been a proxy to explain the declining
trend of agricultural credit share. The study has shown that during the early green revolution period (before 1985) the trend of total factor productivity (TFP) was increasing in the rice production of several Indian states but it declined there after. Hence the reform process has led both the demand and supply factors to work in inverse direction and thereby justifying the downward trend of the agricultural credit share in most of the Indian states.

4.2 Trend of Share of Industrial Sector Credit of States

The industrial sector comprises the activities related to the areas which are not nature dependent and where relatively huge amount of capital is required for production. There are four major components of industrial activities viz. mining and quarrying, manufacturing, electricity, gas, water generation and transportation and construction activities. Out of these four broad sub-sectors the manufacturing activity is generally confined to factory production system whereas all the remaining three sub-sectors are the base of infrastructure and resource that associate the manufacturing sector by supplying operational inputs to it. Figure 4.6, Figure 4.7 and Table 4.2 highlight the fact of the absorption of credit by the industrial sector of the sixteen major states in India.
It is observed that during the entire period of our study the states revealing a rising trend of credit share are Delhi, TN, Maharashtra, AP, MP and Rajasthan whereas WB, UP, Karnataka, Bihar, Haryana, Punjab and Kerala have produced a declining trend.

Figure-4.7

West Bengal, having a one fifth share of the total industrial credit during the year 1972 has ended up with 10 per cent in the year 1992 and around a mere 6 per cent in the year 2008. Maharashtra occupies a giant share of about 25 to 30 per cent during the entire period of our study, surpassing all the fifteen remaining states. During the pre-reform period, half of the total number of states is observed with a rising trend of credit pooling to this sector. The notable states showing a declining credit share were WB, Gujarat, Karnataka, Bihar, UP and Haryana. During the post-reform era, half of the states are showing upward trend and the remaining half showing downward trends. Maharashtra still leads the side with rising trend and Assam leads the side with downward trend. Gujarat, Karnataka and Haryana recovered from their downward trend in the pre-reform to an upward trend in the post-reform period while AP, Orissa, Rajasthan and Assam have deteriorated their position from pre to post-reform phase. West Bengal still maintains a downward trend of industrial sector credit share. Looking at the average
share holding of credit of this sector in all India level we see that Maharashtra maintains the all time top position followed by WB and Gujarat during the pre-reform period. But during the post reform phase Maharashtra is followed by Delhi, TN and Gujarat, putting WB down ward to the 5th position from its healthy second position. Delhi and TN have improved their industrial base during the period of banking sector reform over the pre-reform position. Assam is observed as becoming the least important state so far as pooling of credit to industrial sector is concerned.

Table 4.2
Pre and Post-reform Average Share of Industrial Credit of a State out of a Club of 16 States

<table>
<thead>
<tr>
<th>Periods</th>
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<th>Raj</th>
<th>Kar</th>
<th>Kera</th>
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<tbody>
<tr>
<td>1993-08(post)</td>
<td>0.706</td>
<td>1.369</td>
<td>2.8734</td>
<td>2.2141</td>
<td>2.9596</td>
<td>2.2147</td>
<td>6.5791</td>
<td>2.10231</td>
</tr>
</tbody>
</table>

Moving away from the analysis of a state’s position in the structure of all India industrial credit, we now want to explore what happens to the position of this sector for a particular state when the total credit of the state is shared by agriculture, industry and service sectors. The development of a state would depend largely on the soundness of the industrial base of the state. Industrial activity of a nation is generally dependent upon the formal credit of the banking sector. Figure 4.8, Figure 4.9 and Figure 4.10 have demonstrated the fact of how the industrial activities of a state are lubricated through the supply of banking sector credit of a particular state in year and average basis. It is observed that all the states, except Delhi, TN and Punjab, have presented a downward trend of credit share throughout the entire period of our study. Delhi and TN have pooled the giant share of their banking credit in favour of the industrial sector. Punjab has raised the credit share insignificantly for this sector in the post-reform phase. There is a similarity in the allocation of industrial sector credit among Gujarat, Maharashtra, AP and UP in the year 1986 as they have a common dip point. The average holding of credit by this sector for the states have shown the unquestionable downward trend for almost all
the states except Delhi and TN from pre to post-reform phase. Bihar, having a share of 51 per cent during the pre-reform phase, has gone down to below 30 per cent during the post-reform phase that is observed as the largest downfall in the reform period among all the sixteen states. The state of Bihar was traditionally known for its strong industrial base during the pre-reform era but in the latter phase it turns out to be the state with somewhat relatively more important in agriculture and service sectors activities. WB has not been
much worsened by the banking sector reform so far as credit allocation to the industrial sector is concerned.

