SBI Research

Viksit Bharat Demands Comprehensive Review of PSL Guidelines

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Executive Summary……1/2

- RBI had devised Priority Sector Lending (PSL) mechanism in 1972 to ensure credit flow to underserving sectors. Since then, it has ben revised periodically. Possibly, an opportune time has now come to assess future needs of financial inclusion and priority sector lending and make policy changes needed to ensure access to finance to weaker sections in line with Viksit Bharat objective

- While banks are able to meet the 40% overall target PSL (***provisional FY26 estimate indicates overall PSL at 45% of ANBC***) may require a comprehensive review with the emergence of new areas in line with the PM's vision of 2047 for Viksit Bharat as ESG Financing, SDG Commitment, Infrastructure Lending, Financing to EV Ecosystem, etc. PMEAC has also come up with a working paper titled *Economic impact analysis of Priority Sector Lending* in May 2026

- In this regard, we list out some of the suggestions regarding PSL guidelines

- In consonance with the Viksit Bharat objective, investments in infrastructure area priority. Long term resources available for the same are limited in the absence of vibrant bond market. RBI allows long term infra bonds raised for infrastructure financing be kept out of ANBC calculation. In this context, infrastructure fundings done by the bank from its own resources we recommend may be classified under PSL

- There is a felt need for reforms in Reforms in RIDF regarding risk weight and CRAR calculation. **A cost benefit analysis reveals that banks find it attractive to purchase PSLC as compared to investment in RIDF**

Executive Summary……..2/2

1. We propose to increase the limits under various categories of PSL:

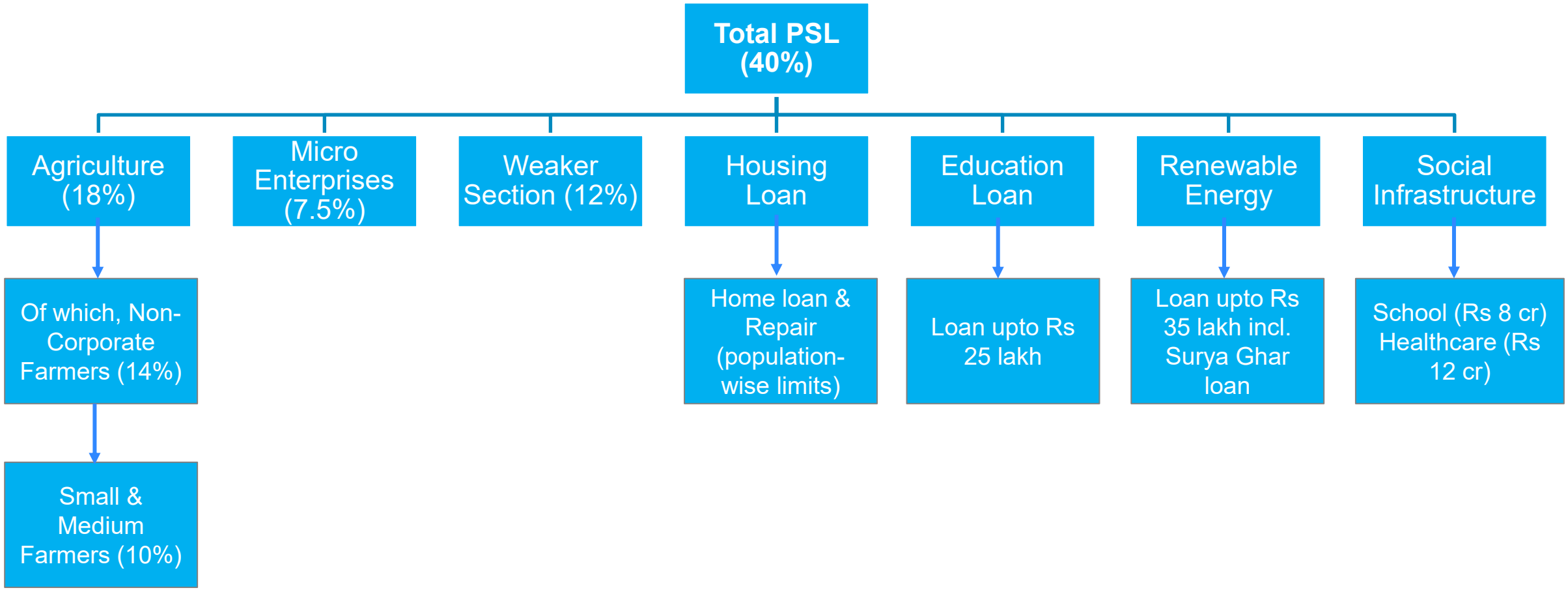
- Renewable Energy (from ₹35 crores to ₹100 crores);
- Home Loans (say ₹ 1 crore in Metro Centre and ₹75 Lakh for other Centre). Inclusion of intermediated Housing Loans in PSL;
- Education Loans (Loan limit of ₹25 lakh to individuals may be reasonably increased to a higher level say ₹50 Lakh);
- Social Infrastructure loan (to be revised upward to ₹25 crores in all cities);
- Bank loan to NBFC for on lending (Loan limit of per borrower may be revised upward say ₹25 lakh for Agri and ₹50 lakh for others);

