Non-Performing Assets In India: Priority Vs Non- Priority Sector Lending

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Abstract

The Indian banking sector is going through some reinforcement. One of the biggest challenges for the banking sector in India is mounting Non-Performing Assets (NPAs). The main reason for NPAs could be attributed to the types and patterns of lending. As per Narasimham Committee II recommendations, priority sector lending has a proportionately higher share in NPA portfolio of banks. It has been one of the factors in erosion in the quality of bank assets. The objective of this paper is to make a comparison between NPAs in priority and non-priority sector with respect to private and public sector banks in India. An attempt has been made to distinguish NPAs in priority sector in the private sector and public sector banks. Secondary data on NPAs of priority and non-priority sector of private and public sector banks has been obtained for the period 2012 to 2017.

Keywords: *Non- Performing Assets, Priority Sector, Private sector banks, Public sector banks*

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1. Introduction

Facilitating mobility of funds and capital formation, banks play a significant role in the economic growth of a country (Saini and Sindhu, 2014). Towering NPAs is a matter of concern for the banking industry of an economy. Advances that are outstanding for at least three months are known as Non-Performing Loans (Rinaldi and Sanchis-Arellano, 2006). As provided by RBI, an asset is classified as Non-Performing when no income is generated from it. In other words, an NPA is a loan on which principal and/or interest remain "overdue" for a period of 90 days or more (Master Circular- Income Recognition, Asset Classification, Provisioning, and other Related Matters). As stated by Boyd and De Nicolo (2005), rising NPA is the major reason for declining profitability of banking institutions.

The problem of Non-Performing Assets (NPAs) is becoming unmanageable with each passing day. Schedule Commercial Banks' (SCBs) have recorded an upward shift in their gross non-performing advances (GNPA) ratio from 10.2 percent in September 2017 to 11.6 percent in March 2018. For the same period of time, the industrial sector, in particular, has seen a sharp increase in its share of GNPA, which has risen to 22.8 percent from 19.4 percent (Financial Stability Report, June 2018).

Table 1: Bank-Group wise Non-Performing Loans of Scheduled Commercial Banks

(Amount in ₹ Million)

BANK GROUP	YEARS				
	2013	2014	2015	2016	2017
Nationalized banks	10,22,272	14,84,572	20,49,595	41,79,878	50,69,213
SBI and its Associates	6,27,785	7,98,165	7,35,085	12,19,686	17,78,106
Public Sector Banks	16,50,057	22,82,737	27,84,679	53,99,564	68,47,320
Private Sector Banks	2,10,705	2,45,424	3,41,062	5,61,857	9,32,092

Source: Reserve Bank India

During the four-year period from 2013 to 2017, NPAs of private sector banks grew at a compounded rate of 45 percent, whereas in case of public sector banks, the corresponding figure stands at 43 percent. Thus, the amount of bad loans incurred by public sector banks appears to be colossal as compared to that of private sector banks. However, the growth rate in NPAs appears to differ, as public sector banks are doing well at managing their loan portfolios. A number of policy initiatives have been undertaken at country level and internationally as well. Specifically, in the aftermath of the financial crisis 2008-09, Basel-III accord came into existence which was expected to enhance the ability of banking institutions to overcome uncertain losses and to increase their resilience for financial shocks (Shukla and Patel, 2018).

Many developing and developed economies have utilized directed credit schemes to channelize funds at concessional interest rates for certain specified sectors which are important for the balanced growth of the concerned economy. Thus, the primary objective of priority sector lending is to secure adequate and timely availability of credit to vulnerable sectors of society (Kumar, Batra and Deisting, 2016).

The objective of mandated credit or priority sector lending was first considered by the Central Banking

Enquiry Committee, 1931. However, the need to encourage the participation of scheduled commercial banks in the matter of priority sector lending was accentuated at a National Credit Council meeting held in July 1968, wherein, only two categories were included under priority sector, namely, agriculture and small-scale industries (Uppal, 2009). The specifications regarding the items to be included in the priority sector and other formal guidelines were premised on the report submitted by the Informal Study Group on Statistics in 1972.

In November 1974, the target for priority sector credit by commercial banks was defined at 33 percent. However, in later years it was increased to 40 percent.

