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DO OWNERSHIP STRUCTURES MATTER? GROWTH AND COMMITMENT IN PRIORITY SECTOR LENDING

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ABSTRACT

The Priority Sector Lending (PSL) has been a long and winding journey and is integrally connected to the political economy of Indian banking over last 60 years. PSL started as an informal idea to push lending to the neglected sectors, but quickly transformed into a formal policy which has gone through multiple changes and tribulations. PSL is often criticized for poor performance of the banking sector, especially public sector banks. The analysis shows no significant difference in the growth rates of Priority Sector Advances between public and private sector banks in India. A strong positive association is found between total advances and priority sector lending for both bank groups, demonstrating that priority sector credit expands alongside overall lending. While public sector banks maintain higher proportional exposure to priority sectors, private sector banks also show comparable growth in priority sector advances, reflecting the impact of regulatory mandates.

KEYWORDS: Priority Sector Advances, Target, Performance, Trends

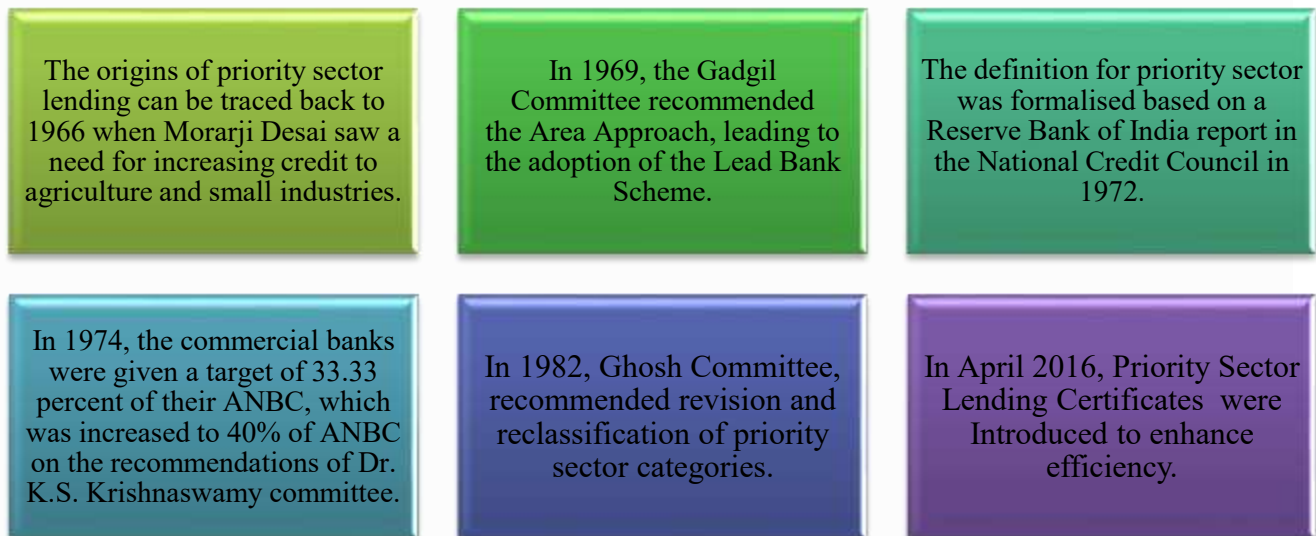
INTRODUCTION

A large portion of the population in India doesn't have access to funds. Therefore, the Reserve Bank of India (RBI) has adopted PSL norms which relax the lending norms for poor and small businesses and in the larger interests of the country. Priority Sector Lending plays a major role for the economic development of the nation by providing adequate credit to sectors such as agriculture, MSMEs, education, housing and weaker sections of society. The RBI has mandated both Public Sector Banks and Private Sector Banks to meet specific targets under PSA to promote financial inclusion. Over the years, the performance of these two banking segments in achieving PSL targets has shown significant variation. Priority Sector Lending is a key policy instrument for inclusive growth in India, mandating banks to support socially important sectors.

Both public and private sector banks are required to comply with RBI-mandated PSL norms, although their ownership structure and lending strategies differ significantly. Against this backdrop, the present

study examines the growth behaviour and relative commitment of public and private sector banks towards priority sector advances, using statistical tools to assess differences in growth patterns and lending relationships.

