

Rural Credit and Rural Development in India: A Comparative Analysis of Public and Private Sector Banks

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Abstract:

Rural credit is one of the most important tools for rural development in India, since it allows farmers, small entrepreneurs, and rural households to invest in agriculture, allied activities, and small business. Since the nationalisation of banks in 1969, public sector banks have carried most of the responsibility of taking formal credit to rural India, while private sector banks have entered this space more actively only in the last two decades. This paper presents a comparative analysis of the role played by public sector banks and private sector banks in rural credit delivery and rural development in India. Using secondary data drawn from the Reserve Bank of India (RBI), the National Bank for Agriculture and Rural Development (NABARD), the Ministry of Finance, and published academic studies, the paper compares the two categories of banks on four dimensions: growth in agricultural and priority sector credit, rural branch expansion, performance in flagship financial inclusion schemes such as the Pradhan Mantri Jan Dhan Yojana (PMJDY) and the Kisan Credit Card (KCC), and the quality of rural/agricultural loan assets. The analysis finds that public sector banks still dominate in the sheer volume of rural credit and branch presence, while private sector banks have grown faster in percentage terms and generally show better asset quality. The paper concludes that a coordinated approach, in which public sector banks continue to anchor financial inclusion and private sector banks contribute efficiency and technology, is best suited to accelerating rural development in India.

Keywords: rural credit, rural development, public sector banks, private sector banks, priority sector lending, financial inclusion, India

1. INTRODUCTION:

India is still, in many ways, a rural economy. A large share of its population depends directly or indirectly on agriculture and allied activities for its livelihood, and the pace of rural development has a direct bearing on the overall growth and stability of the country. Credit is one of the basic inputs required for rural development, because it allows farmers to buy seeds, fertilizers, and equipment, helps rural entrepreneurs set up small businesses, and gives rural households a way to smoothen their income over good and bad seasons. Without access to formal credit, rural people are often forced to depend on moneylenders who charge very high rates of interest, which can trap households in debt for generations.

Recognising this, the Government of India nationalised fourteen major commercial banks in 1969 and six more in 1980, with the specific objective of directing bank credit towards priority sectors such as agriculture, small industry, and weaker sections of society (Reserve Bank of India, 2025). For nearly two decades after nationalisation, public sector banks were almost the only formal channel through which rural credit reached the villages, supported by cooperative banks and, from 1975 onward, by Regional Rural Banks (RRBs). Private sector banks, in contrast, remained largely

urban and metro-focused until the banking sector reforms of the 1990s, and it is only in the last fifteen to twenty years that private banks have begun to expand meaningfully into rural and semi-urban India.

Today, both public and private sector banks are required by the RBI's Priority Sector Lending (PSL) norms to direct a fixed proportion of their loans to agriculture, micro and small enterprises, and other priority categories (Reserve Bank of India, 2025). Yet the two categories of banks differ sharply in their history, ownership, business model, and approach to rural markets. Public sector banks are owned mainly by the Government of India and have traditionally treated rural banking as a social obligation as much as a business opportunity. Private sector banks are owned by private shareholders and tend to emphasise profitability, technology, and efficiency, entering rural markets more selectively and, in recent years, through digital channels.

Given these differences, it becomes important to ask a straightforward question: which set of banks is actually doing more for rural credit and rural development in India, and in what ways do their contributions differ? This paper attempts to answer this question through a comparative analysis based on secondary data.

2. LITERATURE REVIEW:

A number of studies have examined the role of banks in rural credit delivery and financial inclusion in India. Chavan and Kamra (2022), using secondary survey data covering the period 2013 to 2019, found that while access to a bank deposit account had expanded dramatically in rural India, reaching about 85 per cent of rural adults, actual usage of these accounts and access to credit remained limited. They reported that only around 12 per cent of rural households had obtained a bank loan, and that formal credit continued to be concentrated among relatively asset-rich rural households, leaving poorer and more vulnerable households still dependent on informal sources. This finding is important for the present paper because it shows that opening accounts, which both public and private banks have done at scale, is not the same as delivering usable rural credit.