Categories, as defined under priority sector, are as follows:

- Agriculture
- Micro and Small Enterprises
- Education Loans
- Housing Loans
- Others

(Master Circular- Priority Sector Lending- UCBs Circular UBD.CO.BPD.(PCB) MC. No.7/09.09.001/ 2014-15 dated July 01, 2014)

As stated by the Narasimham Committee II, the proportion of directed credit or priority sector lending in bad loans of the banking sector is comparatively higher and thus is responsible for deteriorating asset quality of banks. However, as per the data revealed by RBI, for the year 2017, the priority sector is responsible for only 23.3% of total NPAs. In comparison to this, the non-priority sector contributes almost three-fold to the NPAs. Also, the private sector banks show a higher growth rate in NPAs of priority sector as compared to their public counterparts.

Table 2: Gross Non-Performing Assets for Priority Sector Lending

(Amount in ₹ Million)

BANK GROUP	YEARS				
	2013	2014	2015	2016	2017
Nationalized banks	4,05,000	5,30,435	6,79,610	9,88,690	12,41,830
SBI and its Associates	2,64,000	2,61,489	2,57,240	2,92,470	3,00,930
Public Sector Banks	6,69,000	7,91,924	9,36,850	12,81,160	15,42,760
Private Sector Banks	52,000	60,548	72,110	1,01,390	1,32,930
All Scheduled Commercial Banks	7,21,000	8,52,472	10,08,960	13,82,550	16,75,690

Source: Reserve Bank of India

On the credit side, as of March 31, 2017, only Private Sector banks are able to meet the target of 40 percent for priority sector lending whereas Public Sector banks stand at 39.5 percent and Foreign banks stands at 36.9 percent.

2. Review of Relevant Past Studies and Research Gap

Post-Independence, the initial economic plans were aimed at ensuring social ownership of means of production and redistribution of resources for the benefit of weaker sections of society. For the achievement of these societal objectives, 14 major commercial banks were nationalized in July 1969 and then again in April 1980, 6 banks were nationalized (Sensarma, 2005). Selective Credit or Priority Sector Credit was taken as the primary intent by these nationalized banks. As stated by Sodhi and Waraich (2016), parameters of commercial bank lending include providing financial assistance to not only industrial and manufacturing sectors, but to agriculture and household sectors as well. Since its inception in 1968, several studies have been conducted to examine the progress and impact of these credit schemes on the performance of the banking sector. However, despite the views of Narasimham Committee II, the recent movement of loan losses of banks corresponding to Priority Sector Lending has shown a significant decline. The following existing literature relating to Directed Credit has been reviewed.

Demirgüç-Kunt and Levine (1999) state that India, being seen as more of a bank-based system, rather than a market-based system, depends majorly on its banking sector for managing a well running financial system. Thus, here, the banks play a significant role in channelizing savings, apportioning capital, supervising corporates' investment decisions and in imparting risk management tools. Levine (2002) empirically analysed comparative advantages of market-based and bank-based financial system for growth. The study finds no empirical confirmation in support of either of the financial systems. Thus, countries with different financial systems do not show very significantly different results in respect of economic growth.

Using a Meta-Frontier approach, Arora, Arora and Kanwar (2018) have analysed how the performance of commercial banks is getting impacted by NPAs, taking overall technical efficiency as the indicator of performance. The study concludes that bad loans of commercial banks have not reached a panic level where they can negatively affect the technical efficiency of banks. Thus, public sector banks, in particular, can continue lending to the priority sector, even though their NPAs in this sector are rising. Sengupta and Vardhan (2017) opined that it is desirable for a well-functioning financial system to keep the NPAs to a manageable level because NPAs beyond a certain level can cause erosion of banks' profits and capital. In an economy such as ours, a prolonged deterioration of banking profits due to balance sheet problems proves to be a predicament for real economic activities and can take the shape of an economic crisis very soon.

Kohli (1972) states that theoretical justification for Priority Sector Credit lies in efficiency and equity consideration. Efficiency consideration argues that in absence of these programs, sectors with "high social returns but low private returns" will be deprived of the required credit. On the other hand, equity consideration states that disparity with regard to availability of resources among various groups of society causes the economic gap to widen and encourages concentration of wealth in a few privileged hands only. Also, this study provides that Indian policies for Priority Sector Lending lack performance based detailed and specific project selection criteria. Stating that initially after the nationalization of banks in 1969, the targets devised by RBI for providing mandated credit to certain sections of the economy were quite blurry, Dasgupta (2002) provides that a more formal and exhaustive definition for priority sectors was endorsed in 1972. The author further expresses a need to redefine priority sectors and reduce mandated targets. Instead, support is provided

for giving other financial incentives like tax concessions to banks to stimulate lending to "credit-shy sectors".

