



Structural Process and Agriculture Credit in Haryana

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Abstract: Available data suggest that agricultural credit has been rising in recent years as a share of both the value of inputs and the value of output. There are wide regional disparities in the disbursement of agricultural credit by scheduled commercial banks. At the same time the share of agricultural GDP in total GDP is falling. In this context, this paper examines the role of direct and indirect agriculture credit in the agriculture production taking care of the regional disparities in agriculture, credit disbursement and agriculture production in an econometric framework using Dynamic Panel Data Analysis with Instrumental Variables using Arellano-Bond Regression. The analysis suggests that the direct agriculture credit amount has a positive and statistically significant impact on agriculture output and its effect is immediate. The number of accounts of the indirect agriculture credit also has a positive significant impact on agriculture output, but with a year lag. These results reveal that even though there are several gaps in the present institutional credit delivery system like inadequate provision of credit to small and marginal farmers, paucity of medium and long-term lending and limited deposit mobilisation and heavy dependence on borrowed funds by major agricultural credit purveyors, agriculture credit is still playing a critical role in supporting agriculture production in Haryana.

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Introduction: Agriculture plays a crucial role in the development of the Indian economy. It accounts for about 19 percent of GDP and about two-thirds of the population is dependent on the sector. The importance of farm credit as a critical input to agriculture is reinforced by the unique role of Indian agriculture in the macroeconomic framework and its role in poverty alleviation. Recognizing the importance of agriculture sector in India's development, the Government and the Reserve Bank of India (RBI) have played a vital role in creating a broad-based institutional framework for catering to the increasing credit requirements of the sector. Agricultural policies in India have been reviewed from time to time to maintain pace with the changing requirements of the agriculture sector, which forms an important segment of the priority sector lending of scheduled commercial banks (SCBs) and target of 18 percent of net bank credit has been stipulated for the sector. Eleventh Five Year Plan has set a target of 4 percent for the agriculture sector within the overall GDP growth target of 9 percent. In this context, the need for affordable, sufficient and timely supply of institutional credit to agriculture has assumed critical importance. Agriculture in India is not merely an occupation or a business proposition for the people, it is a tradition, a way of life which for centuries has shaped their thought, outlook and culture. In India especially, agriculture is rural in character, and majority of the population in the country depend on agriculture, directly or indirectly for earning their livelihood. In India the land represents the chief wealth of the nation. The study of trends in the institutional credit indicates the role of money market and progressive market orientation of the rural economy. Further, the relative importance of different institutions in meeting the credit requirements of the agricultural sector can be gauged to rationales the rural lending policy. The total credit advanced can be compared with some standard norms or with the total level of inputs all, cash or some key only to gauge the gap in the institutional credit.