



Growth of banking in rural areas

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Abstract

Rural credit serves as tool for providing sustainable livelihood in rural areas. It has assumed importance because of most of the rural people have inadequate savings to finance farmers and other economic activities. So, several steps were taken by GOI and RBI to provide banking facilities especially in rural areas so as to cover unbanked areas in the ambit of banking services. Growth of banking services and credit in rural areas by commercial banks has been studied region wise to study the considerable regional variations on the parameters like branch expansion, deposit mobilization, deposit per branch, credit deployment, credit per branch, credit deposit ratio, and the volume of business.

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I. INTRODUCTION

The banking sector is the lifeline of any modern economy. It is one of the important pillars of the financial system. Banking plays a vital role in the growth and development of rural areas. With the initiation of the process of liberalization and globalization of the economy, the financial sector, particularly the commercial banks, not only in urban areas, but also in rural areas were the first to experience the winds of change. Several steps were taken by GOI and RBI to provide banking facilities, especially in rural areas so as to cover the unbanked areas within the ambit of banking services.

Banks are one of the oldest financial intermediaries in the financial system. They played an important role in the mobilization of deposits and disbursement of credit to various sectors of the economy. The banking system reflects the economic health of the country. The strength of the economy of any country basically hinges on the strength and efficiency of the financial system, which in turn, depends on a sound and solvent banking system. A sound banking efficiently deploys the mobilized saving in productive sectors and it ensures that the bank is capable of meeting its obligations to the depositors. India is a bank based economy as the banking sector is dominant in India as it accounts for more than half the assets of the financial system.

Rural banking occupies an important place in the Indian banking system. It denotes the banking needs of the rural populace. Rural population mainly comprises of agriculture producers, tenant cultivators, village artisans and landless laborers etc. "India lives in its villages and the growth of Indian economy depends on the growth of rural economy. India is the second most populous country in the world. As per 2011 census, 68.84 per cent of population lives in 638,000 villages and rest of the population lives in about 5480 towns and urban areas. Hence rural segment is the biggest segment and the backbone of Indian economy.

II. Research Methodology

The present study aims at covering the banking with particular reference to credit in rural areas. The study attempts to examine intensively the various aspects of growth of rural credit in India. For the purpose of analysis, the secondary data of the study takes into consideration a period of 15 years ranging from 2004-2005 to 2018-2019. The base year 2004-2005 has been selected as RBI in its Annual Policy 2005-06 focused on the concept of penetrating banking services to the rural masses. The growth of branches of commercial banks in rural areas in different regions viz. Northern region, North-eastern region, Eastern region, Central region, Western region, Southern region has been studied.

Objectives of the study

- 1 To study the region -wise growth of branch expansion in rural areas.
- 2 To study the region wise growth of deposit mobilized by commercial banks in rural areas.

3 To study the region-wise growth of credit deployed in rural areas.

1 Branch Expansion

Branch expansion is one of the most important indicators of spread of banking as it fosters the development by mobilization of deposits and by grant of loans for meeting the credit needs of the people. Branch expansion of scheduled commercial banks has always been subject to the control under Banking Regulation Act, 1949. It ensures the balanced development of the country by opening of more branches in unbanked and under banked areas, which increases the flow of credit particularly in rural areas and reduces the regional imbalances hence it promotes the economic development in an economy.

Table: 1.1
Region-wise branch expansion of commercial bank branches in rural areas

Region	2005	2010	2015	2019	Total	EGR	Average	SD	CV
Northern region	4989 (15.61)	5069 (15.68)	8426 (17.86)	9406 (18.03)	99921	4.23	3453.63	3637.45	53.04
North-Eastern region	1229 (3.84)	1208 (3.74)	1695 (3.59)	2647 (5.07)	23564	5.11	814.43	873.65	46.43
Eastern region	7363 (23.03)	7481 (23.15)	10378 (21.99)	11236 (21.53)	130092	2.82	4496.77	4528.05	65.53
Central region	7889 (24.68)	7942 (24.57)	11380 (24.11)	12349 (23.66)	143344	2.99	4954.76	5043.40	63.88
Western region	3858 (12.07)	3865 (11.96)	5946 (12.60)	6549 (12.55)	70835	3.53	2448.40	2508.46	58.91
Southern region	6639 (20.77)	6755 (20.90)	9366 (19.85)	10028 (19.22)	119141	2.75	4118.23	4164.84	66.20
Total	31967 (100.00)	32320 (100.00)	47191 (100.00)	52183 (100.00)					

Source: Data compiled from Basics Statistical Returns, RBI (2005 – 2019).
Figures in parentheses denote percentages.