Assessing the gaps and issues in priority sector credit by commercial banks, Ahmed (2010), states that the main purpose of directed credit is to provide formal financial aid to those sections of society which had no access to sufficient “institutional finance”. The study suggests that in order to encourage banks to lend to priority sectors, proper recovery channels should be in place to ensure timely repayment of loans. Rao (1987) proposes that directed credit at concessional interest rates should be made available only to the actual weaker sections or individuals and not to the ones using priority sector label as a camouflage. This will not only improve the credit conditions for weaker sections but will also help banks to monitor and supervise these loans, along with increasing their profitability. Burgess, Pande and Wong (2005) states that within the priority sector, the concept of weaker sections was introduced so as to make the credit available to actual disadvantaged and underprivileged categories. Banks were required to lend to this particular section of society the target 10% of their net bank credit, by 1985.

Applying a "real-financial Computable General Equilibrium (CGE) Model, Naastepad (2001) in his study, has tried to analyse the impact of selective lending in India at the macroeconomic level. The study shows that a decrease in priority sector lending has spill over impact for non-priority sectors and government, and causes stagflation to rise in the economy. Thus, there will be a significant negative effect of reduction in directed credit over GDP growth. Emphasizing the significance of rural credit for magnifying the productivity of rural India, Akoijam (2012) proposes to examine the obstacles concerning lending facilities for the rural sector. In order to intensify the agricultural sector, endeavours should be made to enhance production along with processing, marketing, and distribution practices. Supporting provisions for directed credit programs, the study recommends banks to take assistance from NGOs and local formal institutions so as to incur lesser transaction costs involved in rural lending. Emphasizing the need for an ample and low-cost credit flow for the agricultural sector, Savitha and Kumar (2016) conducted a study to determine the factors governing repayment attitude of agricultural loan borrowers in Karnataka. Surprisingly, a higher value of collateral asset (or land) is found to inflate the probability of the loan becoming a substandard asset. Thus, before disbursing the loan, it is suggested to consider the expected income to be generated from the land.

Examining sector wise NPAs, Rajeev and Mahesh, (2010) state that in India, banks are known for harnessing the social welfare motive, especially public sector banks. As a result, the policymakers neglected the problem of bad loans for a long time. The study shows that NPAs contributed by priority sector are indeed higher as compared to NPAs of non-priority sector. Also, the authors are of the view that NPA figures should be considered in the proportion of credit advanced in that particular sector. Critically examining RBI's report on Trend and Progress of Banking in India 1996-97, Shajahan (1998) states that the report acclaims that NPAs of Public Sector banks in 1996 reduced to almost half in 1997. However, no justification has been given for using Gross NPAs figure for 1996 and Net NPAs figure for 1997. Also, no break-up has been provided of the Net NPAs. The study suggests that the reason fraction of total NPAs contributed by Priority Sector came out to be so blown up in the report is attributed to the netting procedure of NPAs adopted by RBI. Analysing bad loans of three groups of banks, namely, public, private and foreign sector banks, Vallabh, Bhatia and Mishra (2007) examine the factors influencing non-performing loans.

Using the Altman model and taking into account both macroeconomic and bank-specific factors, the study concludes that banks' exposure to government directed credit actually diminishes NPAs.

Ranjan and Dhal (2003) state that there isn't a significant difference in the proportion of total NPAs coming from Priority Sector and that of non-priority sector. Thus, banks should consider the financial and economic performance of the prospective borrowers before disbursal of loans. Also, exposure of banks' lending to the priority sector is only as significant as terms of lending variables and credit culture, if not less.

World Bank (1989) favours doing away with Directed Credit Programs, quoting the example of countries like Argentina, Chile, and Uruguay. It states that countries can perform better and can channelize funds for high return projects by curtailing the number of such programs and promoting more market-based allocation of credit. However, the studies conducted by Amsden and Euh (1993); Vittas and Cho (1996); Preston (1993) and others have acknowledged the significant contribution made by directed credit programs in the booming industrialization and development of Taiwan, Japan, and South Korea.

In their study, Dietsch and Petey (2006) have suggested certain solutions for the major issues involved in SME loans, which according to them includes limited information available regarding borrowers' financial conditions and the large size of the portfolio of these loans. Taking a sample of French SMEs, VaR has been computed to ascertain the required capital and pricing schemes for these loans. The study concludes that model based on internal credit risk performs better than the one suggested by the Basel Accord, with regard to capital allocation and loan pricing.

