

## *Abstract*

Agricultural sector needs the finance as the industrial sector does for its development. There are two types of sources available in the agriculture sector: non-institutional and institutional. Non-institutional sources are not able enough to cater to the needs of the transformation of this sector into a modern and commercialized sector. Therefore, the government in Pakistan has been on the policy of providing this sector the subsidized credit in rural areas through its different institutions. These institutions provide major proportion of their loans as production loans to the farmers. Using the data on the agricultural value added and different agricultural inputs along with institutional credit, the study applied a linear regression model which used the former as dependent variable and the later as explanatory ones. The results showed that there was high correlation between dependent and independent variables. Moreover the model was found to be very strong because the R square was nearer to 1. However the study proves that the institutional credit is very much vital in explaining the variation in agricultural output via help financing the purchase of different inputs especially tubewells and fertilizers. The study suggests that the institutional credit must be further expanded for agricultural development but with the emphasis on the small farmers' access to these formal loans to the larger extent.