NON PERFORMING ASSETS OF PRIORITY SECTOR, NON-PRIORITY SECTOR AND PUBLIC SECTOR IN INDIA FROM 2003 TO 2022

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ABSTRACT
Public Sector banks have been lending to Priority sector, non priority sector and public sector. The main purpose of differentiation between priority and non priority sector was that for the economic development, loans can be given to the priority sector to enhance their growth; also the non priority sector and public sector are important because of the scale of operations. These sectors are important for the growth of the economy. Similarly on the other hand, Public sector banks and the credit which they lend are important for the economic development of the country. The main aim of public sector banks is that the availability of credit is increased. Non performing assets means the loan has not been repaid in the past 90 days. NPA's as they are called as affect profitability and capital adequacy adversely. The survival of banks is affected. Therefore is necessary to understand different facets of the problems of NPA's. The paper does a comparative analysis of the Non Performing Assets of the three sectors for the period 2003 to 2022. The paper seeks to study the NPAs between the years 2003 to 2012 and 2013-2022. Various statistical techniques such as Annova and T Test are used for the purpose of analysis. The paper concludes with the observation that there has been more NPA's in the non priority sector than the other two. Further the decade between 2013-2022 has a higher mean of NPA's than the earlier decade.
Keywords: Priority sector, Non priority sector , Public sector, Non performing Assets

Introduction

Public sector banks lend to priority, sector, non priority sector as well as public sector. Priority sector comprises of micro small and medium scale enterprises, agriculture. Reserve bank of India makes rules and guidelines for the credit to be lent to them. Non priority sector comprises of all enterprises which do not form a part of the priority sector. Further public sector undertakings are large scale enterprises where government has a stake. Banks lend to these sectors to enhance their growth and for their development. Banks profitability depends on the loans given by them. If the loans are not repaid back by the borrowers , banks profitability is affected. NPA's or non performing assets impact the profitability as well as the capital adequacy as per many studies.

NPA's means the loan or credit is overdue for more than 90 days, as per the RBI Guidelines. Banking sector comes with its own share of strengths and weaknesses; NPA is one of the weaknesses. (Jain, Bennett, 2006; Jasrotia, Agarwal, 2021). Banks lend to priority, non priority and public sector. The NPA's for these sectors are researched. So the study comprises a comparative analysis of the Non Performing Assets in the three sectors. Also the total NPAs of these sectors are analyzed for a 20 year period starting from 2003 to 2022. Some remedial measures are required to reduce the NPA's otherwise the bank loses its profits.(Garg ,2020). The current paper studies the comparative status of Non performing Assets in the priority sector, non priority sector and the public sector. The non performing assets are those which are of the loans provided by the public sector banks. Public sector banks form an important component of the Indian banking sector. Both the purpose of the public sector banks as lenders and the priority, non priority sector and public sector as borrowers are important for the economic development of the country. Therefore it is necessary to study the non performing assets related to the three sectors as borrowers and public sector banks as lenders.

Literature Review

Many studies by eminent researchers have highlighted the important features of the Non performing Assets. Non Performing Assets are important as they impact the solvency, liquidity and profitability of banks. The survival of banks is at stake. The priority sector seems to be contributing to the NPAs (Gaur, Mohapatra, 2020). Factors which influence the Non performing assets are specific to banks in the form of net margin or capital adequacy ratio (Dhar, Bakshi, 2015). Asset quality, management efficiency are some factors influencing the Non performing assets, along with the macroeconomic factors (Agarwala , Agarwala, 2019). The NPA's can be reduced by monitoring and assessing the risk and can be controlled. There is a significant difference in the

