



A comparative analysis of priority sector lending performance and volatility across public, private, and foreign Banks in India

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Abstract

This study presents a comparative analysis of Priority Sector Lending (PSL) performance and volatility across Public Sector Banks (PSBs), Private Sector Banks (PVBs), and Foreign Banks (FBs) in India from 2015 to 2024. Drawing on secondary data from RBI publications and bank financial statements, the analysis employs descriptive statistics to assess trends in credit growth, sectoral allocation, and the stability of lending practices. The findings reveal distinct strategic approaches, PSBs demonstrate stable, high-volume lending with a broad-based commitment to inclusion, yet face concerns over asset quality. PVBs exhibit aggressive, high-growth lending concentrated in commercially attractive segments such as MSMEs and housing, but with significant volatility and a weaker focus on social sectors, indicating compliance-driven motives. Conversely, FBs adopt a minimalist strategy, focusing narrowly on high-value MSMEs while showing extreme volatility and tokenism in other priority sectors, reflecting a compliance-oriented rather than inclusive approach. The research concludes that the standardized Priority Sector Lending (PSL) framework leads to varied outcomes across bank types, attributable to their distinct institutional characteristics. To improve the framework's efficacy and true inclusiveness, the study proposes differentiated regulatory measures: promoting technological integration in public sector banks, creating incentives for stability in private banks, and enforcing direct lending protocols for foreign banks.

Keywords: Financial statements, minimalist strategy, other priority sectors, inherent institutional, inclusiveness

Introduction

Priority Sector Lending (PSL) is a critical regulatory mechanism introduced by the Reserve Bank of India (RBI) in 1969 to promote financial inclusion and equitable credit distribution to underserved yet economically vital sectors such as agriculture, micro, small and medium enterprises (MSMEs), education, housing, and renewable energy (RBI, 2020) ^[6]. The PSL framework mandates scheduled commercial banks, public sector banks (PSBs), private sector banks (PVBs), and foreign banks (FBs) to allocate a specified percentage of their Adjusted Net Bank Credit (ANBC) to these priority sectors, ensuring that credit reaches segments often excluded from traditional banking channels. While the overarching objective of PSL is to foster inclusive growth and reduce regional disparities, the implementation and effectiveness of this policy vary significantly across different banking groups due to differences in institutional mandates, operational strategies, and risk management approaches.

Public sector banks, with their extensive rural branch networks and government-backed social banking objectives, have historically been the primary drivers of PSL, accounting for the largest share of priority sector credit (Kumar & Gulati, 2018) ^[4]. However, their dominance is often accompanied by higher non-performing assets (NPAs) in priority sectors, raising concerns about credit risk and operational inefficiencies (RBI Report on Trend and Progress of Banking, 2022) ^[8]. In contrast, private sector banks, driven by profitability and technological innovation, have leveraged digital lending platforms and fintech collaborations to enhance PSL efficiency while maintaining better asset quality (Ghosh, 2021) ^[7]. Foreign banks, constrained by their limited domestic presence, frequently fulfill PSL obligations through alternative mechanisms such

as investments in Rural Infrastructure Development Funds (RIDF) or export credit, reflecting their specialized and globally aligned lending strategies (Saini & Kozhikode, 2014) ^[3].

Despite operating under uniform regulatory guidelines, disparities in PSL performance among PSBs, PVBs, and FBs highlight structural and operational challenges in India's financial inclusion framework. While PSBs lead in absolute lending volumes, their higher NPAs suggest inefficiencies in credit appraisal and recovery mechanisms. Private banks, on the other hand, exhibit greater operational efficiency and lower NPAs, attributed to their risk-based lending models and technological adoption (Bhole & Mahakud, 2020) ^[5]. Foreign banks, though contributing smaller volumes, play a niche role by channeling credit to high-value MSMEs and renewable energy projects, leveraging their global expertise (Kochar, 2023) ^[9].

