

INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE & MANAGEMENT

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A STUDY ON PRIORITY SECTOR LENDING BY BANKS

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ABSTRACT

Money is of utmost importance in our life, we need money to run our life, to satisfy all our basic needs, and for future emergency, we have banks which accepts deposits from public and lend the same. A bank is a financial institution that accepts deposits from the public and creates credit. Lending activities can be performed either directly or indirectly through capital markets. Due to their importance in the financial stability of a country, banks are highly regulated in most countries. Most nations have institutionalized a system known as fractional reserve banking under which banks hold liquid assets equal to only a portion of their current liabilities. In addition to other regulations intended to ensure liquidity, banks are generally subject to minimum capital requirements based on an international set of capital standards, known as the Basel Accords.

KEYWORDS

lending by banks, financial stability of country.

INTRODUCTION

Priority Sector refers to those sectors of the economy which may not get timely and adequate credit in the absence of this special dispensation. Priority Sector Lending is an important role given by the Reserve Bank of India (RBI) to the banks for providing a specified portion of the bank lending to few specific sectors like agriculture and allied activities, micro and small enterprises, poor people for housing, students for education and other low income groups and weaker sections. This is essentially meant for an all-round development of the economy as opposed to focusing only on the financial sector.

OBJECTIVES OF THE STUDY

1. To understand the various priority sector loans given by commercial banks
2. To know the lending facilities and various categories included in priority sector

RESEARCH METHODOLOGY

It is a conceptual paper and based on secondary data.

ANALYSIS

Priority sector loans to the following borrowers are eligible to be considered under Weaker Sections category:

TABLE 1

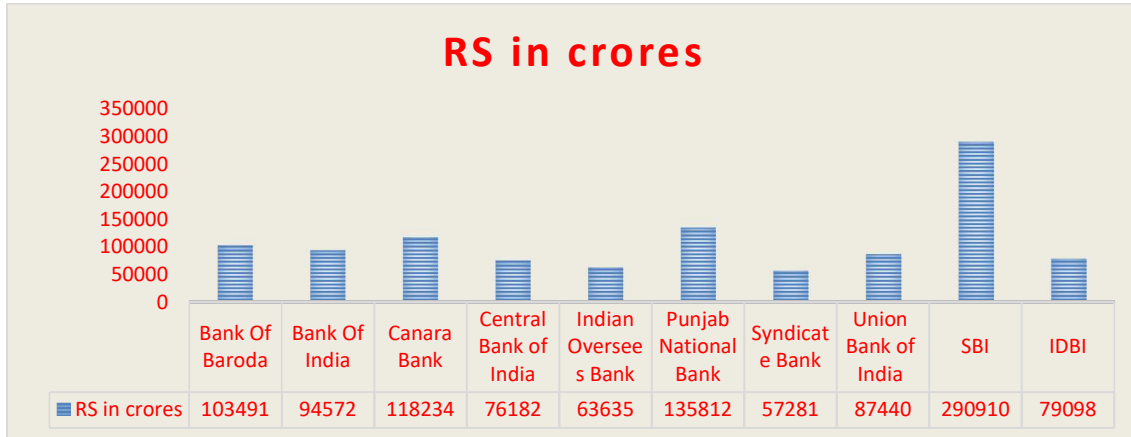
1.	Small and Marginal Farmers
2.	Artisans, village and cottage industries where individual credit limits do not exceed ₹ 1 lakh
3.	Beneficiaries under Government Sponsored Schemes such as National Rural Livelihoods Mission (NRLM), National Urban Livelihood Mission (NULM) and Self Employment Scheme for Rehabilitation of Manual Scavengers (SRMS)
4.	Scheduled Castes and Scheduled Tribes
5.	Beneficiaries of Differential Rate of Interest (DRI) scheme
6.	Self Help Groups
7.	Distressed farmers indebted to non-institutional lenders
8.	Distressed persons other than farmers, with loan amount not exceeding ₹ 1 lakh per borrower to prepay their debt to non-institutional lenders
9.	Individual women beneficiaries up to ₹ 1 lakh per borrower
10.	Persons with disabilities
11.	Overdrafts upto ₹ 5,000/- under Pradhan Mantri Jan-DhanYojana (PMJDY) accounts, provided the borrowers' household annual income does not exceed ₹ 100,000/- for rural areas and ₹ 1,60,000/- for non-rural areas
12.	Minority communities as may be notified by Government of India from time to time

Banks have been contributing to the growth of the Priority Sector of India by extending credit to them on favourable terms, in accordance with the policies of the Government of India. This has enabled many entrepreneurs establish enterprises creating employment for many, helped farmers, infrastructure development and other disadvantaged sections. The total amount of Priority Sector Lending (PSL) by all the Public Sector Banks in India was Rs. 1701806.78 crores as on 31-03-2015. Top 10 banks in Priority Sector Lending as on 31st March, 2015 were: State Bank of India, Punjab National Bank, Canara Bank, Bank of Baroda, Bank of India, Union Bank of India, IDBI BK Ltd, Central Bank of India, Indian Overseas Bank and Syndicate Bank. The amount of PSL by State Bank of India was Rs. 290910 crores as on 31-03-2015. The percentage share of PSL by State Bank of India was 17.09% of total PSL by all the Public Sector Banks in India as on 31-03-2015. The amount of PSL by Punjab National Bank was Rs. 135812.68 crores as on 31-03-2015. The percentage share of PSL by Punjab National Bank was 7.98% of total PSL by all the Public Sector Banks in India as on 31-03-2015. The amount of PSL by Canara Bank was Rs. 118234 crores as on 31-03-2015. The percentage share of PSL by Canara Bank was 6.95% of total PSL by all the Public Sector Banks in India as on 31-03-2015. The amount of PSL by Bank of Baroda was Rs. 103491 crores as on 31-03-2015. The percentage share of PSL by Bank of Baroda was 6.08% of total PSL by all the Public Sector Banks in India as on 31-03-2015. The amount of PSL by Bank of India was Rs. 94572 crores as on 31-03-2015. The percentage share of PSL by Bank of India was 5.56% of total PSL by all the Public Sector Banks in India as on 31-03-2015.