Jain, Parida and Ghosh (2015) conducted a study emphasizing on the need to revisit and revise the mandated credit norms in order to make them more complementary with the changing economic scenario. The results of primary survey show that a major proportion of bankers support keeping target of Priority Sector Lending at 40 percent. However, the authors are of the view that with the entry of Small Finance Banks, the stated overall target for commercial banks should be reduced in a phased manner. On the matter of computation of the said target, the study recommends using Net Lendable Resources which are the actual funds left with the banks post adjustment of CRR and SLR, in place of Adjusted Net Bank Credit (ANBC).

Thus, no clear evidence is present in the existing literature regarding whether advances made to priority sector results in higher NPAs. Hence, the impact of priority sector lending on the performance of banking sector is still a grey area, which needs to be researched further. Against this backdrop, this study aims to assess the trends in NPAs of priority sector in particular and present a comparative analysis of the performance of private and public sector banks regarding it.

Objectives

This study has been carried out with the following purpose:

- The NPAs in priority sector faced by private sector banks are significantly different from that of public sector banks.
- NPAs in priority sector are significantly higher than the average NPA level in India.

Methodology

The paper focuses on comparative analysis of NPAs in private sector banks, public sector banks and overall schedule commercial banks. The analysis is based upon the relevant secondary data obtained from Reserve Bank of India reports on NPAs for the period

2013-17. Grouped data for public sector banks and private sector banks has been employed for the purpose of this study. Statistical tools of Compound Annual Growth Rate (CAGR), Regression and One-way ANOVA have been used to obtain the required results.

Employing CAGR helps examine the compounded growth in the concerned variables over time. It is superior to general percentage analysis, as CAGR takes into consideration the time effect as well. In order to study the causal relationship between any two or more variables, regression analysis is the most appropriate tool. Regression allows establishment of impact of one variable over other, along with providing information regarding the strength and direction of influence. Also, how significant the impact is can also be ascertained. In addition, regression analysis states whether the overall model employed is significant or not. Many studies like Gupta, Goel and Bhatia (2019) and others have employed a similar methodology due to the benefits it provides for the purpose of analysis and interpretation of results.

The following set of hypotheses has been framed for respective objectives:

- There is a significant difference between NPAs in the priority sector in private and public sector banks.
- NPAs in the priority sector are significantly higher than average NPA level.

On the basis of extensive literature reviewed (Rajeev, & Mahesh, 2010; World Bank 1989) it is expected that the NPA of banks contributed by the priority sector will have a negative influence on further credit advanced to the said sector. Commercial banks have profit maximization as their primary objective. Thus, they can be discouraged to lend to the specified sectors after suffering losses from the loan portfolio of these sectors.

3. Analysis and Interpretation

To compare the rate at which advances and Non-performing assets are growing in priority and non-priority sectors for public sector and private sector banks, CAGR has been calculated.

During the period 2013-17, in schedule commercial banks, an overall growth of 9.2 percent has been recorded in gross advances and a growth of 42.2 percent is seen in gross NPAs. In general, the private sector banks have shown comparatively higher growth in gross advances vis-à-vis public sector banks whereas public sector banks have shown higher growth in overall gross NPAs as compared to private sector banks. For priority sector in particular, private sector banks have shown a higher growth in both gross advances and gross NPAs, as compared to public sector banks whereas in case of non-priority sector, private banks have shown a greater growth for gross advances and public sector banks have shown a higher growth for gross NPAs.

Table 3: CAGR of advances and NPAs during 2013-17 (in %)

BANKS	PRIORITY SECTOR		NON- PRIORITY SECTOR		TOTAL	
	GROSS ADVANCES	GROSS NPAs	GROSS ADVANCES	GROSS NPAs	GROSS ADVANCES	GROSS NPAs
Public sector banks	11.3	23.2	3.5	52.9	6.1	42.4
Private sector banks	19.9	26.4	18.7	42.2	19.1	38.6
Schedule commercial banks	13.1	23.5	7.2	51.5	9.2	42.2

Source: Authors' calculations

In public sector banks, bad loans corresponding to non-priority sector have grown at a faster pace as compared to priority sector, whereas gross advances have seen a higher growth in priority sector. Thus, though there exists a higher growth in advances for priority sector, however, public sector banks are able to manage their NPAs well, in the said sector. On the other hand, for private sector banks, gross advances have seen a minimally higher growth in priority sector as compared to non-priority sector, whereas NPAs of non-priority sector have registered an almost double-digit rate of growth, in contrast to the priority sector. Hence, it can be implied that though lower enthusiasm is shown by private sector banks for providing credit to non-priority sector, still the NPAs of the said sector are swelling every year and that too at a faster pace.