This study undertakes a comprehensive comparative analysis of PSL performance across public, private, and foreign banks in India, examining key metrics such as PSL achievement ratios, sectoral allocation trends, asset quality, and financial inclusion impact. By analyzing secondary data from RBI reports, bank financial statements, and academic literature, the research aims to identify policy gaps, regulatory challenges, and opportunities for optimizing PSL implementation. Additionally, the study explores the role of technological advancements and regulatory reforms such as the revised PSL guidelines of 2020 (RBI Master Circular, 2023) ^[10] in enhancing the efficacy of priority sector lending. The findings will provide actionable insights for policymakers and banking institutions to strengthen financial inclusion while ensuring sustainable credit practices and maintaining financial stability.

Review of Literature

The literature on Priority Sector Lending (PSL) in India highlights its role in financial inclusion, sectoral credit allocation, and the varying performance of public, private, and foreign banks. Several studies have examined the regulatory framework, implementation challenges, and comparative efficiency across banking groups.

The Reserve Bank of India (RBI) introduced PSL in 1969 to ensure credit flow to economically critical but underserved sectors (RBI, 2020) [6]. Over time, the PSL guidelines have evolved, with revisions in sectoral targets, sub-targets, and permissible lending instruments (RBI Master Circular, 2023) [10]. Mohan (2006) [1] discusses how PSL emerged as a tool for financial inclusion, while Chakrabarty (2013) [2] emphasizes its role in reducing regional disparities. Public sector banks have historically dominated PSL due to their extensive rural reach and government-backed mandates (Kumar & Gulati, 2018) [4]. However, studies indicate that PSBs face higher non-performing assets (NPAs) in priority sectors, particularly in agriculture and MSME lending (RBI Report on Trend and Progress of Banking, 2022) [8]. Bhole & Mahakud (2020) [5] attribute this to weak credit appraisal systems and political interference in loan waivers. Private Banks, driven by profitability, have adopted technology driven lending models to enhance PSL efficiency (Ghosh, 2021) [7]. Their focus on digital platforms and fintech collaborations has improved credit delivery while maintaining lower NPAs compared to PSBs (Bansal & Singh, 2019). Kochar (2023) [9] notes that private banks prioritize high-growth segments like affordable housing and renewable energy within PSL. Foreign banks, constrained by limited domestic presence, often meet PSL targets through Rural Infrastructure Development Fund (RIDF) investments and export credit (Saini & Kozhikode, 2014) [3]. Their lending is concentrated in high-value MSMEs and green energy projects, leveraging global expertise (Kochar, 2023) [9]. However, their contribution remains limited in absolute terms (RBI, 2021).

Research Methodology

Research Objectives

1. To assess the growth trends in Average Net Bank Credit (ANBC) and PSL across public, private, and foreign banks.

2. To compare sector-wise lending patterns (agriculture, MSME, education, housing, weaker sections) among different bank categories.
3. To evaluate volatility and consistency in PSL using statistical measures (standard deviation, coefficient of variation).

2. Research Design

- **Descriptive and Analytical Research:** The study employs a quantitative approach using secondary data from RBI reports, bank annual reports, and PSL disclosures.
- **Comparative Analysis:** Trends in PSL across public, private, and foreign banks are compared using statistical measures.

3. Data Collection

- **Data Source:** Secondary data from RBI’s annual reports, bank financial statements, and PSL compliance reports (2015-2024).
- **Variables Considered:**
 - **Independent Variable:** Bank category (public, private, foreign).
 - **Dependent Variables:**
 - ANBC (Average Net Bank Credit)
 - Advances to Priority Sector
 - Sector-wise lending (Agriculture, MSME, Education, Housing, Weaker Sections)
 - Total Priority Sector Advances

4. Data Analysis Techniques

Statistical Measures:

- Mean (Average) – To identify central tendencies.
- Standard Deviation (SD) – To measure volatility.
- Coefficient of Variation (CV in %) – To compare relative variability across sectors and bank types.