**Figure-4.10**

State-wise Average Share of Industrial Credit within an Individual State

![Bar chart showing state-wise average share of industrial credit](image)

Though Gujarat, WB, Maharashtra and Haryana have experienced the downward trend of industrial credit allocation they have continued to remain as strong industrial base state as they utilized over 50 per cent of their total credit to the industrial sector. Whatever is the overall scenario the industrial sectors of most of the states’ suffered from the effects of reform programme.

The reduction of such a credit absorptive capacity of the industrial sector of most of the Indian states during the post-reform regime could be explained by the combination of several factors operating in the Indian economy during that particular period. According to the Planning Commission of the Government of India (1999) the economy’s industrial slowdown in the reform phase arose because of the opening up of the economy led the sector vulnerable to external competitions which were almost totally protected during the pre-reform periods. Chandrasekhar (1996) has pointed out that the industrial slow down was due to sluggish public sector investment. In the year 1991, IMF adopted the macro-economic adjustment programme that forced the Government of India to cut down public expenditure drastically. Since there is a correlation between public and private sector investment in capital formation, a reduction in public expenditure leads to the thrashing
out of the private expenditure leading to overall reduction in capital formation and so industrial growth. But the rising trend of share of Delhi, TN and Punjab in the industrial credit could be explained by their healthy position in the infrastructural development (Ghosh & De, 1998). Another important factor responsible for industrial recession was the contraction in consumer demand. According to Shetty (2001) the reduction in the consumer demand was due to reduction in rural and urban purchasing power followed by low agricultural and real estate growth and reduction of employment leading to inequality of distribution of income. According to the RBI Report on Currency and Finance (2001-02) the industrial slow down on the reform period was due to the decline in the total factor productivity growth than that of the pre-reform period. In a related study Tribedi (2004) has analysed the inter-state perspective of the organized manufacturing productivity in India. The study has pointed out that Bihar and West Bengal are diverging away rather converging to the growth rates of output of the organized manufacturing sector at the national level and thereby complementing the huge rate of decline of industrial credit share for Bihar and relative less extent for WB. In another study, Banik (2001) has shown that there was significant reduction in India's exports growth during the reform period for most of the industrial and agricultural products. Such a reduction in the export growth of the industrial goods might be responsible for the decline in the industrial credit share of almost all the states. On the other hand, the supply side bottlenecks might be present in explaining such a downward movement of the industrial credit share. Most prominent, among them, might be the clause of the capital adequacy ratio of the risky assets failing of which could lead to the formation of NPA and thus discourages the banks to sanction loans and advances to the sector. On the other hand as the application of the capital adequacy norms becomes more stringent, particularly for the small and backward industrial units, the banking institution try to switch a part of their loanable deposits into other relatively less risky assets like investing in government and other approved securities. As the margin of security investment rises the size of loanable funds falls and so the ratio of credit outstanding to total deposit also falls. In the next chapter of our study, the empirical verification of supply side factors of credit bottlenecks will be examined in detail.
4.3 Trend of Share of Service Sector Credit of States

Service sector or tertiary sector plays the conjugative role in activating the pace of the agriculture and industrial sectors. In other words it plays complementary role in the functioning of the primary and secondary sectors. Growth and development of the commodity producing sectors depend on the growth of the service sector and vice versa. The main components by which the service sector immensely helps the agriculture and the industrial sectors are comprised of transport operators, trade (both retail and wholesale), personal and professional services, finance, etc. According to the World Development Report (1996) the service sector constitutes a major part in the GDP of almost all countries. The share of service sector in total GDP is 70 per cent in France, 66 per cent in USA and 42 per cent in India during the year 1994. But there is a slight difference in the estimation of this sector's contribution in the GDP of India made by EPWRF (1997), which is below 40 per cent at constant 1980-81 prices. These above results clearly show the degree of importance of the sector in the GDP through boosting up the commodity or material producing sectors. On the other hand, the share of work force employed in that sector may also highlight the extent of growth of this sector. It is seen that the share of employment in the service sector has improved from 17 per cent to 20 per cent during 1950-51 to 1990-91 (Sivasubramonian 1999). Whatever is the growth of this sector there should be a balance among the growth of this sector with the commodity producing sectors. In their study Bhattacharya & Mitra (1990) have shown that excess growth of the tertiary sector in the Indian economy during the 1980's has a serious implication in the growth of income level of the persons employed in this sector creating excess demand for the product of the commodity producing sectors. Such an excess demand has pushed up the inflation level welcoming excess demand for imports, which adversely affects the balance of trade position of the country. On the other hand the article has contradicted the fact of employment growth of this sector as a contrary to the results of Sivasubramonian. Bhattacharya & Mitra have shown that the share of services in national income is much larger than its corresponding share in employment that raises the question of non-sustainability. Keeping this debate aside we would now turn to the analysis of the importance of the banking sector particularly out of the service sector in all India as well as state levels.
The Indian economy embarked on the path of planned development with low levels of savings and investment ratios. In order to achieve a high rate of economic growth it was considered necessary to step up these ratios for the productive financial assets. The importance of credit institution like scheduled commercial banks for mobilizing household savings to meet the growing requirements of an expanding economy was emphasized right from the beginning of the planning process. During the post-nationalization periods the value added in the banking services as well as the value of intermediation and liquidity services got a tremendous boost. According to Datta (2001) the share of the banking sector in the total value added in the tertiary sector has increased from 7.8 per cent in 1950-51 to over 27 per cent in 1995-96. This fact of increase in value addition confirms the credible role of this sector in the perspective of the Indian economy. Hence the allocation of credit to the service sector for the entire period of our study deserves special attention. Figure 4.11, Figure 4.12 and Table 4.3 highlight the importance of an individual state in the all India context so far as demand for credit into the sector is concerned.