It was found in the table 1.1 that over the period the highest numbers of branches were recorded in central region (143344) followed by eastern region (130092) whereas the lowest number of branches were in north-eastern region (23564). The highest growth rate was recorded in the north-eastern region (5.11 per cent) followed by northern region (4.23 per cent) and lowest was recorded in southern region (2.75 per cent), eastern region (2.82 per cent) over the period of study. During 2019, the percentage share of central region accounted for 23.66 per cent, eastern region with 21.53 per cent and southern region with 19.22 per cent.

Table 1.2
ANOVA results of branch expansion

	F value	F table value
Region	411.11	2.34
Year	19.30	1.83

*Significant at 5 per cent level of significance

In table 1.2 ANOVA results shows that F value of 411.11 for the regions and F value of 19.30 for the various years is higher than the table value which means that there is a significant difference region-wise and year-wise in number of branches in rural areas to total branches at All India level during the period of study.

2 Deposit Mobilization

Deposits mobilization is an important variable that helps in determining the path of growth of banking institution. The mobilization of deposits by banks serves as the mainstay of bank funds and the basis for capital formation and facilitates the process of economic development. Deposits mobilized by the commercial banks plays a key role not only as an important source of funds but also as an instrument for promoting savings and banking habits among the rural population.

Table: 1.3
Region-wise deposits mobilized by commercial banks in rural areas
(Number in thousand, Amount Rs. in lac)

Region	Deposits	2005	2010	2015	2019	Total	EGR	Average	SD	CV
Northern region	Amount	4712636 (22.11)	8676468 (20.64)	18273703 (18.90)	34336130 (22.81)	207668834	13.24	13844588.93	8540583.00	13.73
North-Eastern region	Amount	627823 (2.95)	1374517 (3.27)	3297168 (3.41)	7306809 (4.86)	37410653	16.36	2494043.53	1890051.98	8.59
Eastern region	Amount	4416021 (20.72)	9281010 (22.08)	23521012 (24.32)	34682959 (23.05)	239535799	13.74	15969053.27	10381187.97	12.73
Central region	Amount	5046927 (23.68)	9592072 (22.82)	21928635 (22.67)	30636719 (20.36)	230287186	12.02	15352479.07	8982874.06	16.47
Western region	Amount	2583830 (12.12)	5247653 (12.48)	14305159 (14.79)	19873029 (13.20)	136453878	13.60	9096925.20	5811910.41	13.00
Southern region	Amount	3923173 (18.41)	7862053 (18.70)	15384366 (15.91)	23664573 (15.72)	174104222	11.98	11606948.13	6358132.83	16.58
Total	Amount	21310410 (100.00)	42033773 (100.00)	96710043 (100.00)	150499027 (100.00)					

Source: Data compiled from Basics Statistical Returns, RBI (2005 – 2019).
 Figures in parentheses denote percentages.

Table 1.3 shows that the highest number of accounts were opened in the central region (1500179 thousand) followed by eastern region (140009 thousand) whereas the amount mobilized was highest in eastern region (Rs.239535799 lac) followed by central region (Rs.230287186 lac) over the period of study. The growth rate of number of accounts was highest in the north-eastern region (14.64 per cent) while the lowest growth was recorded in southern region (9.99 per cent). The growth rate of amount of deposits mobilized was highest in north-eastern region (16.36 per cent) and lowest was in southern region (11.98 per cent).

Table:1.4
ANOVA results of deposits mobilized

	F value	F table value
Region	340.85	2.34
Year	6.56	1.83

*Significant at 5 per cent level of significance

ANOVA results exhibits that the F value is greater than table value which means that there is significant difference region-wise and year-wise in amount mobilized by commercial banks in rural areas to total deposits mobilized by commercial banks at All India level.