Interpretation

1. Trends in Priority Sector Lending by a Public Sector Bank (2015-2024)

Table 1: Public Sector Bank (Amount in Lakh Crores)

Year	ANBC	Advances to PS	Agriculture	MSME	Education	Housing	Weaker Section	Total
2015	45,84,974	7,56,233	7,83,750	6,50,434	57,067	2,48,459	4,88,806	7,94,332
2016	48,86,633	19,85,307	9,04,772	7,34,055	59,328	2,74,369	5,47,788	8,81,485
2017	53,29,716	20,43,474	9,46,851	7,41,958	60,009	2,94,149	6,00,841	9,54,999
2018	53,50,290	21,99,201	9,61,076	8,63,307	58,607	2,89,844	6,17,186	9,65,637
2019	54,58,341	22,86,394	9,75,354	9,05,685	58,139	3,38,368	6,57,333	10,53,840
2020	57,94,783	23,60,275	9,75,766	9,28,119	57,523	3,72,044	7,31,917	11,61,484
2021	61,24,314	25,32,708	11,25,566	9,91,686	56,573	3,92,585	8,35,854	12,85,012
2022	63,70,164	27,55,763	12,09,788	10,43,993	55,909	4,12,701	8,93,964	13,62,574
2023	68,20,858	30,27,761	13,52,283	11,82,552	54,825	4,20,870	10,81,961	15,57,656
2024	79,51,722	34,01,436	15,30,239	13,22,163	56,802	4,30,956	12,24,347	17,12,105
Average	58,67,180	23,34,855	10,76,545	9,36,395	57,478	3,47,435	7,67,100	11,72,912
Std. Dev.	9,94,869	7,11,380	2,27,989	2,08,411	1,581	67,202	2,39,901	3,01,902
C.V in %age	16.96	30.47	21.18	22.26	2.75	19.34	31.24	25.74

The provided research (Table No1) offers a comprehensive analysis of the lending trends of a Public Sector Bank over a decade (2015–2024), highlighting key performance metrics across various sectors.

The Average Net Bank Credit (ANBC) demonstrates consistent growth, increasing from ₹45.8 lakh crores in 2015 to ₹79.5 lakh crores in 2024, reflecting the bank’s expanding financial base.

However, the high standard deviation (₹9.95 lakh crores) and coefficient of variation (16.96%) indicate significant volatility in ANBC, suggesting fluctuations in credit exposure or economic conditions.

A critical observation is the bank's priority sector lending (PSL), which constitutes a substantial portion of advances. The Agriculture and MSME sectors show steady growth, with agriculture loans rising from ₹7.84 lakh crores to ₹15.30 lakh crores, underscoring the bank's focus on rural and small business development. Meanwhile, Housing and Weaker Section loans exhibit notable expansion, with the

latter nearly doubles from ₹4.89 lakh crores to ₹12.24 lakh crores, indicating an emphasis on financial inclusion. However, Education loans display a declining trend, possibly due to reduced demand or policy shifts.

The Public Sector (PS) advances reveal erratic growth, peaking in 2016 (₹19.85 lakh crores) before stabilizing, suggesting fluctuating government or corporate borrowing patterns. The high coefficient of variation (30.47%) further highlights this inconsistency.

2. Trends in Priority Sector Lending by a Private Sector Bank (2015-2024)

Table 2: Private Sector Bank (Amount in Lakh Crores)

Year	ANBC	Advances to PS	Agriculture	MSME	Education	Housing	Weaker Section	Total
2015	12,28,405	5,30,287	2,23,528	2,16,578	2,339	79,445	73,743	1,55,527
2016	14,95,297	6,62,030	2,66,857	2,92,342	2,525	92,053	1,36,123	2,30,701
2017	18,09,536	7,58,713	2,97,244	3,55,702	2,844	97,275	1,65,346	2,65,465
2018	21,44,819	8,71,306	3,68,988	3,92,440	3,146	93,988	1,93,627	2,90,761
2019	28,32,260	12,45,177	4,91,869	5,94,400	4,293	1,52,188	3,28,301	4,84,782
2020	32,55,048	13,69,395	5,74,566	6,69,161	4,121	1,75,343	3,82,989	5,62,453
2021	36,88,522	15,99,199	6,12,628	8,34,279	4,617	1,85,155	4,09,995	5,99,767
2022	39,12,314	17,85,815	7,01,819	9,11,812	4,913	1,92,174	4,98,362	6,95,449
2023	46,55,640	20,77,470	8,33,448	11,43,154	5,168	2,01,911	5,60,010	7,67,089
2024	54,13,357	26,09,428	10,42,495	14,35,855	5,702	3,17,973	7,17,008	10,40,683
Average	30,43,520	13,50,882	5,41,344	6,84,572	3,967	1,58,751	3,46,550	5,09,268
Std. Dev.	1,394,325	6,75,176	2,65,937	3,97,702	1,182	73,074	2,07,220	2,79,895
C.V in %age	45.81	49.98	49.13	58.09	29.79	46.03	59.80	54.96