Thilagam and Ibram (2025) compared priority sector lending performance of commercial banks (which includes both public and private sector banks) and Regional Rural Banks between 2019-20 and 2023-24. They found that commercial banks lent far larger absolute amounts under priority sector norms, including agriculture, but that their lending was also more volatile year to year, while RRBs, despite lending smaller amounts, showed more consistent year-on-year growth. Their study used statistical tests and found the differences in lending patterns between the two categories of institutions to be significant.

NABARD's own analysis of long-term trends in agricultural credit (National Bank for Agriculture and Rural Development, 2025) shows that commercial banks (public and private together) have steadily increased their share of total agricultural credit disbursed in India, from about 53 per cent in 1999-2000 to nearly 77 per cent in 2019-20, while the share of cooperative banks has fallen sharply over the same period. This confirms that commercial banking, and within it increasingly private as well as public banks, has become the backbone of formal agricultural finance in India.

Other researchers have focused specifically on the difference between public and private banks in terms of branch expansion and rural outreach. Reporting on RBI branch data, Business Standard (2021) showed that private banks expanded their rural and semi-urban branch network at a much faster rate than public sector banks between 2014 and 2020, even though public banks continued to operate a much larger absolute number of branches. The same report linked slower public sector branch growth in this period to bank mergers and to the Prompt Corrective Action (PCA) framework imposed by the RBI on some weaker public banks.

Taken together, the existing literature suggests three broad themes that this paper builds on: first, those who already have formal bank access have benefited, but rural credit penetration is still incomplete; second, public and private banks differ in the pace, though not necessarily the direction, of their rural expansion; and third, government-driven schemes remain central to expanding the reach of rural banking in India.

3. OBJECTIVES OF THE STUDY:

The objectives of the paper have described as under:

- To trace briefly the historical development of rural banking in India and the roles assigned to public and private sector banks.
- To compare public and private sector banks on the growth and volume of rural and agricultural credit disbursed in recent years.
- To compare the two categories of banks on rural branch expansion and physical outreach.
- To assess the relative contribution of public and private banks to major financial inclusion schemes, namely the Pradhan Mantri Jan Dhan Yojana and the Kisan Credit Card scheme.
- To compare the asset quality, measured through gross non-performing assets (NPAs), of public and private banks in agricultural and rural lending.
- To suggest measures that can improve the effectiveness of rural credit delivery by both categories of banks.

4. RESEARCH METHODOLOGY:

This is a descriptive and analytical study based entirely on secondary data. Data has been collected from official and semi-official sources, including RBI master directions and press releases, NABARD reports, Press Information Bureau (PIB) releases of the Ministry of Finance, and peer-reviewed or preprint academic articles published in Indian research journals. Comparative and simple statistical analysis, in the form of percentage change, share, and ratio comparison, has been used to interpret the data. Because the paper relies only on secondary data, it does not include primary surveys or interviews, and its conclusions are limited to the extent that published data on a public versus private breakdown is available; where such a breakdown was not available for a specific indicator, this is noted explicitly, and the closest available comparison is used instead.

5. HISTORICAL BACKGROUND: EVOLUTION OF RURAL BANKING IN INDIA

Before 1969, commercial banking in India was largely privately owned and concentrated in cities, and rural credit was dominated by moneylenders and by a network of cooperative credit institutions that were often under-capitalised. The nationalisation of fourteen major banks in 1969, followed by six more in 1980, was intended to correct this imbalance by directing bank branches and credit deliberately toward rural and priority areas (Reserve Bank of India, 2025). Alongside nationalisation, the Lead Bank Scheme assigned specific districts to specific banks for coordinated rural credit planning, and Regional Rural Banks were created from 1975 onward as low-cost, locally rooted institutions to serve small and marginal farmers.

The RBI's Priority Sector Lending framework, which formally requires banks to lend a minimum share of their credit to agriculture, micro, small and medium enterprises, and other priority categories, has been revised many times over the decades and was again updated through new Master Directions in 2025 (Reserve Bank of India, 2025). Under the current framework, both public and private sector banks are expected to meet an overall priority sector target along with specific sub-targets for agriculture and for small and marginal farmers, which places both categories of banks under broadly similar formal obligations even though their historical starting points and business orientations were very different. Private sector banks, re-permitted from 1993 and expanded further after 2000, initially concentrated on urban and retail banking, and only began to build a meaningful rural presence over the past two decades, often relying on business correspondents, micro-finance-linked lending, and digital channels rather than traditional branch networks.