Figure: 1 Historical background of Priority Sector Advances



1.1 Statement of the problem

Priority Sector Lending, a target of 40 percent of Adjusted Net Bank Credit (ANBC) or Credit Equivalent amount of Off-Balance Sheet Exposures (OBE), whichever is higher, as of preceding March 31st, has been mandated lending to the priority sector by domestic scheduled commercial banks and foreign banks with 20 branches and above. Within this, sub-targets of 18% of ANBC or OBE whichever is higher, as of the preceding March 31st is for Agriculture and 10% ANBC or OBE whichever is higher, as of preceding March 31st is for weaker sections which includes, among others, persons from SCs/ STs. RBI prescribes PSL targets bank-wise and not state-wise.

The goal of a PSL initiative is to provide credit to the weaker sections of the society, as opposed to funding only profitable sectors or spaces that are solely important to economic growth. All sectors considered as a priority is able to easily access financial support like to apply for loans that the banks are required to allot at a lower interest rate. In this backdrop this study estimates the trends in priority sector advances sanctioned by public and private sector banks during 2011 to 2024.

1.2 Objectives of the Study

1. To compare the priority sector advances growth rates between public and private sector banks over the study period using a Paired-Sample t-Test.
2. To study the proportion of priority sector advances in relation to total advances of the public and private sector banks in India.

1.3 Research Methodology and period of the study

The study is based on secondary data collected from the Statistical Tables Relating to Banks in India. It covers a period of 14 years, from 2011 to 2024. The statistical tools used for analysis include correlation, and the t-test. The study considers twelve public sector banks and twenty-one private sector banks, selected based on the availability of data.

2. ANALYSIS AND INTERPRETATION

2.1 Paired sample t-test – Comparison of PSA growth rates between PSBs and PvtSBs

To statistically compare the mean PSA growth rates between PSBs and PvtSBs across the same time period, a **paired sample t-test** was conducted.

Null Hypothesis (H_0): **There is no significant difference** in the PSAs growth rates between the Public and Private Sector Banks.

Alternate Hypothesis (H_a): **There is a significant difference** in PSA growth rates between the Public and Private Sector Banks.

Table 2.1 Comparison of PSA growth rates between PSBs and PvtSBs – Paired-Sample t-Test results

| Paired Samples Statistics | | | | | |
|---------------------------|--------|---------|----|----------------|------------|
| | | Mean | N | Std. Deviation | Std. Error |
| Pair 1 | PSB | 19.3657 | 14 | 5.72088 | 1.52897 |
| | PvtSBs | 19.5286 | 14 | 8.07937 | 2.15930 |

| Paired Samples Correlations | | | | |
|-----------------------------|--------------|----|-------------|------|
| | | N | Correlation | Sig. |
| Pair 1 | PSB & PvtSBs | 14 | .653 | .011 |

| Paired Samples Test | | | | |
|---------------------|--|---|----|----------|
| | | t | df | Sig. (2- |
| Paired Differences | | | | |

| Pair 1 | PSB - PvtSBs | Mean | Std. Deviation | Std. Error Mean | 95 percent Confidence Interval of the Difference | | | | tailed) |
|--------|--------------|--------|----------------|-----------------|--|-------|-------|----|---------|
| | | | | | Lower | Upper | | | |
| | | -.1629 | 6.136 | 1.640 | -3.706 | 3.380 | -.099 | 13 | .922 |

Source: SPSS Output computed by the researcher based on the secondary data

A paired sample t-test was conducted to compare the mean PSA growth rates between PSBs and PvtSBs. The mean difference was -0.1629 with a standard deviation of 6.136. The 95 percent confidence interval for the difference ranged from -3.706 to 3.380. The t-statistic was -0.099 (df = 13), and the p-value was 0.922, which is greater than the accepted threshold of 0.05. Therefore, failed to reject the null hypothesis and conclude that there is no statistically significant difference in the PSA growth rates between PSBs and PvtSBs during the period under review.