The data presents a compelling narrative of the private sector bank's (Table No 2) lending evolution over the past decade, revealing both its aggressive growth trajectory and inherent volatility. From 2015 to 2024, the bank's Average Net Bank Credit (ANBC) expanded dramatically from ₹12.28 lakh crore to ₹54.13 lakh crore a remarkable 340% increase that significantly outpaces typical banking sector growth. This explosive expansion, however, comes with substantial volatility, as evidenced by the 45.81% coefficient of variation in ANBC, suggesting the bank's growth has been anything but steady, likely reflecting both ambitious market capture strategies and sensitivity to economic cycles.

A deeper examination of priority sector lending reveals fascinating patterns, while total priority sector advances grew an impressive 392% (from ₹5.30 lakh crore to ₹26.09 lakh crore), this growth has been uneven across sectors. The MSME segment emerged as the clear leader, expanding 563% to ₹14.36 lakh crore, though its exceptionally high 58.09% coefficient of variation indicates this growth occurred in fits and starts rather than through consistent annual increases. Similarly, agriculture loans grew 367% but with nearly identical volatility (49.13% C.V.), suggesting the bank's rural lending strategy may be more reactive than strategic. The housing sector tells a different story while starting from a relatively modest base of ₹79,445 crore, it grew steadily to ₹3.18 lakh crore, likely

benefiting from India's urban housing boom and representing one of the bank's more stable growth areas (46.03% C.V.).

Perhaps most telling is the bank's approach to social banking mandates. While weaker section loans increased dramatically from ₹73,743 crore to ₹7.17 lakh crore a stunning 872% growth the extreme volatility (59.80% C.V.) suggests these increases may reflect regulatory compliance rather than genuine commitment to financial inclusion. Education lending remained conspicuously minimal throughout the period, never exceeding ₹5,702 crore and representing just 0.1% of ANBC in 2024, highlighting the banks clear preference for commercially viable sectors over social development objectives.

The bank's performance metrics paint a picture of a financial institution aggressively pursuing growth, particularly in commercially attractive segments like MSME and housing, while meeting (but not necessarily exceeding) regulatory requirements in priority sectors. The consistently high coefficients of variation across all categories (ranging from 29.79% to 59.80%) reveal an institution comfortable with volatility in pursuit of market expansion, contrasting sharply with the more stable growth patterns typically seen in public sector banks.

3. Trends in Priority Sector Lending by a Foreign Sector Bank (2015-2024)

Table 3: Foreign Sector Bank (Amount in Lakh Crores)

Year	ANBC	Advances to PS	Agriculture	MSME	Education	Housing	Weaker Section	Total
2015	3,00,010	96,604	4,192	23,147	-	3,423	2,568	5,991
2016	3,23,833	1,10,392	6,546	28,775	-	3,569	4,021	7,590
2017	3,56,671	1,27,986	18,640	33,636	-	3,620	7,996	11,616
2018	3,65,039	1,37,875	33,607	41,813	-	5,204	19,842	25,046
2019	3,88,618	1,60,093	46,481	69,107	-	5,308	26,507	31,815
2020	3,97,760	1,94,265	52,833	77,649	61	3,437	30,856	34,354

2021	5,02,078	2,33,164	52,630	85,200	-	2,224	31,605	33,829
2022	5,39,491	2,38,441	52,364	89,782		2,118	31,307	33,425
2023	5,68,796	2,41,944	52,264	95,808	4	1,707	31,258	32,969
2024	6,04,755	2,78,717	55,491	106,597	2	2,161	32,097	34,260
Average	4,34,705	1,81,948	37,505	65,151	22	3,277	21,806	25,090
Std. Dev.	1,09,181	63,828	20,401	30,666	34	1,258	12,322	11,905
C.V in %age	25.12	35.08	54.39	47.07	150.01	38.40	56.51	47.45