6. COMPARATIVE ANALYSIS: PUBLIC SECTOR VERSUS PRIVATE SECTOR BANKS IN RURAL CREDIT:

6.1 Volume and Growth of Agricultural and Rural Credit

Total agricultural credit disbursed in India has grown enormously, from about Rs 46,268 crore in 1999-2000 to about Rs 13,92,729 crore in 2019-20, a compound annual growth rate of nearly 19.8 per cent, with disbursement crossing Rs 15.22 lakh crore in 2020-21 (National Bank for Agriculture and Rural Development, 2025). Commercial banks, a category that includes both public and private sector banks, now account for the largest share of this credit, at about 77 per cent in 2019-20, up from about 53 per cent two decades earlier, while the share of cooperative banks fell from about 39 per cent to about 11 per cent over the same period (National Bank for Agriculture and Rural Development, 2025). Because public sector banks still operate a much larger branch network and hold a bigger share of total banking assets in India, they continue to account for the largest absolute volume of agricultural and rural credit among commercial banks. However, priority sector lending data for the period 2019-20 to 2023-24 shows that agricultural lending by commercial banks as a group grew by about 65 per cent, and within this group private banks in particular have been expanding their agricultural and priority sector books at a fast pace in percentage terms, even though their base is smaller (Thilagam & Ibram, 2025). Regional Rural Banks, which are sponsored mainly by public sector banks, grew their agricultural lending by about 51 per cent in the same period and, notably, recorded the fastest compound annual growth rate among all agencies over the longer 1999-2020 period, at close to 23 per cent (National Bank for Agriculture and Rural Development, 2025; Thilagam & Ibram, 2025). This suggests that public sector banks, largely through their RRB networks, continue to anchor the volume of rural credit, while private banks are growing faster from a smaller starting point.

6.2 Rural Branch Expansion and Physical Outreach

Branch presence remains one of the clearest points of difference between the two categories of banks. RBI data cited in Business Standard (2021) shows that public sector banks operated about 49,859 rural and semi-urban branches in 2014, which grew to about 53,467 by 2020, an increase of roughly 3,600 branches. Private sector banks, in contrast, expanded their rural and semi-urban branches from about 9,673 in 2014 to about 18,437 in 2020, an increase of roughly 8,764 branches, nearly doubling their network in the same period (Business Standard, 2021). Even so, public sector banks continued to operate a much larger absolute rural and semi-urban network than private banks throughout this period. The slower pace of public sector branch expansion in these years has been linked to the Prompt Corrective Action framework applied to several weaker public banks and to the consolidation of thirteen public banks into five between 2018 and 2020, both of which reduced the pace of fresh branch openings (Business Standard, 2021). Under RBI norms, banks are in any case required to open at least 25 per cent of new branches in unbanked rural areas, and this rule applies to both public and private banks (Business Standard, 2021).

6.3 Priority Sector Lending Performance

Because both categories of banks operate under the same overall priority sector lending targets, the comparison here is really about the composition and consistency of their lending. The available comparative study on commercial banks and RRBs found that commercial banks, as a group, extended about Rs 64.3 trillion in total priority sector advances by 2023-24, compared with about Rs 4.7 trillion by RRBs, but that RRB lending was considerably more stable year on year, with a coefficient of variation of about 20 per cent compared with over 100 per cent for commercial banks as a group (Thilagam & Ibram, 2025). Within agriculture specifically, commercial bank lending was found to be fairly consistent, with a coefficient of variation of under 4 per cent, while growing by about 65 per cent over the five-year period examined (Thilagam & Ibram, 2025). While this particular study does not separately break out public versus private commercial banks, it does illustrate that the private sector's growing share of overall commercial bank lending has not come at the cost of consistency in priority sector performance, at least at the level of the banking system as a whole.