3 Deposit Per Branch

Deposit per branch has been calculated to study the growth of banking in rural areas, this is calculated as follows:
 Deposits per branch = Total deposits / Number of branches

Table:1.5
Region-wise deposit per branch of commercial banks in rural areas

Region	2005	2010	2015	2019	EGR	Average	SD	CV
Northern region(amt.)	944.61	1711.67	2168.73	3650.45	9.01	1919.41	693.94	25.88
North-Eastern region (amt.)	510.84	1137.85	1945.23	2760.41	11.25	1436.16	706.88	18.51
Eastern region(amt.)	599.76	1240.61	2266.43	3086.77	10.92	1706.71	855.59	19.43
Central region(amt.)	639.74	1207.77	1926.95	2480.91	9.04	1495.48	612.11	25.79
Western region(amt.)	669.73	1357.74	2405.85	3034.51	10.07	1767.77	798.07	22.07
Southern region (amt.)	590.93	1163.89	1642.58	2359.85	9.23	1376.83	534.33	25.04

Source: Compiled from table 1.1 and 1.3

Study found that in table 1.5 the northern region deposit per branch were highest which increased from Rs.944.61 lac to Rs.3650.45 lac followed by eastern region in which it increased from Rs.599.76 lac to Rs.3086.77 lac whereas lowest deposit per branch was in southern region which only increased from Rs.590.93 lac to Rs.2359.85 lac. The growth rate was highest in north-eastern region with 11.25 per cent and lowest was recorded in northern region with 9.01 per cent.

4 Credit Deployment

Credit deployment is one of the essential components of growth of banking sector.

It is the important catalyst which is used efficiently to increase the ability of borrowers to engage in production activities as it helps in the financing in the form of agriculture loans, crop loans, loans for allied activities, loan for village and cottage industry, loan for rural artisans and loan for self-employment.

Table:1.6
Region-wise credit deployed by commercial banks in rural areas
(Amount Rs. in lac)

Region	Deposits	2005	2010	2015	2019	Total	EGR	Average	SD	CV
Northern region	Amount	2240718 (20.37)	5053738 (20.27)	12744721 (20.95)	18193600 (20.53)	132524959	13.96	8834997.27	5266161.07	12.32
North-Eastern region	Amount	256526 (2.33)	616751 (2.47)	1478462 (2.43)	2808895 (3.17)	17022749	15.96	1134849.93	803616.99	9.13
Eastern region	Amount	1614408 (14.68)	3644934 (14.62)	7799986 (12.82)	13566270 (15.31)	86919846	14.19	5794656.40	3540593.59	11.90
Central region	Amount	2126304 (19.33)	4788148 (19.21)	10670180 (17.54)	17119070 (19.32)	118043424	13.91	7869561.60	4881130.98	12.42
Western region	Amount	1441321 (13.11)	2896959 (11.62)	9316885 (15.32)	12276500 (13.86)	87355390	14.28	5823692.67	3990779.73	11.74
Southern region	Amount	3318284 (30.17)	7927165 (31.80)	18822071 (30.94)	24641848 (27.81)	189867054	13.37	12657803.60	7261987.36	13.47
Total	Amount	10997561 (100.00)	24927695 (100.00)	60832305 (100.00)	88605567 (100.00)					

Source: Data compiled from Basics Statistical Returns, RBI (2005 – 2019).

Figures in parentheses denote percentages.

In the analysis it was revealed that the amount of credit deployed was largest in southern region (Rs. 189867054 lac) northern region (Rs.132524959 lac) whereas the lowest number of credit deployed in north-eastern region (Rs.17022749 lac). Study showed that highest growth in credit deployed with 15.96 per cent was highest in north-eastern region followed by western region with 14.28 per cent. The lowest growth rate was in southern region with 13.37 per cent. C.V revealed that highest variation was in southern region with (C.V=13.47%) respectively.

Table: 1.7
ANOVA results of credit deployed

	F value	F table value
Region	88.55	2.34
Year	1.99	1.83

*Significant at 5 per cent level of significance

ANOVA results shows that there is significant difference region-wise and year-wise in credit deployed by commercial banks in rural areas to credit deployment by commercial banks at All India level.