In order to test the impact of NPAs of priority and non-priority sector over the loans advanced to respective sectors in public sector banks is anyway different from that of private sector banks, regression analysis has been carried out. Gross advances of both the corresponding sectors have been taken as dependent variables, whereas, NPA occurring in public and private banks are taken as explanatory variables. Thus, the models formed for the concerned analysis are as follows:

- Model 1(For Priority Sector): $GA_{Pr} = \alpha + \beta_1.NPA_{PB} + \beta_2 NPA_{Pv}$
- Model 2(For Non-Priority Sector): $GA_{NPr} = \alpha + \beta_1.NPA_{PB} + \beta_2 NPA_{Pv}$

Where, GA_{Pr}: Loans advanced to priority sector

- GA_{NPr}: Loans advanced to non-priority sector
- NPA_{PB}: NPA incurred in public sector banks for priority (or non-priority) sector
- NPA_{PV}: NPA incurred in private sector banks for priority (or non-priority) sector

Results of the applied regression analysis are presented in Table 4.

Table 4: Regression Result of NPAs in Public and Private Sector Banks

PARTICULARS	MODEL 1		MODEL 2	
	PRIORITY SECTOR		NON- PRIORITY SECTOR	
	PUBLIC SECTOR BANKS	PRIVATE SECTOR BANKS	PUBLIC SECTOR BANKS	PRIVATE SECTOR BANKS
Regression Co-efficient	0.26	0.74	0.76	5.91
R Square (R^2)	0.84	0.99	0.88	0.93
t-Statistics	3.97	15.84	4.76	6.30
p-value	0.03	0.001	0.02	0.01
F-Statistics	15.76	250.96	22.70	39.75
F-critical Value	3.89		3.89	

Source: Authors' Calculations

The β or regression coefficient for Model 1 is calculated to be 0.26 for public sector banks whereas it is 0.74 for private sector banks. R-square implies the explanatory power of the independent variable over the predicted variable. For priority sector, R-square is 0.84 or 84% in case of public sector banks and 99% for private sector banks. The value of t-statistics is coming out to be 3.97 and 15.84 for public and private sector banks respectively. Both values are above than table t –value of 2.132 at 95 percent significance level. (Both calculated t-values are higher than the critical value of t at 5 percent significant level.) Further, the resultant p-value is below alpha α (0.05) for both public and private sector banks. Also, F-statistics is more than f-critical value i.e., 3.89 for both public (15.76) and private sector banks (250.96). Similar results are obtained for Model 2.

Thus, it can be inferred from the above results that NPAs in priority sector for private sector banks are significantly different from that of public sector banks. Hence, for the first objective, null hypothesis i.e., there is no significant difference between NPAs of priority sector faced by public sector and private sector banks, is rejected.

To compare the loans going bad in the priority sector with that of overall NPA level of the banking sector, the following regression analysis has been performed.

- Model 3: $GA = \alpha + \beta_1.NPA_{Pr} + \beta_2.NPA_T$

Where, GA: Gross advances

- NPA_{Pr}: NPAs incurred in Priority sector
- NPA_T: NPA incurred in overall banking sector

Table 5 shows the results of the regression analysis applied.

Table 5: Regression Result of NPAs in Priority Sector and NPA of Schedule Commercial Banks

PARTICULARS	PRIORITY SECTOR	TOTAL
Regression Co -efficient	0.74	0.23
R Square	0.99	0.94
t-Value	15.84	6.98
p-value	0.001	0.01
F-Statistics	250.96	48.66
F-Critical value	5.32	5.32

Source: Authors' Calculations

Credit advanced by the overall banking sector has been taken as the dependent variable and NPA contributed by the priority sector in particular and NPA level in the overall banking sector in general, have been taken as the predictors. The regression coefficient of NPAs in priority sector calculated is coming out to be 0.74 whereas it is 0.23 in case of overall NPA level in both the sectors combined together. R-square for priority sector NPA is 99% and for total NPAs it is calculated as 94%. Further, the p-value is below α (0.05) for both the explanatory variables. Also, F-Statistics is more than F-Critical value for both priority sector NPA and general NPA level.