6.4 Financial Inclusion Schemes: PMJDY and the Kisan Credit Card

The Pradhan Mantri Jan Dhan Yojana, launched in 2014 to provide every household with access to a basic bank account, is the clearest example of a scheme in which public sector banks have played the leading role. As of August 2025, over 56.16 crore PMJDY accounts had been opened, of which about 66.7 per cent, or roughly 37.48 crore accounts, were in rural or semi-urban areas, and about 55.7 per cent of account holders were women (Press Information Bureau, 2025a). Total deposit balances under the scheme stood at about Rs 2.68 lakh crore, roughly twelve times higher than in August 2015, and digital transactions linked to these accounts, including UPI transactions, grew dramatically between 2018-19 and 2024-25 (Press Information Bureau, 2025a). Because PMJDY was designed and driven largely through the public sector banking network, along with RRBs, this scheme illustrates the continuing importance of publicly owned banks in extending basic financial access to rural India, a role that is harder to justify on narrow commercial grounds and is therefore less commonly led by private banks.

The Kisan Credit Card scheme, which provides farmers with a simple credit facility for cultivation and allied activities, is another largely public-sector-anchored initiative. As of March 2024, about 7.75 crore Kisan Credit Cards were operative across the country, with total outstanding loans under the scheme reaching about Rs 6 trillion by the end of 2024-25, an increase of about 4.5 per cent over the previous year, even though the number of operative cards had declined slightly, by about 2.7 per cent, over the same period (Business Standard, 2025). As with PMJDY, the scheme is delivered mainly through public sector banks, cooperative banks, and RRBs, with private banks participating on a smaller scale, generally in areas where they already have a strong retail or agricultural business presence.

6.5 Asset Quality: Non-Performing Assets in Agricultural and Rural Lending

Asset quality is where private sector banks generally perform better than public sector banks, though the difference has narrowed sharply in recent years. According to RBI data reported by the Press Information Bureau, the gross NPA ratio of public sector banks stood at 2.50 per cent as of September 2025, compared with 1.73 per cent for private sector banks and 0.80 per cent for foreign banks, while the gross NPA ratio for the banking system as a whole fell to a historic low of 2.15 per cent (Press Information Bureau, 2025b). Importantly, the same data shows that public sector banks have recorded a sharper decline in their gross NPA ratio than private banks since March 2018, indicating a genuine improvement in asset quality management at public banks even though their absolute NPA ratio remains higher (Press Information Bureau, 2025b). The slippage ratio, which measures how much of a bank's standard loans turn bad in a given period, was also lower for public sector banks (0.8 per cent) than for private banks (1.8 per cent) as of September 2025 (Press Information Bureau, 2025b), suggesting that fresh loan quality at public banks has actually improved relative to private banks in the most recent period, even if the overall stock of NPAs is still higher.

At a sector level, agriculture continues to be the segment with the highest gross NPA ratio among all loan categories in the Indian banking system, at about 6.2 per cent as of September 2024, compared with about 1.2 per cent for retail loans as a whole (Swarajya, 2024). Because public sector banks and RRBs carry a much larger share of agricultural lending than private banks, it is likely that a significant part of the higher NPA ratio observed at public sector banks is linked to their much greater exposure to agriculture and other priority sectors, rather than to weaker credit management alone.

7. FINDINGS AND DISCUSSION:

Bringing the evidence together, a few clear patterns emerge from this comparative analysis.

- First, public sector banks continue to carry the largest share of rural credit and rural branch presence in India in absolute terms, and they remain the primary vehicle through which government-driven financial inclusion schemes such as PMJDY and the Kisan Credit Card are delivered. This reflects both their historical mandate since nationalisation and the practical reality that extending basic banking access to poorer and more remote rural households is often not commercially attractive on its own, making it a role that public banks, supported by government policy, are better positioned to play.

- Second, private sector banks, while starting from a much smaller rural base, have been expanding their rural branch network and their agricultural and priority sector lending at a noticeably faster percentage rate than public sector banks in recent years. This is consistent with a broader shift in which private banks, having largely saturated urban markets, are now looking at rural and semi-urban India as a genuine growth opportunity, often using more selective, technology-driven approaches rather than blanket branch expansion.
- Third, the asset quality gap between public and private banks, while still present, has narrowed. Public sector banks have shown the sharper improvement in gross NPA ratios since 2018, and their fresh-loan slippage ratio was actually lower than that of private banks as of September 2025. This challenges a common assumption that public banks are simply worse at credit risk management; instead, their higher NPA stock appears to be linked at least partly to their much larger and long-standing exposure to agriculture, a sector that structurally carries higher credit risk due to its dependence on weather, prices, and other factors outside a farmer's control.
- Fourth, access to a bank account is not the same as access to usable credit. Even though basic account penetration in rural India is now very high, only a modest share of rural households have actually obtained a bank loan, and formal credit remains concentrated among relatively better-off rural households (Chavan & Kamra, 2022). This is a limitation that applies to both public and private banks and suggests that opening more accounts or branches alone will not automatically translate into deeper rural development unless it is matched by genuine improvements in credit appraisal, collateral norms, and last-mile support for smaller and poorer borrowers.