3. Spearman’s Rank Correlation Analysis

To examine the relationship between Total Advances in India and Priority Sector Advances of Public and Private Sector Banks in India, Spearman’s Rank Correlation has been employed.

Null hypothesis H₀₂: There is no monotonic association between total advances and priority sector advances

Alternate hypothesis H_{a2}: There is a monotonic association between total advances and priority sector advances.

Table 3.1 Spearman’s Rank Correlation between Total Advances and Priority Sector Advances of Public Sector Banks

| Spearman's rho | | ADI | PSA |
|--------------------------------|-------------------------|--------|--------|
| Advances in India (ADI) | Correlation Coefficient | 1.000 | .930** |
| | Sig. (2-tailed) | . | .000 |
| | N | 12 | 12 |
| Priority Sector Advances (PSA) | Correlation Coefficient | .930** | 1.000 |
| | Sig. (2-tailed) | .000 | . |
| | N | 12 | 12 |

**Correlation is significant at the 0.01 level (2-tailed).

Source: SPSS Output computed by the researcher based on the secondary data

Table 3.1 presents the results of the Spearman's rank correlation between Total Advances in India and priority sector advances of public sector banks in India. The analysis indicates a strong and statistically significant positive correlation between the two variables, with a Spearman's rho value of 0.930 and a p-value < 0.001. The null hypothesis, there is no significant **monotonic association** between priority sector advances and Total Advances in India is rejected. This suggests that as the Advances of public sector banks increase, their priority sector advances also tend to increase correspondingly.

Table 3.2 Spearman's Rank Correlation between Total Advances and Priority Sector Advances of Private Sector Banks

| Spearman's rho | | ADI | PSA |
|--------------------------------|-------------------------|--------|--------|
| Advances in India (ADI) | Correlation Coefficient | 1.00 | .913** |
| | Sig. (2-tailed) | _ | .00 |
| | N | 21 | 21 |
| Priority Sector Advances (PSA) | Correlation Coefficient | .913** | 1.00 |
| | Sig. (2-tailed) | .00 | _ |
| | N | 21 | 21 |

Source: SPSS Output computed by the researcher based on the secondary data

**Correlation is significant at the 0.01 level (2-tailed).

Table 3.2 gives the Spearman's rank correlation results between Advances in India and priority sector advances of private sector banks in India. The analysis reveals a strong and statistically significant positive correlation between the ADI and PSA, with a Spearman's rho value of 0.913 and a p-value < 0.001. This indicates that as the Advances in India of private sector banks increase, their priority sector advances also tend to increase correspondingly.

4. Priority Sector Advance to Total Advances in India Ratio (PSA Ratio)

The PSA ratio indicates the share of Priority Sector Advances in a bank's total advances in India.

$$\text{PSA ratio} = \frac{\text{Priority Sector Advance}}{\text{Total Advances in India Ratio}}$$

Table 4.1 Priority Sector Advance to Total Advances in India Ratio (PSA Ratio) of Public Sector Banks from 2011 to 2024

| PSA Ratio Range | Public Sector Banks | Remarks |
|------------------------|---|---|
| Below 30 % | State Bank of India (28%) | Higher concentration of credit in non-priority sectors. |
| 31 % - 35 % | Bank of Baroda (34%), Punjab and Sind bank (34%), Punjab National Bank (35%), Bank of India (35%) | Moderate share of PSA in overall advances. |
| 36 % - 40 % | Union Bank of India (37%), Bank of Maharashtra (38%), UCO Bank (39%), Indian Bank (40%) | A sound lending strategy that integrates priority sector needs with overall credit expansion. |
| 41 % - 45 % | Canara Bank (42%), Central Bank of India (43%) | Stronger emphasis on inclusive sectors like agriculture, MSMEs, and weaker sections. A positive sign of social banking focus. |
| Above 45 % | Indian Overseas Bank (47%) | A strong priority sector orientation in domestic operations. Demonstrates leadership in promoting inclusive financial access. |

Source: Statistical Tables Relating to Banks in India

Interpretation

Table 4.1 provides valuable insights into the priority sector advance performance of Public Sector Banks in India, employing the PSA-to-Advances ratio. This ratio reflects the extent to which each bank supports to sectors vital for inclusive economic development, like agriculture, micro and small enterprises, education, housing, and other weaker sections of society.

