

BHARAT SCHOOL OF BANKING

PRIORITY SECTOR LENDING

Banks try to do business on those **sectors** that could generate most **profits** for them, like **corporate** sector, etc. There are several other **sectors** that might not get adequate **credit** supply (**loans**), if **special dispensation** is not provided by **RBI** (because **banks** can **ignore** those sectors, as those will generate less profit for banks).

Therefore, **RBI** has mandated that all **banks** need to provide credit to those **special category** areas, (**Financial Inclusion**), known as **Priority Sector**.

Priority Sectors

Priority Sector includes following categories -

1. Agriculture and Allied Activities (like dairy, fishery, animal husbandry, poultry, etc.)

a. Direct Finance -

- Without limit - to individual farmers, **SHGs**, **JLGs**, **small** and **marginal farmers**, **distressed farmers** indebted to **moneylenders**, etc.
- With limit (up to **Rs. 2 crore** per borrower) - **corporates** in these activities, **producer companies**, **partnership firms**, **cooperatives**, etc.

b. Indirect Finance -

- If the loan limits per borrower is more than **Rs. 2 crore**, then it will be treated as **Indirect Finance**.

2. Micro and Small Enterprises

Bank loans to Micro and Small **Manufacturing and Service** Enterprises are considered **Priority Sector Lending**. However, there are some **upper limits** -

a. Plant and Machinery Investment -

- Micro Enterprises - **<Rs. 25 lakh**
- Small Enterprises - **> Rs. 25 lakh**, but **<Rs. 5 crore**

b. Equipment Investment -

- Micro Enterprises - **<Rs. 10 lakh**
- Small Enterprises - **>Rs. 10 lakh**, but **<Rs. 2 crore**

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3. Education

Loans to **individuals** for **educational** purposes with the following limits -

- Education in **India** - **< Rs. 10 lakh**
- Education **abroad** - **<Rs. 20 lakh**

4. Housing

Loans to **individuals** with the following limits for construction / purchase of a **dwelling unit per family**, excluding **bank's own employees' loans** -

- **Metropolitan** areas (population above **10 lakh**) - **Rs. 25 lakh**
- **Other than metropolitan** areas - **Rs. 15 lakh**

Note - **Bank's own employees** get **low interest Housing loan** from that **bank**, so loans granted on them is not considered as **Priority Sector Lending**.

5. Weaker Sections

The following borrowers are considered as **Weaker Sections** -

- **Small** and **marginal farmers**
- Artisans, village and cottage industries (max. credit limit Rs. 50,000)
- **Scheduled Castes (SC)** and **Scheduled Tribes (ST)**
- Beneficiaries of **Differential Rate of Interest (DRI)** scheme
- Beneficiaries of some government schemes, like NRLM, SJSRY, SRMS, etc.
- **Self Help Groups (SHG)**
- **Distressed farmers** indebted to non-institutional lenders
- Individual **women** beneficiaries upto **Rs. 50,000** per borrower, etc.

6. Micro Credit

Loans upto **Rs. 50,000** per borrower to the **poor** in **rural, semi-urban** and **urban areas**, either directly or in a **group**, will constitute **micro credit**.

PSL targets and sub-targets

The **target** for **lending** to the redefined **priority sector** is retained at **40 % of Adjusted Net Bank Credit (ANBC)** or **credit** equivalent of **off-balance sheet exposure**, whichever is **higher**, for all **Scheduled Commercial Banks (SCBs)**.

Target - Total PSL = **40 % of ANBC**

- Sub-target - Total **Agriculture** = **18 %**
- Sub-target - Advances to **Weaker Sections** = **10 %**

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Unused PSL fund to form MUDRA Bank

Unused PSL funds of commercial banks will be used to **set up** the **Rs. 20,000 crore** corpus of the proposed **MUDRA Bank** (read previous post on *MUDRA Bank*).

The **bank** will use at least **65 %** of its funds for **lending** to **micro enterprises** run by members of **Scheduled Castes** and **Tribes**.

New proposals on PSL

- To enhance **credit** to **Small** and **marginal farmers**, a separate **sub-target** of upto **8 %**
- Loans for **Agri-processing** and **Agri-infrastructure** would be included in **PSL**
- Loans to **Medium Enterprises** would be included in **PSL** (Micro and Small Enterprises are currently included)
- A separate **sub-target** of **7.5 %** to be created for the **Micro Enterprises**
- Loans upto **Rs. 5 crore** for **Social infrastructure**, like schools, health cares, drinking water, sanitation, etc. are being included under PSL, for **towns** of less than **1 lakh** population
- **Renewable Energy** sector is being added to PSL, upto **Rs. 10 crore** loans