5 Credit Per Branch

Credit per branch has been calculated to study the growth of credit in rural areas, this is calculated as follows:

Credit per branch = Total advances / Number of branches

Table:1.8
Region-wise credit per branch of commercial banks in rural areas

Region	2005	2010	2015	2019	EGR	Average	SD	CV
Northern (amt.)	449.13	996.99	1512.55	1934.25	9.73	1218.86	459.92	23.22
North-Eastern region (amt.)	208.73	510.56	872.25	1061.16	10.84	657.08	305.67	19.67
Eastern region (amt.)	219.26	487.23	751.59	1207.39	11.37	624.94	283.66	18.16

Central region(amt.)	269.53	602.89	937.63	1386.27	10.92	762.07	341.16	19.44
Western region(amt.)	373.59	749.54	1566.92	1874.56	10.75	1118.23	569.10	19.93
Southern region(amt.)	499.82	1173.53	2009.62	2457.30	10.62	1490.63	650.33	20.34

Source: Compiled from table 1.1 and 1.6

It was found in table 1.8 that the progress of credit per branch was highest in southern region which increased from Rs.499.82 lac to Rs.2457.30 lac followed by western region which increased from Rs.373.59 lac to Rs.1874.56 lac over the period of time. The lowest progress of credit per branch was recorded in north-eastern region which only increased from Rs.208.73 lac to Rs.1061.16 lac during the study period. The highest growth rate was recorded in eastern region with 11.37 per cent and lowest growth rate was in northern region with 9.73 per cent.

6 Credit-Deposit (CD) Ratio

The credit-deposit ratio of the banks indicates the creation of credit out of the deposits mobilized (Hosamani, 2002). It refers to the proportion of the credit sanctioned by banks in a region, to the deposit collected in that region. Variation in this ratio indicates that certain regions, states gain more than others in terms of credit flow thus aggravating regional imbalance (Kondle, 1984). RBI advised the banks to achieve a credit deposit ratio of 60 per cent in respect of their rural and semi-urban branches separately on All India basis.

Table 1.9
Region-wise credit deposit ratio of commercial banks in rural areas

Region	2005	2010	2015	2019
Northern region(amt.)	47.55	58.25	69.74	52.99
North-Eastern region(amt.)	40.86	44.87	44.84	38.44
Eastern region(amt.)	36.56	39.27	33.16	39.12
Central region(amt.)	42.13	49.92	48.66	55.88
Western region(amt.)	55.78	55.20	65.13	61.77
Southern region(amt.)	84.58	100.83	122.35	104.13

Source: Compiled from table 4.6 and 4.12

The results found that the Southern region accounted for increase in credit deposit ratio (84.58 to 104.13 per cent) followed by central region (42.13 to 55.88 per cent) and the north-eastern region recorded the fall in credit-deposit ratio (40.86 to 38.44 per cent).

7 Volume of Business

The main function of banks is to mobilize the deposits and to provide loans and advances. Volume of business is the indicator which shows the quantum of business done by the bank. Volume of business mainly constitutes the deposits mobilized and credit deployment.

Volume of business = Deposits + Advances

Table:1.10
Region-wise volume of business of commercial banks in rural areas

Region	2005	2010	2015	2019	EGR	Average	SD	CV
Northern region(amt)	6953354	13730206	31018424	52529730	13.48	22679586	13704877	13.24
North-Eastern region(amt)	884349	1991268	4775630	10115704	16.25	3628893	2683165	8.74
Eastern region(amt)	6030429	12925944	31320998	48249229	13.86	21763710	13892463	12.50
Central region(amt)	7173231	14380220	32598815	47755789	12.64	23222041	13850955	15.02
Western region(amt)	4025151	8144612	23622044	32149529	13.85	14920618	9777005	12.52
Southern region(amt)	7241457	15789218	34206437	48306421	12.65	24264752	13549777	14.99

Source: Compiled from 1.3 and 1.6

The study portrays that the growth rate of volume of business which was highest in north-eastern states with 16.25 per cent and lowest was in central region with 12.64 per cent. The variation in volume in business was highest in central region (C. V=15.02%) and lowest was in northeastern region (C. V=8.74%).

III. Suggestions on the basis of findings

1 Branch banking needs to be enhanced in north-eastern and western region in order to remove regional disparities. The banks should open branches in the proportion of the rural population.

2 In order to bring the excluded rural population into the fold of credit, there is need to build an enabling system with respect to policy interventions, institutional innovations and digital technology.

3 It was found in the study a meager portion of credit was deployed in the north-eastern region so banks should deploy more credit in these states.

4 North-eastern region have shown a declining trend in credit deposit ratio which shows that this region need special focus and more funds should be deployed in rural areas.

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