2. We recommend following sectors (list not exhaustive) to be included:

- All infrastructure loans may be given either priority sector status or be exempt from calculation of ANBC for PSL achievement in line with infra bonds raised towards funding of infrastructure and affordable housing
- Loans under all Government Sponsored Schemes to be classified as Micro Enterprises and weaker sections irrespective of presence of URN
- A separate head ‘Climate Sustainability Finance’ may be created in PSL for activities which contribute to climate sustainability
- Investments in green bonds/ESG bonds/sovereign bonds, etc. may be permitted for PSL classification

Priority Sector Lending
Progress So Far

Priority Sector Lending: Target/Sub-target

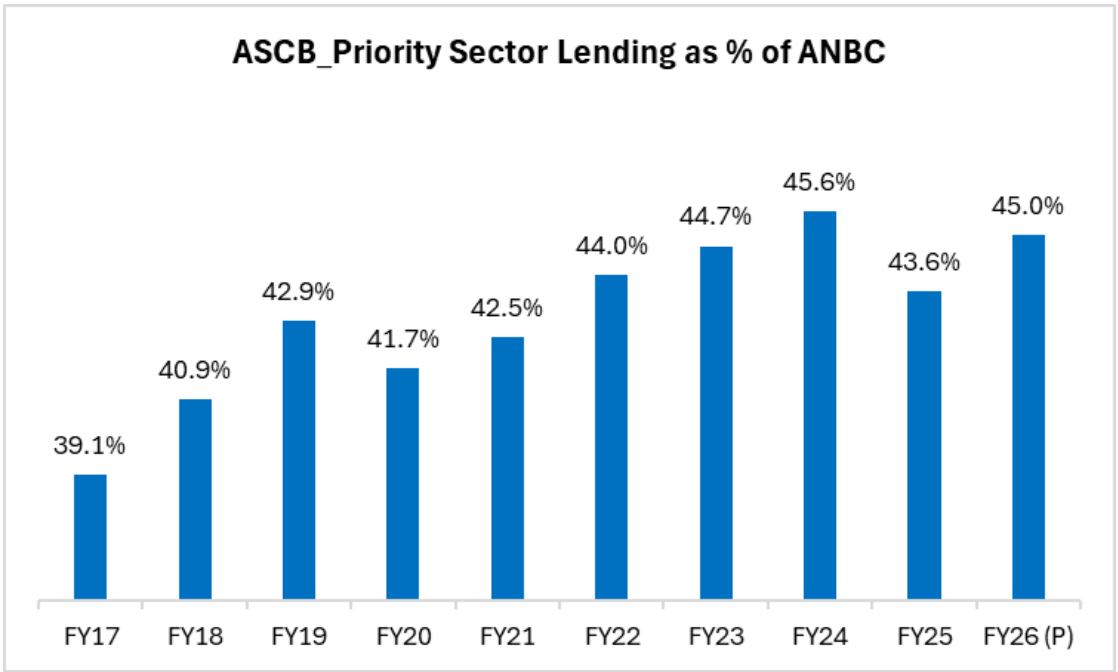


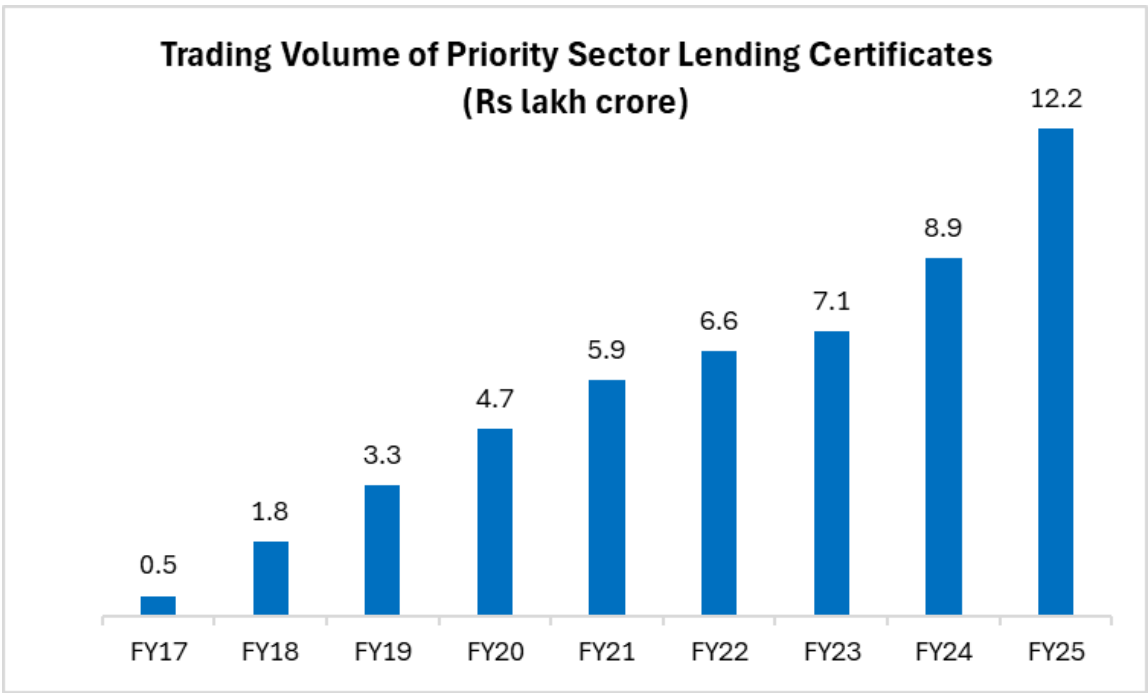
PSL: Yearly Progress

Since FY18, banking sector as a whole is fulfilling the 40% target of PSL

For FY26 the overall achievement was 45% (provisional) as compared to 43.6% in FY25

At the same time the trading volume of PSLC has increased from merely Rs 1.8 lakh crore in FY18 to Rs 12.2 lakh crore in FY25