8. CHALLENGES IN RURAL CREDIT DELIVERY:

Several challenges continue to limit the effectiveness of both public and private sector banks in rural credit delivery. Agricultural income is inherently uncertain because of its dependence on rainfall, market prices, and pests or disease, which makes lending to this sector structurally riskier and can discourage banks from expanding credit as fast as demand might justify. Many rural borrowers, particularly small and marginal farmers and rural micro-entrepreneurs, lack clear land titles or other conventional collateral, which complicates loan appraisal, especially for private banks that tend to rely more heavily on formal documentation and credit scoring. Financial literacy remains uneven in rural areas, so even where credit is technically available, many households may not know how to access it, use it productively, or manage repayment. Public sector banks, for their part, continue to carry a legacy of politically influenced lending decisions and loan waivers in some states, which can weaken credit discipline and contribute to higher NPAs in agriculture over time. Private banks, on the other hand, still tend to concentrate their rural presence in relatively better-connected and more prosperous rural and semi-urban markets, leaving more remote and poorer regions, such as parts of the North-Eastern states, comparatively underserved; NABARD data shows the North-Eastern region receiving less than one per cent of total agricultural credit despite holding a meaningfully larger share of the country's cultivable area (National Bank for Agriculture and Rural Development, 2025).

9. POLICY SUGGESTIONS:

Based on the above analysis, this paper suggests the following measures to strengthen rural credit delivery in India.

Public and private sector banks should be encouraged to partner more actively, for example through co-lending arrangements, in which public banks contribute their rural reach and local knowledge while private banks contribute capital efficiency and digital infrastructure.

Government-backed schemes such as PMJDY and the Kisan Credit Card should continue to set clear, time-bound targets for private bank participation, so that the burden of financial inclusion does not fall disproportionately on public banks alone.

Digital lending and business correspondent models, already used effectively by some private banks, should be scaled up jointly with public banks to reduce the cost of reaching remote and low-income rural households without requiring a full physical branch in every location.

Credit appraisal for agricultural and rural micro-enterprise loans should move gradually toward cash-flow-based and alternative-data-based assessment, rather than relying only on conventional collateral, to widen access for genuinely creditworthy borrowers who lack formal documentation.

Loan waiver schemes, where used by governments, should be designed carefully so that they do not undermine long-term repayment discipline or discourage banks, particularly public sector banks, from continuing to lend actively in agriculture.

Greater investment in rural financial literacy, delivered jointly by banks, NABARD, and state governments, would help ensure that expanded access to accounts and credit actually translates into productive use and timely repayment.

10. CONCLUSION

This paper has compared public and private sector banks in India on their contribution to rural credit and rural development, using secondary data on credit volumes, branch expansion, flagship financial inclusion schemes, and asset quality. The evidence shows that public sector banks remain the backbone of rural banking in India in terms of scale, branch presence, and delivery of government-sponsored schemes such as PMJDY and the Kisan Credit Card, a role rooted in the objectives of bank nationalisation and reinforced by continuing policy support. Private sector banks, while still smaller in absolute rural presence, are growing faster in percentage terms, generally maintain better headline asset quality, and are bringing valuable efficiency and digital capability into rural markets. Neither category of bank, on its own, has fully solved the problem of translating near-universal account access into genuinely widespread rural credit access, particularly for poorer and more remote households. Rural development in India is therefore likely to be best served not by treating public and private banks as competitors, but by encouraging them to play complementary roles, with public banks anchoring outreach and inclusion, and private banks contributing efficiency, innovation, and additional capital, within a shared policy framework set by the RBI and the government.

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