



Priority Sector Lending (PSL) Norms in India - GK Notes PDF

Priority Sector Lending or PSL as it called popularly is a way to provide higher priority to certain economic sectors in our country. The aim is to provide institutional credit to those sectors and segments for whom it is difficult to get credit. PSL comes under selective credit control of Qualitative tools of the Monetary Policy of Reserve Bank of India. RBI has recently changed the Priority Sector Lending Norms. It is important for you to have knowledge about Priority Sector Lending for cracking exams like IBPS PO, IBPS Clerk, Railways Group D, HSSC, etc. Read this article to know more about Priority Sector Lending.

What is Priority Sector Lending?

Priority Sector means those sectors which the Government of India and Reserve Bank of India consider as important for the development of the basic needs of the country and are to be given priority over other sectors. Lending by a commercial bank for certain sectors which are identified as “Priority Sector” by the Reserve Bank of India is called as Priority Sector Lending Norms. Priority Sector Lending is an important role given by the Reserve Bank of India (RBI) to all scheduled banks for providing a specified portion of the bank lending to few critical sectors like agriculture and allied activities, micro and small enterprises, poor people for housing, students for education and other low income. The overall objective of the Priority Sector Lending Program is to ensure that adequate institutional credit flows into some of the vulnerable sectors of the economy.

In line with the objective, Reserve Bank of India (RBI) direct the other banks for providing a specified portion of the bank lending to few specific sectors like -





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Priority Sector Lending Certificates (PSLCs)

Priority Sector Lending Certificates (PSLCs) are an alternative mechanism to achieve the Priority Sector Lending Norms. PSLCs provides a channel for banks to purchase these Certificates in the event of a shortfall to achieve the priority sector lending target and sub-targets. This also incentivizes surplus banks to sell their excess achievement and encourages banks to lend more to the categories under priority sector. Under this mechanism, the banks with surplus sell fulfilment of priority sector obligation and the buyer bank buy the obligation with no transfer of risk or loan assets.

Priority Sector Lending Norms

The Reserve Bank of India revised its guidelines for priority sector eligibility and classification norms following an announcement in the second bi-monthly policy statement on 6th June 2018. Here are the highlights of the revisions made by the RBI in the Priority Sector Lending Norms.

- The RBI notification said that with a view to bringing convergence of the PSL guidelines for housing loans with the Affordable Housing Scheme, and to give a fillip to low-cost housing for the economically weaker sections and low-income groups. The housing loan limits for eligibility under priority sector lending is revised to a maximum of Rs 35 lakh in metropolitan centres, and Rs 25 lakh in other centres.



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- There is a condition however that the overall cost of the dwelling unit in the metropolitan centre (with the population of ten lakh and above) and at other centres should not exceed Rs 45 lakh and Rs 30 lakh, respectively, for being classified as the priority sector.
- Currently, loans to individuals for up to Rs 28 lakh in metropolitan centres and Rs 20 lakh in other centres, can be classified under priority sector, provided that the cost of dwelling unit does not exceed Rs 35 lakh and Rs 25 lakh respectively.
- The RBI notification further said that the existing family income limit of Rs 2 lakh per annum for loans to housing projects for Economically Weaker Sections (EWS) and Low Income Groups (LIG) stands revised to Rs 3 lakh per annum and Rs 6 lakh per annum, respectively.

Targets Under the Priority Sector Lending

Categories	Domestic scheduled commercial banks (excluding Regional Rural Banks and Small Finance Banks) and Foreign banks with 20 branches and above	Foreign banks with less than 20 branches
Total Priority Sector	40 per cent of Adjusted Net Bank Credit or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher.	40 per cent of Adjusted Net Bank Credit or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher, to be achieved in a phased manner by 2020.



#Agriculture	<p>18 per cent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher.</p> <p>Within the 18% target for agriculture, a target of 8 % of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher is prescribed for Small and Marginal Farmers.</p> <p>Bank loans to food and agro-processing units will form part of Agriculture.</p>	Not applicable
Education	Loans to Students for educational purposes including vocational courses up to ₹ 1 million.	Not applicable
Micro Enterprises	7.5% of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher.	Not applicable
Renewable Energy	A limit of ₹ 150 million is set for the loan for solar-based power generators, biomass-based power generators, windmills, micro-hydel plants and so on. In the case of individual households, the limit for the loan is ₹ 1 million per borrower.	Not applicable





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Advances to Weaker Sections	10% of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher	Not applicable
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Domestic banks have been directed to ensure that their overall direct lending to non-corporate farmers does not fall below the system-wide average of the last three years achievement.

So this was all you needed to know about Priority Sector Lending. Was this article helpful? Check out more such articles!

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