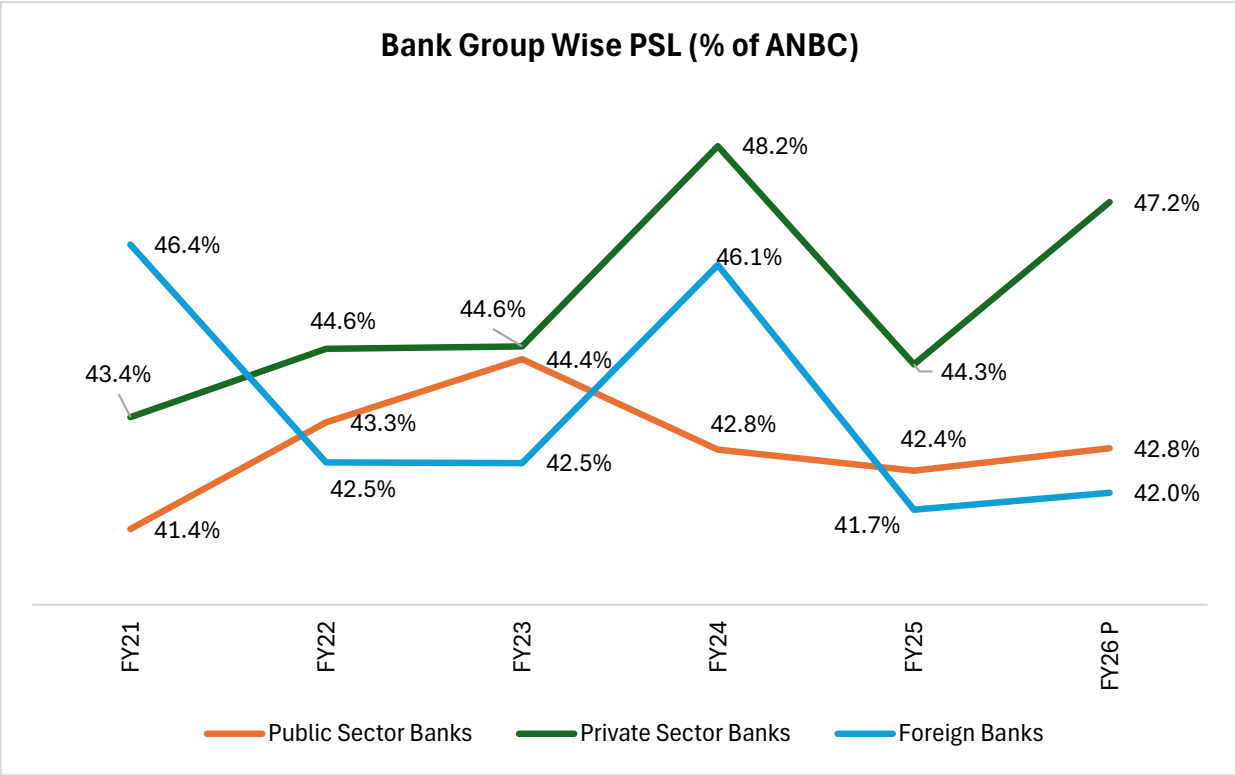




Source: RBI; FSR; SBI Research; Calculated using RBI STRBI Table # 4; P: Provisional from Annual Report

Bank-Group wise Priority Sector Lending

Bank Group wise data shows increase in Priority Sector Lending by all Bank Groups in FY26 from FY25, following significant decline in FY25



Source: RBI; SBI Research

Bank-wise Priority Sector Lending

Bank wise data shows decline in Priority Sector Lending across Banks in FY25, **though there has been an upward trend in FY26**

Bank wise PSL				
Bank	FY25		FY24	
	Rs lakh cr	% of ANBC	Rs lakh cr	% of ANBC
Public Sector Banks	38.1	42.4%	34.0	42.8%
Bank of Baroda	4.1	45.5%	3.1	38.5%
Bank of India	2.1	45.0%	1.8	44.1%
Bank of Maharashtra	1.0	46.7%	0.9	51.0%
Canara Bank	3.5	42.4%	3.4	46.1%
Central Bank Of India	1.3	50.2%	1.2	53.1%
Indian Bank	2.0	44.1%	1.8	43.8%
Indian Overseas Bank	0.9	49.2%	0.9	49.6%
Punjab and Sind Bank	0.4	45.3%	0.4	47.7%
Punjab National Bank	4.0	40.1%	3.6	41.0%
State Bank of India	14.1	39.6%	12.9	41.4%
UCO Bank	0.9	51.7%	0.8	54.5%
Union Bank of India	3.8	44.3%	3.3	41.3%
Private Sector Banks	27.0	41.7%	26.1	48.2%
Axis Bank Limited	4.1	46.0%	3.5	43.2%
HDFC Bank Ltd.	8.6	40.4%	8.9	52.8%
ICICI Bank Limited	4.8	40.9%	4.2	42.8%
Kotak Mahindra Bank Ltd.	1.1	35.0%	1.2	43.9%
*Private sector only major banks shown here				

Source: RBI STRBI Table # 4

Organic & Inorganic Lending

- RBI in its FAQ on PSL, clearly defined organic and inorganic lending in respect of PSL

- **Organic credit**: The credit directly disbursed by banks and for which the actual borrower/beneficiary wise details are maintained in the books of the bank

- **Inorganic credit**: Credit disbursed through the following routes:
  - Investments by banks in securitised assets
  - Transfer of Assets through Direct Assignment/Outright purchase
  - Inter Bank Participation Certificates (IBPCs)
  - Priority Sector Lending Certificates (PSLCs)
  - Bank loans to MFIs (NBFC-MFIs, Societies, Trusts, etc.) for on-lending
  - Bank loans to NBFCs for on-lending
  - Bank loans to HFCs for on-lending

