

ROLE OF COMMERCIAL BANKS IN STRENGTHENING RURAL CREDIT IN INDIA

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ABSTRACT

Rural financing is essential for agricultural advancement, job creation, and inclusive economic development in India. Since the nationalization of banks in 1969, commercial banks have been pivotal in the provision of rural lending. This research study analyzes the evolution, performance, and influence of commercial banks on rural loans in India from 1969 to 2025.

This paper is an analysis of key policy measures like the nationalisation of banks, priority sector lending, financial inclusion programmes and new digital developments. The article uses secondary data based on RBI, NABARD, and government publications to show the trends in branch expansion, agricultural credit growth, and market share of institutions by using relevant tables. The study points out the successes, issues, and future possibilities of rural lending in India.

Keywords: *Nationalization of banks, agricultural credit growth, priority sector lending, inclusive economic development.*

1. Introduction

Rural financing is essential for agricultural productivity, rural employment, and poverty reduction. In India, almost two-thirds of the population makes its living, directly or indirectly, through farming activities and related ventures. Provision of cheap institutional credit is also critical, which enables farmers to be able to afford quality

seeds, fertilizers, irrigation, mechanization, and technological innovations. Until 1969, informal moneylenders had a large monopoly in rural credit, which resulted in exploitation and a cycle of indebtedness. The government nationalisation of commercial banks in 1969 established a waterfall in the history of banking in the country, radically changing the financial landscape of the agricultural producers.

It converted banks from profit-driven entities into tools for socio-economic advancement. Since that time, commercial banks have been instrumental in enhancing rural finance, bolstering financial inclusion, and facilitating agricultural development. This research examines the progress of commercial banks in rural credit from 1969 to 2025, supported by statistics.

Review of Literature

Pranab Kumar Das and Pradip Maiti (1998) carried out a study with three goals: analyzing the contribution of bank loans to state economic growth in comparison to other countries; examining the effects of income on deposit mobilization; and assessing the commercial banking credit deposit ratios in western Bengal from 1972–1973 to 1993–1994 and comparing them with selected states.

Using a multivariate VAR model, **Rudra Prakash Pradhan (2009)** investigated the causal relationship between financial development and economic growth in India between 1993 and 2008.

Chakraborty Indrani (2010) examined how financial sector developments affected India's economic growth between 1993 and 2005. Using the **Mankiw et al. (1992)** model using cointegration and vector error correction techniques, the study concluded that the expansion of financial markets did not substantially boost economic growth. Rather, efforts to change market interest rates in the banking industry had a significant positive impact on economic growth.

Verma Satish (2016) concluded that despite of aggressive policy of credit adopted by RBI, non-institutional sources continued to play a significant role both exclusively and alongside the institutional sources in the financing of rural credit.

Himanshu and Sud N. (2016) showed that the greatest rise in loans granted was in the case of Scheduled Commercial Banks, while the smallest was for the cooperative banks.

Minakshi and Shukla (2020) opined that besides promoting farming, the agricultural credit has the potential to create a multiplier effect on the rural economy at large, which affects production, income, and levels of inputs.

In the Coimbatore district, **A. Maheswari (2022)** investigated the importance of commercial banks in provision of rural credit by revealing commercial banks to be a significant catalyst in the economic growth, employment, and production through availing financial resources under fair terms to the rural borrowers. The study also maintained that the availability of institutional credit is a better way to promote economic development in rural areas compared to unofficial sources of credit.

Yadav, Singh, and Jaiswal (2023) discovered that Regional Rural Banks (RRBs) still meet their original responsibilities of serving rural communities and small farmers with relatively greater rural coverage than other types of banks.

According to Sen and Sana (2024), priority sector lending policies, whereby banks are mandated to set aside a certain percentage of the credit to agriculture and weak sections, has enhanced access to agricultural credit in a few districts hence raising the farm investment capacity.

Kundu, Dipak (2025) had an econometric study, which revealed that the level of penetration in the branches, high credit disbursement, and increased mobilization of the deposit, which positively correlate with the income of the rural areas, agricultural output and poverty reduction.

2. Rural Credit System Before 1969

Prior to nationalization, the Indian banking sector was predominantly urban-focused. In 1969, over 8,000 bank branches existed, with more than 75% situated in metropolitan and semi-urban regions. Rural households primarily relied on non-institutional sources,

including moneylenders, dealers, landlords, and relatives. Commercial banking in India has remained concentrated in urban areas. According to the 'Statistical Tables pertaining to Banks in India' from 1966, around two-thirds of all bank branches were located in areas with populations over 100,000. Merely 15% of the bank branches were situated in towns with populations of 10,000 or fewer. The savings generated from less developed regions were utilized to promote economic activities in previously developed regions. In 1969, a mere 1.5% of total credit was allocated to rural areas, 11.26% to semi-urban areas, and 87.24% to metropolitan areas. The credit deposit ratio for large cities was 91.3, while for small centers it was 39.2. A substantial chunk was allocated to bank directors and major industrialists. The system of private ownership provided no assurance to the depositors. Low-income households, small and marginal farmers, and artisans were compelled to rely on moneylenders for credit, who exploited them by imposing exorbitant interest rates.