TABLE 2

Priority sector lending banks	Rs. in crores
Bank Of Baroda	103491
Bank Of India	94572
Canara Bank	118234
Central Bank of India	76182
Indian Overseas Bank	63635
Punjab National Bank	135812
Syndicate Bank	57281
Union Bank of India	87440
SBI	290910
IDBI	79098

TABLE 1



The broad categories of priority sector for all scheduled commercial banks are as under:

(i) Agriculture and Allied Activities (Direct and Indirect finance): Direct finance to agriculture shall include short, medium and long term loans given for agriculture and allied activities directly to individual farmers, Self-Help Groups (SHGs) or Joint Liability Groups (JLGs) of individual farmers without limit and to others (such as corporate, partnership firms and institutions) up to Rs. 20 lakhs, for taking up agriculture/allied activities.

This distinction between direct and indirect agriculture is dispensed with. Instead, the lending to agriculture sector has been re-defined to include (i) Farm Credit (which will include short-term crop loans and medium/long-term credit to farmers) (ii) Agriculture Infrastructure and (iii) Ancillary Activities

(ii) Small Scale Industries (Direct and Indirect Finance): Direct finance to small scale industries (SSI) shall include all loans given to SSI units which are engaged in manufacture, processing or preservation of goods and whose investment in plant and machinery (original cost) excluding land and building does not exceed the amounts specified amount

Indirect finance to SSI shall include finance to any person providing inputs to or marketing the output of artisans, village and cottage industries, hand-looms and to cooperatives of producers in this sector.

(iii) Small Business / Service Enterprises: shall include small business, retail trade, professional & self-employed persons, small road & water transport operators and other service enterprises as per the definition given in Section I and other enterprises that are engaged in providing or rendering of services, and whose investment in equipment does not exceed the amount specified in Section I

(iv) Micro Credit: Provision of credit and other financial services and products of very small amounts not exceeding Rs. 50,000 per borrower to the poor in rural, semi-urban and urban areas, either directly or through a group mechanism, for enabling them to improve their living standards, will constitute micro credit.

(v) Education loans: Education loans include loans and advances granted to only individuals for educational purposes up to Rs. 10 lakh for studies in India and Rs. 20 lakh for studies abroad, and do not include those granted to institutions;

(vi) Housing loans: Loans up to Rs. 28 lakh in metropolitan cities where population is above 10 lakh and Rs. 20 Lakh at other centers for construction/purchase of a dwelling unit per family provided total cost of the unit in metropolitan centres and at other centres does not exceed Rs. 35 Lacs and Rs. 25 Lacs respectively. (excluding loans granted by banks to their own employees) and loans given for repairs to the damaged houses of individuals up to Rs.5 lakh in metropolitan centres and Rs. 2 Lakh at other centres.

(2) Investments by banks in securitised assets, representing loans to agriculture (direct or indirect), small scale industries (direct or indirect) and housing, shall be eligible for classification under respective categories of priority sector (direct or indirect) depending on the underlying assets, provided the securitised assets are originated by banks and financial institutions and fulfill the Reserve Bank of India guidelines on securitisation. (3) Under Weaker Sections: Priority sector loans to the following borrowers are considered under Weaker Sections category:

- (a) Small and marginal farmers;
- (b) Artisans, village and cottage industries where individual credit limits do not exceed ₹50,000;
- (c) Beneficiaries of [Swarnajayanti Gram Swarozgar Yojana](#) (SGSY), now [National Rural Livelihood Mission \(NRLM\)](#);
- (d) Scheduled Castes and Scheduled Tribes;
- (e) Beneficiaries of Differential Rate of Interest (DRI) scheme;
- (f) Beneficiaries under [Swarna Jayanti Shahari Rozgar Yojana](#) (SJSRY);
- (g) Beneficiaries under the Scheme for Rehabilitation of Manual Scavengers (SRMS);
- (h) Loans to Self Help Groups;
- (i) Loans to distressed farmers indebted to non-institutional lenders;
- (j) Loans to distressed persons other than farmers not exceeding ₹50,000 per borrower to prepay their debt to non-institutional lenders;
- (k) Loans to individual women beneficiaries up to ₹50,000 per borrower. (L) also called or known as priority sector advancement (PSA);
- (m) Account holders under [Pradhan Mantri Jan Dhan Yojana](#) (PMJDY)
- (vii) Renewable energy sector has also been added to priority sector lending in the year 2015.

CONCLUSION

Priority sector has played a very important role in today's economy, which encourages the farmers to take up their agricultural activities and also helps the self-help groups and persons with disabilities to start business in their field, which also contributes to the overall economic development of the country, by encouraging farmers and providing loans at low interest rates.

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