Dissecting Priority Sector Lending into Organic & Inorganic

So, while the banks are fulfilling the 40% target since FY18, a dissection of PSL under organic and inorganic components reveals a different picture

Excluding PSLC/RIDF, banks are unable to fulfil the 40% target

Dissecting Priority Sector Lending									
Amount in Rs lakh crore								Actual PSL/ANBC	Organic PSL/ANBC
FY	ANBC	40% Target	Actual PSL	PSLC	RIDF O/S	Inorganic Component	Organic Component		
	A	B	C	D	E	F=D+E	G=C-F	H	I
FY17	75.0	30.0	29.3	0.5	1.1	1.6	27.7	39.1%	37.0%
FY18	78.7	31.5	32.2	1.8	1.2	3.0	29.2	40.9%	37.1%
FY19	87.2	34.9	37.4	3.3	1.2	4.5	32.9	42.9%	37.8%
FY20	95.2	38.1	39.7	4.7	1.3	6.0	33.7	41.7%	35.4%
FY21	103.8	41.5	44.1	5.9	1.4	7.3	36.9	42.5%	35.5%
FY22	110.6	44.2	48.7	6.6	1.5	8.1	40.6	44.0%	36.7%
FY23	121.6	48.6	54.4	7.1	1.6	8.8	45.6	44.7%	37.5%
FY24	141.2	56.5	64.3	8.9	1.9	10.8	53.5	45.6%	37.9%
FY25	154.4	61.7	67.3	12.2	1.9	14.1	53.2	43.6%	34.4%
Source: RBI; SBI Research									

We Propose a Comprehensive Review of PSL Guidelines

Reforms in RIDF

- The Rural Infrastructure Development Fund (RIDF), established in 1995-96 and managed by NABARD, provides low-cost loans to State Governments/UTs by utilizing shortfall funds from scheduled commercial banks' priority sector lending
- However, we believe that certain reforms are pertinent regarding RIDF:
  - Deposits made in RIDF may be exempt from purview of risk weight and CRAR calculation. These deposits are regulatory in nature just like SLR requirements of the Bank and may be considered as sovereign deposits
  - Rate of Interest charged on RIDF deposits for shortfall of sub-targets may be kept at minimum prevailing bank rate and penal charges may be dispensed with
- **A cost-benefit analysis of RIDF vis-à-vis PSLC indicates that it is profitable for banks to purchase PSLC as compared to investment in RIDF**

Cost Benefit Analysis: Investments in PSLC vs. RIDF (Rs crore)			
PSLC purchase	50,000	50,000	50,000
Premium charged (%)	**0.50%**	**1.00%**	**3.00%**
Net Premium payment	250	500	1500
Scenario of Zero PSLC purchase			
Investment in RIDF on allocation by RBI	50,000	50,000	50,000
Applicable Rate after markdown (Bank Rate- 2%)	3.50%	3.50%	3.50%
Interest Receivable on incremental Deposit	1750	1750	1750
Incremental Capital Cost on RIDF*	319	319	319
Interest received (net of capital cost)	1431	1431	1431
Because of PSLC, the amount will be free for use by bank			
If invested in G-sec with prevailing yield (5 yr Gsec yield)	6.50%	6.50%	6.50%
Interest Income on G-Sec (Zero Risk weight)	3250	3250	3250
Premium paid of PSLC	250	500	1500
Net Interest Income	3000	2750	1750
Net profit for the Banks by purchase of PSLC over RIDF	**1569**	**1319**	**319**

Source: SBI Research; *Assuming 20% Risk Weight @ 17.7% CRAR @18% capital raising cost

Treatment of Infrastructure Lending

- We need huge investments in infrastructure to achieve the PM vision of 2047. Long term resources available for the same are limited in the absence of vibrant bond market. RBI already recognizes this fact and allows long term infra bonds raised for infrastructure financing be kept out of ANBC calculation. However, infrastructure fundings done by the bank from its own resources are not allowed to be classified under PSL
- Against this backdrop, we have two suggestions: **EITHER (i) All infrastructure loans may be given priority sector status OR, (ii) It to be exempt from calculation of ANBC for PSL achievement**