Drawing inference from the above results, it can be said that NPA level corresponding to priority sector is actually different from the general NPA level of the banking sector, with regard to its impact on gross advances. Thus, the null hypothesis framed for the second objective has been rejected, as there exists significant difference between the NPA level of priority sector and NPA level of overall banking sector in general.

4. Conclusion

This study was aimed at examining trends in NPAs contributed by Priority Sector. Comparison has been made between NPAs faced by public sector banks in priority sector with that faced by private sector banks. Also the priority sector NPAs have been compared with total NPAs in domestic banks. The calculated compounded annual growth rate shows that NPAs of priority sector have grown at a higher rate in private sector banks in contrast to its public counterparts. Also, priority sector has seen much higher growth in terms of credit as compared to non-priority sector, for both public and private sector banks. However, with regard to NPAs, the situation is opposite, with non-priority sector showing higher growth as compared to priority sector. Hence, it can be said that though gross advances directed towards priority sector does show a comparatively higher growth, however, the same have not turned into bad loans at the similar inflated pace. Based on the regression analysis, the study shows that there exists significant difference in NPAs of priority sector with respect to private and public sector banks. Further, NPAs in priority sectors of private sector banks shows a stronger relationship with gross advances. It implies that more of the loans provided by private sector banks to priority sector are going bad, as compared with loans provided by public sector banks. Hence, the latter are able to manage their loan portfolio for priority sector better. Also, the results show that NPAs in priority sector are actually higher than average NPAs in both priority and non-priority sectors taken together.

Hence, it can be implied that though the proportion of NPA contributed by the priority sector is no less than non-priority sector, however, the said sector's noteworthy significance for the country's balanced economic growth cannot be denied. In the presence of demographic changes existing in the current scenario, the size of job seekers' class is rising. It is not pragmatic to expect the organized sector to provide jobs to all the

unemployed. Also, a major proportion of the job aspirants' group would be better off finding their niche in various kinds of self-employment positions in medium and small enterprises, low-level manufacturing etc. Thus, there is a need to strengthen the priority sector, for which initiatives like Start up India have been taken by Government of India. For the successful implementation of such programs, the formal credit provided by banks plays a major role. Looking at the trends of NPAs coming from such specified sectors, as shown in the study, banks can work for better management of such loans advanced. However, along with encouraging banks for lending to the priority sector, loan repayment should also be emphasized. Loans should be disbursed after taking into consideration the performance measures and creditworthiness of the borrowers, instead of blindly fulfilling the target figures for the said sector.

5. Limitations and Future Scope

For the purpose of this study, loans advanced to the priority sector have been studied with reference to NPA of the concerned sector only. However, more comprehensive findings can be drawn by including other factors impacting mandated credit to specified sectors. Also, this study deals with the analysis of Indian scheduled commercial banks only. In order to enhance the strength of results, banks of foreign origin can also be taken under consideration. Thus, future scope for studies in the related area can be explored by taking a varied set of samples for a longer time span and expanding the proposed model.

6. Applicability and Generalizability

Priority sector lending or government mandated credit to specified sectors has been adopted by many advanced and transitional economies for the purpose of encouraging balanced social growth. Many a time, commercial banks become hesitant to lend to these specified sectors, due to the expected possibility of non-repayment of loans and default by borrowers. Though the debtors of weaker sections including agricultural farmers, micro and small enterprises etc., carry with them a probability of default, however, regular and adequate finance to these sectors is imperative for the development of an economy like India. According to results shown in this study, gross NPAs contributed by priority sector are registering higher compound growth as compared to the credit advanced to the said sector. Nevertheless, findings of the regression results show that NPA of the priority sector does not discourage banks from extending credit to these sectors. For the stability of the banking sector in general, it is required that policy makers come up with initiatives which incentivize banks performing well in the area of priority sector lending. Even after the contribution of the priority sector to the NPA aggregate of banks, the lenders are not actually taking a step back and are still playing their role for the betterment of the said sectors. Thus, to safeguard commercial banks from the possibility of future credit risk and to maintain their profitability status, steps should be taken to allow banks to extend credit to these specified sectors only after ensuring financial viability of the projects to be financed and the creditworthiness of borrowers.

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