3. Nationalisation of Banks and Expansion of Rural Credit

3.1 Bank Nationalisation

The significant event in banking legislation history in 1969 was the nationalization of 14 major Indian banks. The Banking Companies (Acquisition and Transfer of Undertakings) Act 1970 was enacted, resulting in the takeover of all bank undertakings and the establishment of 14 related new corporate entities under the Act. On April 15, 1980, six additional banks with demand and time obligations of no less than Rs.200 crores were nationalized. Following nationalization, there was extensive deposit mobilization. There was an augmentation in loan allocation to the marginalized segments of society to expedite rural development. The banks were compelled to establish an increasing number of branches in rural regions. During this time, branch expansion, deposit mobilization, and credit deployment were significantly elevated in rural areas.

3.2 Expansion of Rural Branches

One of the immediate outcomes of nationalisation was rapid branch expansion in rural areas.

Table 1: Expansion of Bank Branches in India

Year	Rural Branches	Total Branches	Percentage of Rural Branches
1969	1833	8262	22.2
1980	15105	34860	43.3
1990	33014	57699	57.2
2010	31796	80369	39.6
2025	40394	141523	28.54

Source: RBI Statistical Tables, various issues

Following nationalization, branch expansion occurred rapidly in rural and semi-urban regions. The quantity of rural branches, which stood at 1,833 in 1969, escalated to 15,105 in 1980 and subsequently to 33,014 in 1990. The substantial rise in rural branches markedly enhanced access to institutional financing. There was an augmentation in loan allocation to the marginalized segments of society to expedite rural development. The total number of rural branches, deposit mobilization and credit deployment registered tremendous growth from 1969 to 1991. The branch expansion witnessed a growth from 18% in 1969 to 58% in 1991. Deposit mobilization grew from 3.3% in 1969 to 15.4% in 1991. The credit deployment also increased from 6.3% in 1969 to 14.9% in 1991. The nationalization significantly initiated a new era in India's financial history by converting 'class banking' into 'mass banking'.

Table 2 Rural Banking Growth (1969-1991)

Year	Rural Bank Branches	Deposit	Credit	C-D Ratio (%)	
				Rural	All-India
	(% of total)	(% of total)	(% of total)		
June 1969	18	3.3	6.3	37.6	71.9

March 1991	58	15.4	14.9	60.0	59.9
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Source: Basic Statistical Returns of Scheduled commercial Banks in India

This shift resulted in the expansion of banking into previously neglected regions of the country. The responsibility of expanding banking services to the underdeveloped regions of India predominantly rested with the Public Sector Banks. These banks were compelled to incur substantial financial losses as priority sector loans transitioned into the irrecoverable category of advances. In light of the financial sector's strategic significance, the Indian government established a Committee on Financial System, chaired by M. Narasimham in 1991, to analyze all facets concerning the structure, organization, activities, and procedures of the Indian financial system. The primary aim of banking sector reforms in India has been to improve the stability and efficiency of banks. The reforms resulted in the consolidation of bank branches in rural regions. Financial institutions were urged to prioritize cost management and profitability over social responsibilities. Previous regulations, such as the Lead Bank Scheme, mandated banks to establish rural branches; subsequent revisions weakened this obligation. Banks were granted the autonomy to select branch locations, resulting in a preference for urban and metropolitan regions. While priority sector lending persisted, the expansion of physical rural branches in enforcement diminished. Unprofitable rural branches were consolidated or closed. The expansion of bank branches became focused on metropolitan areas, resulting in a reduction or stagnation of rural branches, particularly throughout the 1990s. This resulted in diminished deposit mobilization and credit allocation in rural regions.

Table 3 Rural Banking Growth (1991-2025)

Year	Rural Bank Branches	Deposit	Credit	C-D Ratio (%)	
	(% of total)	(% of total)	(% of total)	Rural	All-India
March 1991	58	15.4	14.9	60.0	59.9

March 2000	49.93	14.65	10.10	39.3	57.05
March 2025	28.54	9.06	7.74	69.90	79.6

Source: Basic Statistical Returns of Scheduled commercial Banks in India

Due to the reforms initiated in 1992, the rural branches steadily declined over the period from 58% in 1991 to 49.93% in 2000 and further reduced to 28.54 % in 2025. Credit outstanding as percentage of total bank credit had declined from 15% to 10.10% to 7.74% during the same period. As a percentage of total bank deposits, rural deposits declined from 15.4% to 14.65% and then to 9.06 % in 2025. Rural C-D ratio, which was 60% in 1991 fell to 39.3% in 2000 but improved to 69.90% in 2025.