NPA's of Public sector and private sector banks (Mishra et al., 2021). Smaller banks which have existed since a long time have shown profit despite having NPA's (Banerjee , Velamuri, 2015). Banks that manage the credit risk efficiently have lower levels of NPA as a ratio of total assets.(Saha et al., 2015) Reforms such as mergers of Public sector banks were introduced to reduce the NPA's , however there are impacts on the economy (Jasrotia , Agarwal, 2021). The Reserve bank of India monitors and controls banks, hence the RBI has been tackling the NPA issue with the help of regulations and is trying to take corrective action, however the high NPA's can lead to capital crunch (Nidugala, Pant, 2017). Banking sector comes with its own share of strengths and weaknesses, NPA is one of the weaknesses (Jain, Bennett, 2006; Jasrotia ,Agarwal, 2021). Lending in the priority sector is carried out by banks for the economic development of the country. The priority sector includes agriculture and MSMEs as one of its important components. However because of the financial problems associated with these sectors, banks avoid lending credit to them. (Bano, Sharma, 2020). There are RBI guidelines for the priority sector (Khanna, Patil, 2019). Public sector has an objective of balanced growth, export promotion, manufacturing of key and basic products, they contribute to economic growth (Jain et al., 2014). Remedial measures are necessary to control and monitor the non performing assets. It is essential that the Non performing assets are reduced. (Garg ,2020). A well planned monitoring and controlling system can prove to be a good remedial measure for NPA's. Such a good recovery mechanism and a proper well defined asset valuation can aid the reduction of NPAs (Bhadury , Pratap 2018).

Thus from the review of literature it can be highlighted that the NPA's affect the profitability of banks and pubic sector banks are the back bone of the Indian banking system. There are reasons why NPA's happen, NPA's are caused by faulty credit assessment by banks, which is an issue specific to banks and at the same time by reasons such as economic crisis, which are external and macro in nature. (Syed, 2021). Further the borrowers are unable to repay the loans, which results in the NPA's and these sectors are important for the economic development of country and these sectors. Therefore it becomes imperative to study the non performing assets of the lending to these sectors which are covered under the paper.

Objectives of the Study

Keeping in view the review of literature, the following objectives were formulated.

1. To compare the NPA's of the lending to the priority sector, Non Priority Sector and Public Sector.
2. To Compare and Analyze the total NPAs of all the three sector lending for years 2003 to 2012 and 2013-2022.

Hypothesis of the Study

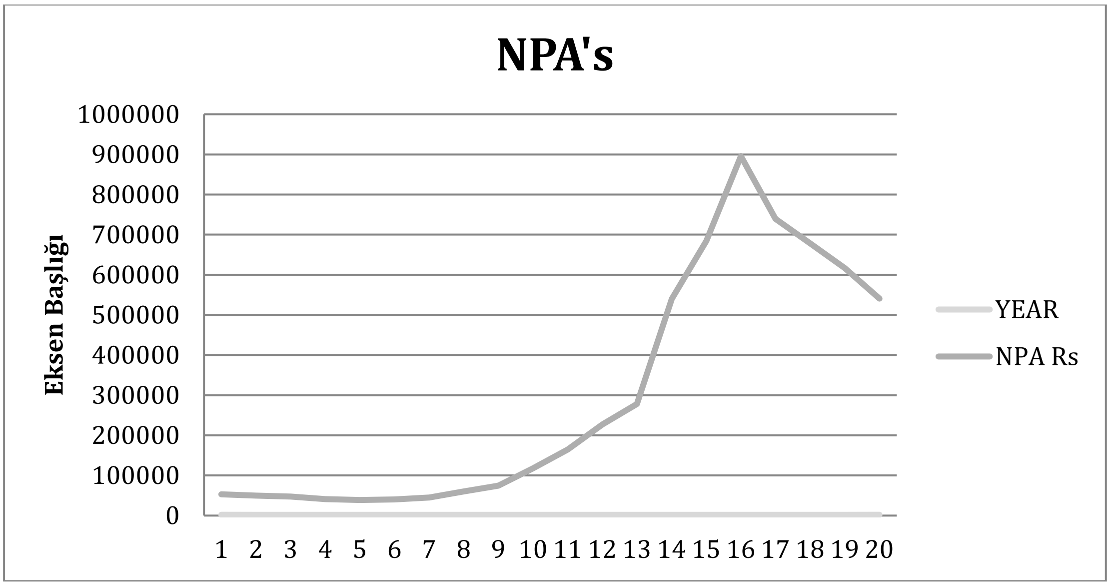
1. The Non Performing Assets of the priority sector, non priority sector and public sector are significantly different.
2. The NPA's in the years between 2003 to 2012 and 2013-2022 are significantly different.