The data reveals a fascinating evolution in foreign banks' lending (Table No 3) patterns in India, characterized by cautious expansion and selective sectoral focus. Over the decade (2015-2024), Average Net Bank Credit (ANBC) grew from ₹3.00 lakh crore to ₹6.05 lakh crore a modest 102% increase that pales in comparison to domestic private banks' 340% growth. This restrained expansion, reflected in a relatively low 25.12% coefficient of variation, suggests foreign banks maintain a conservative, stability-focused approach to the Indian market. Priority sector lending tells a story of gradual compliance rather than enthusiastic participation. While total priority sector advances grew 189% (from ₹96,604 crore to ₹2.78 lakh crore), the composition reveals strategic choices. MSME lending emerged as the clear priority, growing 361% to ₹1.07 lakh crore and consistently constituting about 40% of priority sector advances. Agriculture lending, while showing impressive percentage growth (from just ₹4,192 crore to ₹55,491 crore), remains disproportionately small at just 2.3% of ANBC in 2024. The complete absence of education loans in most years and minuscule housing sector exposure (never exceeding ₹5,308 crore) underscore foreign banks' laser focus on commercially viable corporate and MSME segments while doing the bare minimum to meet regulatory requirements in other priority sectors.

The volatility metrics reveals intriguing patterns. Agriculture and weaker section loans show extreme fluctuations (54.39% and 56.51% C.V. respectively), suggesting these are treated as compliance obligations rather than core business activities. The 150% coefficient of variation in education loans resulting from intermittent, token allocations perfectly encapsulates foreign banks' approach to this social sector. In contrast, MSME lending, while still volatile (47.07% C.V.), demonstrates relatively more consistent growth, confirming its status as foreign banks' preferred priority sector. These patterns paint a picture of foreign banks carefully navigating India's regulatory landscape while protecting their margins. Their lending strategy appears designed to maintain minimum compliance with priority sector norms while concentrating resources on high-value corporate clients and select MSME segments.

Conclusions and Suggestion

Based on the comprehensive comparative analysis of Priority Sector Lending (PSL) performance from 2015 to 2024, it can be concluded that while all three banking groups have expanded their credit to priority sectors, their approaches, performance, and underlying motivations reflect their distinct institutional identities and strategic priorities, leading to significant disparities in growth, sectoral focus, and volatility. Public Sector Banks (PSBs) demonstrate the highest absolute commitment to PSL, acting as the primary vehicles for financial inclusion with steady, broad-based growth across agriculture, MSME, and weaker sections, albeit with moderate volatility. In stark contrast, Private Sector Banks (PVBs) exhibit an aggressive, high-growth yet highly volatile strategy, characterized by

explosive expansion in commercially attractive segments like MSME and housing, but with a noticeably weaker and more inconsistent focus on social sectors like education, suggesting a primary driver of regulatory compliance and market capture rather than deep-seated inclusion. Foreign Banks (FBs), meanwhile, adopt a minimalist and niche approach, fulfilling PSL obligations through cautious growth concentrated almost exclusively on high-value MSMEs, while largely neglecting other sectors, as evidenced by the extreme volatility and tokenism in their agriculture, education, and weaker section lending.

To optimize the PSL framework for greater efficacy and genuine financial inclusion, targeted suggestions are imperative. For PSBs, the focus should be on enhancing credit appraisal and recovery mechanisms through technological adoption to address asset quality concerns without diluting their social mandate. For PVBs, regulatory nudges should be strengthened to ensure a more consistent and meaningful contribution to less commercially attractive but critically important sectors like education and weaker sections, potentially by linking their compliance ratings to the stability (C.V.) of their lending to these segments. Regarding FBs, the RBI could consider revising the PSL guidelines to encourage more substantive and direct lending instead of allowing over-reliance on indirect instruments, ensuring they contribute more tangibly to India's inclusive growth agenda. Ultimately, a move towards a more nuanced, performance-based regulatory framework that rewards not just the volume of PSL but also its quality, stability, and balanced sectoral distribution is essential to harmonize the diverse approaches of PSBs, PVBs, and FBs towards achieving the foundational goals of priority sector lending.

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