Figure-4.11

It has been observed that during the pre-reform era all states except Delhi and Punjab have shown an upward trend of credit pooled to this sector and Maharashtra leads the list of 14 states while WB has stayed after Maharashtra, Delhi and TN. Though Delhi has
exhibited a downward trend its average holding of credit is far larger than that of the other 14 states except Maharashtra because of a huge holding of share of around 40-42 per cent in the period 1976-78, surpassing even the share of Maharashtra in that particular years.

Figure-4.12

Such an over weight of the state of Delhi in the national level in these particular years has reflected the high C-D ratio of the state in these years. Therefore, it can be concluded that the high C-D ratio of Delhi in these years was achieved by the huge holding of share of in the aggregate service sector credit. During the post-reform period half of the states have demonstrated rising trend and the other half of the states presented downward trend. Delhi has recovered from the downward in the pre-reform to an upward trend during the post-reform period, though on an average, it has carried a very low share of service sector credit in the post-reform phase. The states that have deteriorated their positions from their pre-reform status of an upward trend are WB, Orissa, Bihar, UP, Assam, Haryana and MP. During the entire period of our study, except Delhi, WB and Punjab, eight states have an unambiguous upward trend of credit share of this sector. The states are notably Maharashtra, TN, AP, UP, Rajasthan, Karnataka, MP and Kerala. The banking sector reform has a good consequence for the state of Maharashtra in terms of a healthy pooling
of banking funds in favour of its service sector and so it unquestionably surpassed the other 15 states.

**Table 4.3**

Pre and Post-reform Average Share of Service Sector Credit of a State out of a Club of 16 States

<table>
<thead>
<tr>
<th>Periods</th>
<th>AP</th>
<th>Guj</th>
<th>Maha</th>
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<th>Kera</th>
</tr>
</thead>
<tbody>
<tr>
<td>1972-92(pre)</td>
<td>1.2076</td>
<td>2.7551</td>
<td>3.229</td>
<td>1.5818</td>
<td>5.1177</td>
<td>2.3079</td>
<td>6.2691</td>
<td>4.6997</td>
</tr>
<tr>
<td>1993-08(post)</td>
<td>0.9775</td>
<td>2.4973</td>
<td>3.219</td>
<td>1.5883</td>
<td>3.2727</td>
<td>2.5717</td>
<td>7.33896</td>
<td>5.0946</td>
</tr>
</tbody>
</table>

During the reform period it has commanded, on an average, 28 per cent credit share in the service sector raising the concentration of credit into the hands of a few states and that is a cause of worry so far as inter-state equity is concerned. A share of over 50 per cent service sector credit has been concentrated in the hands of Maharashtra, TN, Delhi and Karnataka during the post-reform period. The growth of service sector credit of Maharashtra could be explained by the deceleration of credit share of Delhi, Assam and Punjab. Delhi has slipped from a sound holding of about 20 per cent in the pre-reform phase to about 11 per cent during the post-reform phase whereas Punjab and Assam slipped 2 per cent and 1 per cent point respectively in the same time frame. The average position of WB in case of pooling of the service sector credit has also deteriorated a little bit but the state holds a share of only 5-6 per cent during the entire period of the study.

