

An Analysis of Education Loan component of Priority Sector Lending by banks in India

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ABSTRACT: According to priority sector norms, scheduled commercial banks have to give 40 per cent of Adjusted Net Bank Credit or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher to identified sectors. Loans to individuals for educational purposes, including vocational courses up to Rs 10 lakh, are also counted as priority sector loans. Loans to individuals for educational purposes, including vocational courses, have now been increased upto Rs. 20 lakh under the RBI revised priority sector lending. This study is based on secondary data compiled for last 10 year deployment of bank credit. Analysis shows that during last 10 years, out of total priority sector credit Rs 236023.17 billion, banks have deployed Rs. 5531.15 billion on education loan category. This indicates only 2.3435% of total priority sector credit of banks went to education sector in the form of loans during last decade. Further correlation has been conducted to observe the relationship between priority sector lending and allocation to its one of the segments education loan category.

Key words: Priority Sector, Credit, correlation, decade

I. INTRODUCTION

Priority Sector means the sector which the Government of India and Reserve Bank of India consider as important for the development of the basic needs of the country and is to be given

priority over other sectors. The banks are directed to encourage the growth of this sector with adequate and timely credit. Among various categories of this sector, one of the important segments is the education loans. According to priority sector norms, scheduled commercial banks have to give 40 per cent of Adjusted Net Bank Credit or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher to identified sectors. Loans to individuals for educational purposes, including vocational courses up to Rs 10 lakh, are also counted as priority sector loans. Loans to individuals for educational purposes, including vocational courses, have now been increased upto Rs. 20 lakh under the RBI revised priority sector lending. This study is based on secondary data compiled for last 10 year deployment of bank credit. Analysis shows that during last 10 years, out of total priority sector credit Rs 236023.17 billion, banks have deployed Rs. 5531.15 billion on education loan category. This indicates only 2.3435% of total priority sector credit of banks went to education sector in the form of loans during last decade. Further correlation has been conducted to observe the relationship between priority sector lending and allocation to its one of the segments education loan category. The following table 1 shows the Gross priority sector lending and allocation to education sector out of this total.

Table 1

Deployment of Gross Bank Credit on priority sector (Outstanding in March, Rs. billion)

Years	Gross Priority Sector	Education Loans
2012	14210.45	480.67
2013	15397.96	526.12
2014	18297.24	578.88
2015	20103.24	592.05
2016	22259.07	601.37

2017	24356.47	604.36
2018	25531.87	607.13
2019	27390.21	539.50
2020	28974.61	519.06
2021	39502.05	482.01

Source: RBI Data Releases

II. DATA ANALYSIS

To analyse the above raw data, following hypotheses have been formulated.

H₀₁: There exists a positive correlation between the total deployed priority sector credit and its education loan category.

H₀₂: There exists a positive correlation between amount of education loan deployed and period (number of years)

H₀₃: There exists a positive correlation between the total deployed priority sector credit and period (number of years)

To test the above mentioned hypotheses, SPSS version 18 has been used. Following are the results of data analysis conducted

Table 2 Correlations for H₀₁

	Priority Sector Credit	Education Loans
Priority Sector Credit	1	-.197
Pearson Correlation		.586
Sig. (2-tailed)		
N	10	10
Education Loans	-.197	1
Pearson Correlation	.586	
Sig. (2-tailed)		
N	10	10

H₀₁: There exists a positive correlation between the total deployed priority sector credit and its education loan category.

Above table 2 shows that Hypothesis H₀₁ is disapproved as mathematically there exists a negative correlation between deployed amount of priority sector credit and its proportion spend for education loan segment. However, this relationship is not statistically significant as P>.05. Though priority sector credit has grown over a decade from Rs. 14210.45 billion in the year 2012 to Rs. 39502.05 billion in 2021, but education loan figure has reduced from Rs. 526.12 billion in 2013 to Rs. 482.01 billion in 2020. There has been continuous decrease in March end figures for outstanding education loan amount under priority sector initiatives since 2019. The reason is increasing level of non-performing assets (NPAs) in education loan segment of banks due to lack of industry

desired employability skills among graduates and otherwise huge shortage of employment opportunities. Growing NPAs are a great concern for banks. Recently banks have been experiencing wilful defaults in education loan sector even.

H₀₂: There exists a positive correlation between amount of education loan deployed and period (number of years)

Table 3 shows that Hypothesis H₀₂ is disapproved as mathematically there exists a negative correlation between deployed amount education loan segment and the period under study i.e. years 2012-2021. The r= -.068 at P>.05. Though, education loan figures have grown from 2012 to 2018. But during 2019 and afterwards a sudden and continuous decline has been registered in education loan segment of banks under priority sector initiatives.

Table 3 Correlations H₀₂

	Years	Education Loans
Years	1	-.068
Pearson Correlation		.851
Sig. (2-tailed)		
N	10	10

Education	Pearson Correlation	-.068	1
Loans	Sig. (2-tailed)	.851	
	N	10	10

H₀₃: There exists a positive correlation between the total deployed priority sector credit and period (number of years)

The economic impact analysis report (2013) by Nathan Associates Inc. states that India adopted priority sector lending policy more than 40 years ago to correct the imbalances in certain strategic sectors of the economy namely, agriculture and small scale industries. Over the years, credit disbursed to these sectors through the priority sector lending channel has increased manifold, with the norms being mandated on

domestic as well as foreign banks. Similarly the table also exhibits that there exists a positive correlation between the total deployed priority sector credit and the period under observation (number of years) i.e. 2012-2021. Under government and RBI's directive commercial banks have been spending more on PLS (priority sector lending). As per table 4, during the period 2012-2021, the banks have growing spend on PLS with $r=.953^{**}$ at $P<0.01$. Thus H₀₃ is proved that there exists a positive and significant correlation between banks' PLS and period under study.

Table 4 Correlations H₀₃

		Years	Priority Sector Credit
Years (2012-2021)	Pearson Correlation	1	.953 ^{**}
	Sig. (2-tailed)		.000
	N	10	10
Priority Sector Credit	Pearson Correlation	.953 ^{**}	1
	Sig. (2-tailed)	.000	
	N	10	10

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

III. CONCLUSION

The declining trend in disbursals of education loans under PSL shows that all is not well with the portfolio. Further banks have reported sharp fall in education loan applications since the onset of the COVID pandemic in 2019. Banks cited unemployment as the most important reason for defaults in education loan, alongwith increasing willful default. During 2015-2019, the number of education loans disbursed in India has reduced by 25 per cent. As of March 31, 2019, the number of students able to secure loans fell to 2.5 lakh from 3.34 lakh students as of March 31, 2015. The main reason for the decline is the high non-performing assets levels. These have nearly doubled to 12.5 per cent in these four years This study also confirmed the decline in education loan portfolio under priority sector lending since 2019, besides increase in overall PSL.

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