4. Priority Sector Lending and Rural Credit

Priority Sector Lending (PSL) in India was established as a fundamental mechanism of social banking to provide sufficient institutional credit to essential sectors crucial for inclusive growth yet inadequately supplied by formal finance. The PSL is an essential policy instrument for promoting financial inclusion and equitable economic development. Priority sector lending has risen in recent years owing to robust policy and regulatory initiatives aimed at fostering inclusive growth, with modifications in the banking framework. The RBI has broadened the definition of priority sectors and increased loan limits for categories like MSMEs, housing, education, and renewable energy, enabling more credit to be classified as PSL. Moreover, financial inclusion efforts such as Jan Dhan accounts, SHG–bank linkage, KCC/GCC, and digital banking have expanded the formal borrower base and decreased lending costs. Government assistance initiatives, credit assurances, and enhanced rural credit infrastructure have mitigated risks, resulting in a recent increase in priority sector lending.

Table 4 Growth of Priority Sector Lending (1969-2025)

As at the end of	Priority Sector Advances (Amount in rupees crore)	Share of priority sector advances in total advances (%)
June 1969	504	14.9%
March 1991	44,572	39.2%
March 2000	1,55,779	35.4%

March 2010	8,24,772	40%
March 2025	67,26,000	43.6%

Source: Basic Statistical Returns of Scheduled commercial Banks in India

5. Growth in bank credit (1996-2025)

Following the nationalization of 14 major banks in 1969, commercial bank lending in India has proliferated swiftly, propelled by the dual objectives of financial inclusion and economic advancement. Initially, the growth of credit was channeled to priority areas such as agriculture and small-scale industries as well as marginalized groups and supported by regional rural banks and the lead bank program.

The changes implemented after 1991 prompted banks to enhance profitability and efficiency, resulting in an increase in urban and business lending. The 1991 economic reforms increased the issues of competition, efficiency, and profitability in the banking sector. As the rationalisation of many rural branches took place, the rules of priority sectors made the lending to the rural population continue. Some prominent projects of this period were the Kisan credit card (1998), the Self-Help Group (SHG)-Bank linkage program, and the expansion of agricultural term loans.

The financial inclusion program was implemented in 2005, featuring initiatives such as no-frills accounts, microfinance, self-help groups (SHGs), business correspondents, Direct Benefit Transfer (DBT), Aadhaar-linked banking, and the Jan Dhan Yojana (2014). The influence on bank lending has been substantial. The growth of the depositor base and the increase of the loans to the priority segments, i.e. agriculture, micro- and small companies, the poor groups, and so on, in turn, promote the rural access.

In 1996, the proportion of bank credit allocated to rural areas was 16.81%. The proportion of rural credit decreased to 10.6% in 2000 and then to 7.5% in 2010. Rural lending has been significantly overlooked during the reform era as banks redirected their focus from welfare maximization to profit maximizing. Nonetheless, rural credit growth rebounded to 8.7% in 2020 and subsequently reached 9.2% in 2025.

Table 5 Population Group wise share in Total Bank Credit (in Percentage)

	1996	2000	2010	2020	2025
Rural	16.8%	10.6%	7.5%	8.7%	9.2%
Semi-Urban	12.5%	12.2%	9.6%	12.6%	14.3%
Urban	14.9%	17.2%	16.7%	15.2%	17.8%
Metropolitan	55.7%	60%	66.3%	63.5%	58.7%
Total	100%	100%	100%	100%	100%

Source: Basic Statistical Returns of Scheduled commercial Banks in India.

This outflow of credit to rural locations also declined considerably from 16.8% in 1996 to 10.6% in 2000 and to 7.5% in 2010. According to the latest banking statistics, the ratio of rural credit to total bank credit has grown since about 7.5% in the year 2010 to about 8.7% in the year 2020 and has reached about 9.2% in the year 2025, thus showing an improvement in penetration in rural areas.

Table 6 Population Group wise Annual Growth Rates (Per Cent) in March 2025

	Deposit mobilization	Credit deployment
Rural	10.6	12.8
Semi urban	8.9	12.5
Urban	9.4	12.5
Metropolitan	11.3	10

Source: Quarterly Statistics on Deposits and Credits of Scheduled Commercial Banks, 2025

In recent years, commercial bank loan to rural areas has risen due to a confluence of legislative actions, institutional fortification, and escalating rural demand. The proliferation of bank branches, business

correspondents, and digital banking platforms has enhanced accessibility and reduced transaction costs in rural areas. Furthermore, enhanced repayment behavior, superior rural infrastructure, and elevated income prospects in rural regions have rendered rural lending more feasible, prompting commercial banks to augment loan distribution to these areas.