Among the twelve public sector banks listed, Indian Overseas Bank emerges as the top performer with a mean PSA ratio of 47 percent, the highest among all banks, and a maximum PSA ratio of 70 percent in 2021. This suggests that IOB has consistently prioritized lending to sectors that promote social and regional equity. Its performance could be attributed to a concentrated operational presence in rural and semi-urban areas, where demand for PSA-eligible credit is higher, or due to strategic initiatives taken



to meet or exceed PSL norms. However, its minimum PSA ratio of 32 percent in 2011 indicates the bank's stability and consistency.

The Central Bank of India and Canara Bank recorded mean PSA ratios of 43 percent and 42 percent, respectively. Both banks also show high maximum ratios of 53 percent in 2019 and 50 percent in 2022, indicating their capability to significantly expand PSA when required. The Central Bank of India's maximum PSA ratio of 53 percent in 2019 reflects robust credit deployment to priority segments at certain times. These banks may benefit from strong agricultural and MSME portfolios and government schemes routed through them, which increase their PSA footprint. Their minimum PSA ratio was registered in 2012 at 26 percent.

Indian Bank registered a mean PSA ratio of 40 percent, UCO Bank with 39.36 percent, Bank of Maharashtra recorded a mean ratio of 38 percent, and Union Bank of India with 37 percent, showing moderately strong PSA performance. These banks are likely balancing between maintaining PSL targets and expanding into non-priority lending. Their figures suggest consistent compliance with regulatory requirements without significantly exceeding them.

Punjab National Bank, with a mean ratio of 35 percent, Bank of India, also at 35 percent, Punjab and Sind Bank, at 34 percent and Bank of Baroda, at 34 percent show relatively lower mean PSA ratio, placing them toward the bottom of the list. While still above 30 percent, their numbers suggest that these banks may be placing more emphasis on non-priority sector lending, possibly due to business strategies targeting corporate clients or higher-value retail segments.

At the lowest end is the State Bank of India (SBI), with a mean PSL ratio of only 28 percent, which suggests that while SBI contributes significantly to PSL in absolute terms due to its size, the proportion of PSL to its overall lending is small. This could stem from its massive exposure to infrastructure, corporate, and international banking, which dilutes the relative weight of PSL in its portfolio. However, SBI's broad reach and scale also mean that even a small proportion translates into a large absolute value, potentially explaining why it may still be seen as a major contributor to PSL in national statistics despite the lower ratio. State Bank of India has a range from 36 percent in 2011 to 25 percent in 2024, showing less focus on priority sector advances compared to other advances.

Table 4.2 Priority Sector Advance to Total Advances in India Ratio (PSA Ratio) of Private Sector Banks from 2011 to 2024

| PSA Ratio Range | Private Sector Banks | Remarks |
|------------------------|--|---|
| Below 30 % | Federal (30%), ICICI (29%), YES (29%), IDFC First (27%) and RBL (27%) | Higher concentration of credit in non-priority sectors. |
| 31 %- 35 % | IDBI (35%), IndusInd (34%), Jammu & Kashmir (34%), Axis (32%) and HDFC (31%) | Moderate share of PSA in overall advances. |
| 36 % - 40 % | CSB, Dhanlaxmi (40%), Karnataka, South Indian (38%) and Kotak Mahindra (37%) | A sound lending strategy that integrates priority sector needs with overall credit expansion. |
| 41 % - 45 % | Karur Vysya (41%) | Stronger emphasis on inclusive sectors like agriculture, MSMEs, and weaker sections. A positive sign of social banking focus. |
| 46 % - 50 % | City Union (49%) and DCB (46%) | A strong priority sector orientation in domestic operations. Demonstrates leadership in promoting inclusive financial access. |
| Above 50 % | Bandhan (80%), Tamilnad Mercantile (59%) and Nainital (51%) | High focus on priority sector engagement |

Source: Statistical Tables Relating to Banks in India

Interpretation

The table 4.2 presents a classification of private sector banks based on their average PSA ratio, highlighting their performance in lending to priority sectors such as agriculture, MSMEs, housing, education, and other socially inclusive areas.