Research Methodology

The secondary data is sourced from the Reserve Bank of India website. The data consists of the Amounts (Rupees) of Non performing Assets of the lending to Priority Sector, Non Priority Sector and Public Sector for the years 2003 to 2022. The amounts are as on 31st March every year. The data is related to the Public Sector Banks lending to the three sectors. For the analysis of the data, tests such as Means, T-Test and Annova were used.

Data Analysis

The first objective of the study is a comparison of the total NPA's of the three sectors. The data for 20 years starting from 2003 to 2022, was extracted for all the three sectors. The total non performing assets of all the three sectors was plotted on the graph to understand the trend in the total non performing assets. This gives an overview of the total NPA's.



Graph 1 : Total NPA's 2003-2022

The NPA's have increased from 2003 to 2018, then the total NPA's have started to reduce.
There is an increase from 2012 to 2016, in the total NPA's. In the post 2018, there is a decrease but the NPA's are still more than the years between 2003 to 2008.

Descriptives								
NPA								
					95% Confidence Interval for Mean			
	N	Mean	Std. Deviation	Std. Error	Lower Bound	Upper Bound	Minimum	Maximum
Priority Sector	20	97185.7	85330.5	19080.5	57249.8	137122	21536	257858
Non Priority Sector	20	199042	221724	49578.9	95271.6	302811	15007.4	708090
Public Sector	20	7104.89	10465.8	2340.23	2206.74	12003.1	130.35	32438.9
Total	60	101111	156408	20192.2	60706.1	141515	130.35	708090

Table 1 : DESCRIPTIVE STATISTICS

It can be observed that mean for priority sector is 97185, for non priority sector it is 199041, and public sector is 7104, thus one can observe that the NPA to non priority sector is higher than the other two sectors. For comparing the NPA's of the three sectors the mean or the average NPA's helps to understand which sector has the highest NPA's, thus this helps us to understand and compare the NPA's in the three sectors.

The second objective compares the two decades 2003-2012 and 2013-2022. The mean of the NPA's is used to compare the NPA's in the two decades. Both decades witnessed economic crisis and pandemic. The total NPA's were grouped in two decades; 2003-2012 and 2013-2022, in order to understand which decade had an average NPA more than the other.

Group Statistics					
	Year	N	Mean	Std. Deviation	Std. Error Mean
NPA1	2003 -2012	10	56813.3	23792.9	7523.97
	2013-2022	10	536592	240216	75963

Table 2: NPA 2003-2012 and 2013-2022

One can also observe that for the years 2003-2012 the mean of NPAs as 56813and for 2013-2022 it was 536591, the mean has increased in the years 2013-2022.

Hypotheses Testing

The hypotheses are based on the two objectives of the study and are tested:-

1. The Non Performing Assets of the priority sector, non priority sector and public sector are significantly different.

Ho: The Non Performing Assets of the priority sector, non priority sector and public sector are not significantly different.

H1: The Non Performing Assets of the priority sector, non priority sector and public sector are significantly different.

ANOVA					
NPA					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	3.68859E+11	2	1.8E+11	9.784	0.000
Within Groups	1.07449E+12	57	1.9E+10		
Total	1.44335E+12	59			

Table 3: **HYPOTHESIS 1**

Inference: P value is 0.000 which is less than 0.05, hence Ho is rejected and H1 is accepted.