Let us explore what happens to that sector in a particular state when the aggregate credit of a state is shared by the major three sectors operating within the state year wise and in average terms (Figure 4.13, Figure 4.14 and Figure 4.15). It would highlight the importance of the sector of different states regarding the credit allocation during the era of banking sector reform. It is observed that all the states except Delhi and Punjab have the unquestionable upward trend of credit share of this sector under the framework of the study. Delhi and Punjab have produced a downward trend during the pre-reform regime.
but demonstrating a phenomenon of a rising trend during the post-reform regime. On an average, though Delhi continues to have a drastic reduction of credit share of this sector from over a majority of the share of 55 per cent in the pre-reform to under 35 per cent in the post-reform phase, Punjab has recovered by about 2 per cent increase in the average share of credit to the sector during the same period.

**Figure-4.13**

State-wise Share of Service Credit of an Individual State

**Figure-4.14**

State-wise Share of Service Credit of an Individual States
These two concerned states have the top holding of credit by their service sector in the same year of 1976. Delhi and Punjab have achieved nearly 90 per cent and 51 per cent respectively of their total credit demand in their respective service sectors in the year 1976. The ranking of the states in terms of average credit demand by this sector of the respective states reveals that Delhi is the top state with an average share of over 55 per cent allotted to this sector that is followed by Kerala and Punjab with a share nearly 32 per cent each during the pre-reform regime. The least developing state is Haryana, which is followed by Gujarat. WB ranks the third lowest after Haryana and Gujarat with a share of 20 per cent of this concerned sector. During the post-reform era, the scenario has changed remarkably with Kerala holding a largest share of 47 per cent followed by Bihar (42 per cent), Assam (39 per cent) and Punjab (35 per cent). West Bengal has improved its share by 10 per cent points from pre to post-reform phase. Gujarat has occupied the worst rank 16, although it has improved the relative importance of the service sector by raising it’s share by 5 per cent points. The above analysis has helped us to conclude that the policy of banking sector reforms has raised the relevance of the service sector of each of the states as well as India. Though it raises the question of sustainability of the entire system of the economy as the conflict between the service sector and the commodity-producing sector may lead to crisis in terms of inflationary situation and balance of trade (Bhattacharya & Mitra).
From the analysis of the above sub-sections of this chapter it is revealed that AP has been
the most important state followed by Maharashtra, UP and TN with regard to the
allocation of credit to the agriculture sector at the all India level whereas Assam and
Orissa are the least important ones. In the case for industrial sector, Maharashtra has been
the all time most important state with a pooling of about 26-30 per cent of clubbed all
India industrial credit followed by a much down stair state West Bengal with a share of
about 13 per cent. The least important or backward industrial states in this respect are
again Assam and Orissa. In the case for the service sector it is again observed that
Maharashtra remains still as the advanced state followed by Delhi and TN so far as the
pooling of credit to this sector is concerned for the selected states. The backward states in
this respect are Assam, Orissa and Haryana. It may be the case that the banking
institutions are less interested to provide loans to these states in any respect. The epilogue
of the analysis of sector-wise relevance in an individual state reveals the fact that for all
states agriculture has not been the main source of activity so far as distribution of credit
of a state to its agriculture sector is concerned. The states are largely dependent on
industrial sector development and to somewhat lesser extent on that of the service sector.
While the weight of the industrial sector is much prominent for almost all the states
during the pre-reform period, it decreased during the post-reform period. On the other
hand though the weight of the service sector is relatively lesser than that of the industrial
sector, it has a rising tendency from the pre to post-reform periods for almost all the
states. Kerala and Bihar have shifted their areas of economic activities from industry to
the service sectors during the post-reform period but the latter also has a significant
importance of the agriculture sector as well. Comparing the sum of all sectors’ credit
pooling of a particular state from pre to the post-reform regimes, we see that for most of
the states the shares of agriculture and industry have declined gradually explaining the
possible grounds for the declining trend of C-D ratio of the concerned states of our study.
The largest reduction of C-D ratio (as reported in the third chapter) of Assam, Bihar,
Orissa, Haryana and Kerala would be probably due to the high degree of combined
reduction of credit shares of agriculture and industrial sectors over their respective
service sectors during the entire period of our study.
In summary we can say from the analysis of sector-wise relevance in an individual state that for all states agriculture has not been the main source of activity so far as distribution of credit of a state to its agriculture sector is concerned. The states are largely dependent on industrial sector development and to somewhat lesser extent on that of the service sector. While the weight of the industrial sector is much prominent for almost all the states during the pre-reform period, it deteriorated during the post-reform period. On the other hand though the weight of the service sector is relatively lesser than that of the industrial sector, it has a rising tendency from the pre to post-reform periods for almost all the states.