Bandhan Bank leads with a PSA ratio of 80 percent, reflecting a strong commitment to financial inclusion, particularly targeting rural and microfinance sectors. Tamilnad Mercantile Bank and Nainital Bank follow with 59 percent and 51 percent respectively, showcasing their long-standing focus on rural and semi-urban clients.



City Union Bank with 49 percent and DCB Bank with 46 percent show strong orientation toward priority sectors, maintaining consistent lending across MSMEs and agricultural borrowers.

Karur Vysya Bank has a PSA ratio of 41 percent, indicating a balanced approach between commercial banking and social responsibility. Dhanlaxmi Bank, Karnataka Bank, and CSB Bank each report 40 percent, suggesting sustained engagement in priority lending.

South Indian Bank and IDBI Bank show ratios of 38 percent and 35 percent respectively. Their regional strength, especially in southern India, contributes to solid PSA performance.

Kotak Mahindra Bank, with a PSA ratio of 37 percent, reflects a strategic and growing engagement with priority sectors, likely due to regulatory focus and credit portfolio diversification in recent years. IndusInd Bank (34 percent), Jammu & Kashmir Bank (34 percent), Axis Bank (32 percent) and HDFC Bank (31 percent) fall in the mid-range. Jammu & Kashmir Bank, in particular, leverages its regional presence in a priority-focused market, while Kotak Mahindra Bank and others in this group demonstrate moderate inclusion of priority sectors within broader retail and corporate portfolios.

At the lower end, Federal Bank (30 percent), ICICI Bank (29 percent), Yes Bank (29 percent), IDFC First Bank (27 percent), and RBL Bank (27 percent) show limited emphasis on PSA. Their lending strategies are more urban-centric and oriented towards retail, wholesale, or infrastructure finance, with less proportionate credit directed at priority sectors.

5. RESULTS AND DISCUSSION

The paired-sample t-test results indicate that there is no statistically significant difference in the growth rates of PSAs between PSBs and PvtSBs during the study period. The high p-value confirms that both bank groups have shown similar PSA growth patterns, suggesting the influence of uniform regulatory requirements on lending behavior.

The Spearman's rank correlation analysis reveals a strong and significant positive relationship between total advances and PSAs for both PSBs and PvtSBs. This indicates that as overall lending expands, priority sector lending also increases proportionately across bank groups.

The PSA to Advances ratio analysis shows that PSBs generally maintain higher proportional exposure to priority sectors, reflecting their traditional role in inclusive financing. However, several private sector banks, particularly those with regional or microfinance orientation, demonstrate strong commitment to priority sector lending.



Overall, the findings suggest that while PSBs lead in proportional priority sector lending, both PSBs and PvtSBs exhibit comparable growth in PSA, highlighting the effectiveness of regulatory mandates in promoting balanced and inclusive credit expansion in India.

6. CONCLUSION

It is evident that the Public Sector banks play a much bigger role in the priority sector lending, which indicates that PSBs continue to uphold their traditional role in inclusive lending, maintaining a higher average PSA share compared to PvtSBs. However, Private Sector Banks have shown faster growth in PSA, as indicated by a higher CAGR, suggesting an increasing focus on this segment.

Among PSBs, post-merger entities like Union Bank of India, Indian Bank, and Canara Bank have emerged as strong performers, reflecting the positive impact of consolidation on PSA expansion. Notably, Indian Overseas Bank's high mean PSA ratio underlines its strategic commitment to priority sector lending.

While most PSBs demonstrated higher growth in PSA than in overall advances, large PSBs like SBI and PNB showed relatively lower PSA growth, possibly indicating a focus on non-priority segments or operational scale challenges.

In contrast, smaller private banks such as RBL and IDFC First exhibited rapid PSA growth from a low base, reflecting aggressive expansion strategies. Meanwhile, larger private players like HDFC and Axis Bank maintained a stable but moderate pace, balancing PSA mandates with commercial priorities.

Overall, the findings suggest that while PSBs remain the cornerstone of inclusive credit delivery, private banks are increasingly aligning with PSA targets, driven by regulatory norms and market opportunities.

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