2.The NPA's in the years between 2003 to 2012 and 2013-2022 are significantly different.

H0: The NPA's in the years between 2003 to 2012 and 2013-2022 are not significantly different

H1: The NPA's in the years between 2003 to 2012 and 2013-2022 are significantly different

Independent Samples Test										
		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
NPA1	Equal variances assumed	15.72	0.001	-6.285	18	0	-479778	76334.7	-640152	-319405
	Equal variances not assumed			-6.285	9.177	0	-479778	76334.7	-651954	-307602

Table 4 : **HYPOTHESIS 2**

Inference : P value is 0.001 which is less than 0.05, hence H0 is rejected and H1 is accepted.

Findings

Credit is lent to priority, non priority and public sector. The paper focuses on the loans granted by the public sector banks. India's development strategy after independence in 1947 aimed to have an inclusive society with a focus on economic growth through poverty alleviation and social justice. Small-scale industries, Professional and self-employed persons, Retail traders, Road and water transport operators, Industrial estates, and Education formed part of the priority sectors. Recently, the RBI has taken steps to further strengthen the priority sector lending framework by expanding the definition of priority sectors to include startups, renewable energy, and exports, among others. Priority Sector Lending Certificates (PSLC) mechanism was introduced in 2016 to enable banks to achieve their priority sector lending objective The development and growth of the priority sector is important, hence the loans and credit is made available to them , so that they can survive as well as flourish. The lending to the public sector is also important because it leads to their growth. However if the borrowers are defaulting in the repayment it leads to the Non Performing Assets. Assets have been classified as Standard, Doubtful, losses and non performing. The classification extends to suspicious NPA’s and substandard NPA’s. RBI have issued various circulars in this regard. It is interesting to observe and study the NPA’s in the sectors such as priority, non priority and public sector. Non-priority sector lending refers to all other lending activities that do not fall under the purview of priority sector lending, including loans to large corporate, infrastructure projects, and personal loans.

There are different factors associated with the NPA’s and they in turn affect the banks and the borrowers. It is observed that the Total Non Performing assets have increased from 2003 to 2018, after which it has decreased. 2003 to 2018, witnessed the global subprime crisis, and 2020 onwards there was an impact of the Covid pandemic. But the NPAs seem to be decreasing in the post 2018. The increase in the previous period and then a decrease in post 2018. The decrease can be attributed to the remedial measures undertaken by the government to help the different sectors to survive the impact of the pandemic However it is interesting to note that between the two decades 2003-2012 and 2013-2022, in the later decade the mean of NPA’s has increased. This means that though the NPA’s have started to decrease comparatively they are still more than the previous decades mean of NPA’s. The mean of NPA’s seem to be high for the non priority sector than the priority sector and the public sector. The NPA’s in other words is less for the public sector and priority sector. The NPA’s in the post 2018 are more than those in 2003 to 2008. It may be observed that the public sector undertakings due to their scale of operations might be the factor for comparative low NPA’s and for the priority sector there are Reserve bank of India regulations resulting in low NPA’s needs to be reiterated

Conclusion

NPA’s affect the profitability of the banks on one hand and failure to repay by the borrower indicates low profits for them. NPA’s can be monitored and risk associated with them can be controlled. The research paper has two objectives. The first objective is to compare the NPA’s of the lending to the priority sector, Non Priority Sector and Public Sector. Based on the objective the hypothesis formulated was that the Non performing assets in the three sectors are significantly different, it was observed that the NPA’s of the non priority sector for the period under research is higher as compared to the other sector**.** The second objective was to compare the 10 years 2003 -2012 and 2013-2022. The significance of the set of decades is that the first decade experienced economic crisis at the world stage and the second decade witnessed the covid pandemic. The comparison for the years 2003-2012 and 2013-2022, shows that the mean of NPA’s have increased in the years 2013-2022. It can be studied as to what are the causes to NPA differ in different sector.

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