Table 7 Population Group-Wise Classification of Bank Credit According to Occupation

Purpose of Credit	1996	2025
Agriculture credit	38.56	52.08
Industry	27.53	5.68
Transport operators	3.1	1.02
Professional and other services	2.5	2.46
Personal Loans	9.1	26.88
Trade	13.9	7.37
Finance	0.4	2.68
All others	5.0	1.82

Source: Quarterly Statistics on Deposits and Credits of Scheduled Commercial Banks, 2025

Over the long term, the share of commercial banks in agricultural production credit has increased from 38.56% in 1996 to 44% in 2001–02 to 52.08% in 2025, showing deepening penetration of formal credit in rural areas and indicating a renewed focus on farm lending through interest subvention programs, Kisan Credit Cards, and priority sector standards. Personal loans increased from 9.1% to 26.88%, reflecting rising rural demand for credit driven by financial inclusion, housing, education, and consumption. Due in part to increased risk and a shift toward retail lending, industry and trade had a

significant reduction in share, indicating decreased commercial bank exposure to rural industrial and trading activity. Because SHGs, microfinance, and NBFC links are becoming more important in rural regions, credit to transport operators and related services decreased while credit connected to finance increased.

5.1 Enhanced Role of Commercial Banks in Rural Credit

In recent year the share of commercial banks in rural credit has increased significantly.

Table 8 Institutional Share in Agricultural Credit (%)

Institution	1970	1980	1990	2010	2024
Commercial Banks	21	38.9	49	68	76
RRBs	2.3	5.3	6	12	13
Cooperatives	79.5	55.9	45	20	11

Source: NABARD Trends in Agricultural Credit

In recent years, commercial bank loan to rural areas has risen, whereas the proportion of cooperative banks has diminished, primarily due to disparities in financial robustness, regulatory backing, and operating capability. Commercial banks possess higher capital reserves, superior technology, extensive branch and business correspondent networks, and enhanced access to low-cost deposits, facilitating more efficient expansion of rural lending. They are also more strategically equipped to fulfill priority sector lending objectives, bolstered by credit guarantees, digital credit assessments, and instruments such as PSL certificates. Conversely, numerous RRBs and cooperative banks encounter capital limitations, governance challenges, restricted technological integration, elevated NPAs, and regulatory deficiencies, which hinder their lending capacity. Consequently, rural finance has progressively transitioned to

commercial banks, despite RRBs and cooperatives historically being the primary rural lenders.

6. Recent measures to overcome the challenges in Rural Credit

Some of the biggest challenges in rural credit include strict laws and regulations, identity requirements, psychological and cultural barriers, lack of information, and accessibility issues. Since small and marginal farmers usually lack acceptable assets or clear land titles, strict collateral requirements present a barrier. Due to the reliance of rural incomes on unpredictable variables like monsoons, pests, price fluctuations, and climate change, high credit risk is another significant issue that deters banks from increasing lending.

Since the Reserve Bank of India decided to implement policies to promote financial inclusion and urged the banking system to focus on this goal in 2005, India has adopted a more focused and structured approach to financial inclusion. Rural inclusion can be interpreted from the expansion of formal financial services in rural and semi-urban areas. Opening up of 'No-Frill' accounts, expansion of rural branches, General Credit Card/ Kisan Credit Cards, strengthening of Business correspondents/ Business Facilitator model, Pradhan Mantri Jan Dhan Yojana (PMJDY) and development of digital infrastructure have supported financial inclusion in rural India and enhanced the access to credit facilities.

In 2025, through the Pradhan Mantri Jan Dhan Yojana (PMJDY), the total number of account holders were 55.8 crore, 37.3 of which were in rural and semi-urban regions; because the rural proportion is very high, it implies that more people in villages and smaller towns can now access banking services. However, in the light of this development, there are still certain issues that must be addressed, such as the growing percentage of non-performing assets (NPAs) in the agricultural loans, uneven distribution of credit on the regional level, and the insufficient financial literacy.

In addition to attitude problems, the main obstacles to financial service providers extending their services to the impoverished are lack of access, increased transaction costs, and the time required to do so. Both supply-side and demand-side obstacles exist. The primary demand-side barriers include low literacy rates, ignorance, low-income levels, small transaction sizes, mistrust of formal banking institutions, etc.

(Sharma, 2009). The cost of operation, such as salaries, commission, travel, amortization and depreciation, renting on rented houses, and other overheads, is also a significant supply-side barrier

7. Conclusion

Between 1969 and 2025, rural credit by commercial banks in India has changed as the banks expanded their branches, gave priority lending to the sector, and because of financial inclusion. Although there is a marked increase in institutional credit provision, it is important that sustainability, equity, and resilience in the rural lending is guaranteed. The future of the rural banking in India will be determined by the enhancement of digital finance, mitigation of risk schemes, and inclusive credit policies.

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