New ANBC (Amount in Rs crore)					
	ANBC	Infra O/S	New ANBC (ANBC-Infra)	Actual PSL	PSL/New ANBC
FY17	75.0	9.1	65.9	29.3	44.5%
FY18	78.7	8.9	69.7	32.2	46.2%
FY19	87.2	10.4	76.8	37.4	48.7%
FY20	95.2	10.8	84.4	39.7	47.1%
FY21	103.8	11.2	92.7	44.1	47.6%
FY22	110.6	12.1	98.5	48.7	49.4%
FY23	121.6	12.2	109.3	54.4	49.7%
FY24	141.2	13.3	127.9	64.3	50.3%
FY25	154.4	13.6	140.7	67.3	46.5%
Source: RBI; SBI Research					

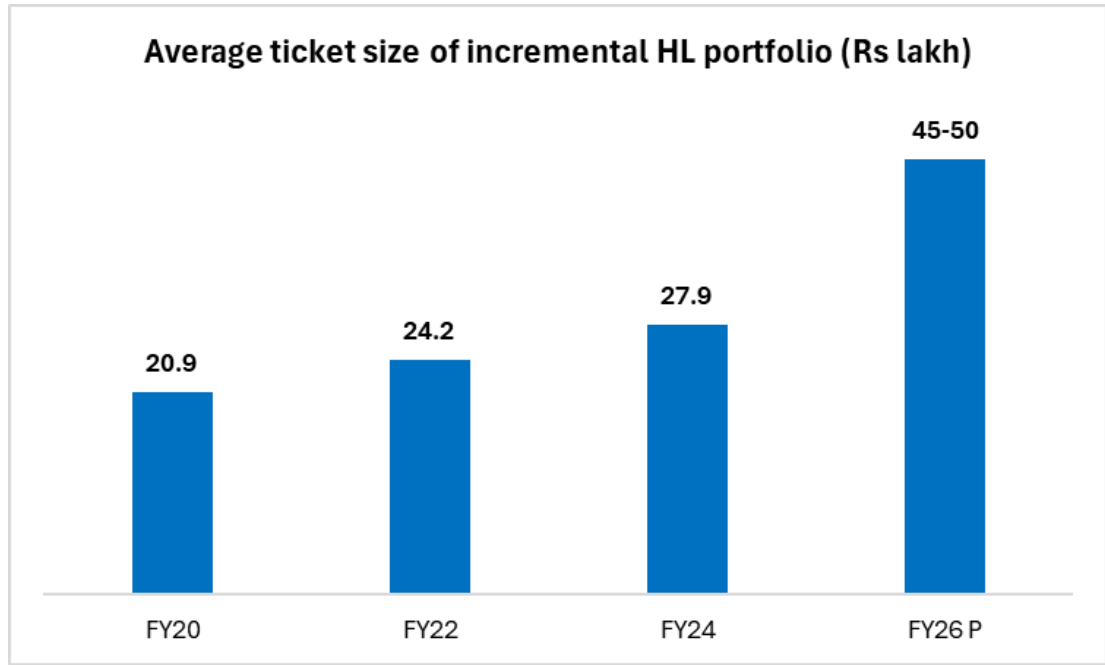
After deducting Infra O/S from ANBC, banks are comfortably able to adhere with PSL target

Enhancing Housing Loan Limit

- Bank loans to Housing sector as per limits prescribed adjacent are eligible for priority sector classification
- However, average ticket size of incremental housing loan portfolio is expected to increase to around Rs 45-50 lakh, which is ~threshold limit prescribed by RBI
- Growth in home loan under PSL is not in tandem with growth in overall Housing loan portfolio
- We, propose loans limits to Housing sector may be reasonably increased (say Rs 1 crore in Metro Centre and Rs 75 lakh for other Centre). The project cost limits also need to be increased with a provision of 25% margin
- We also propose other intermediated housing loans by banks may be made eligible for PSL classification

Existing PSL Guidelines	Loan Limit# (in lakh)	Maximum Cost of Dwelling Unit# (in lakh)
Centres with population of 50 lakh and above	50	63
Centres with population of 10 lakh and above but below 50 lakh	45	57
Centres with population below 10 lakh	35	44

#to be eligible, the loan to satisfy both the criteria



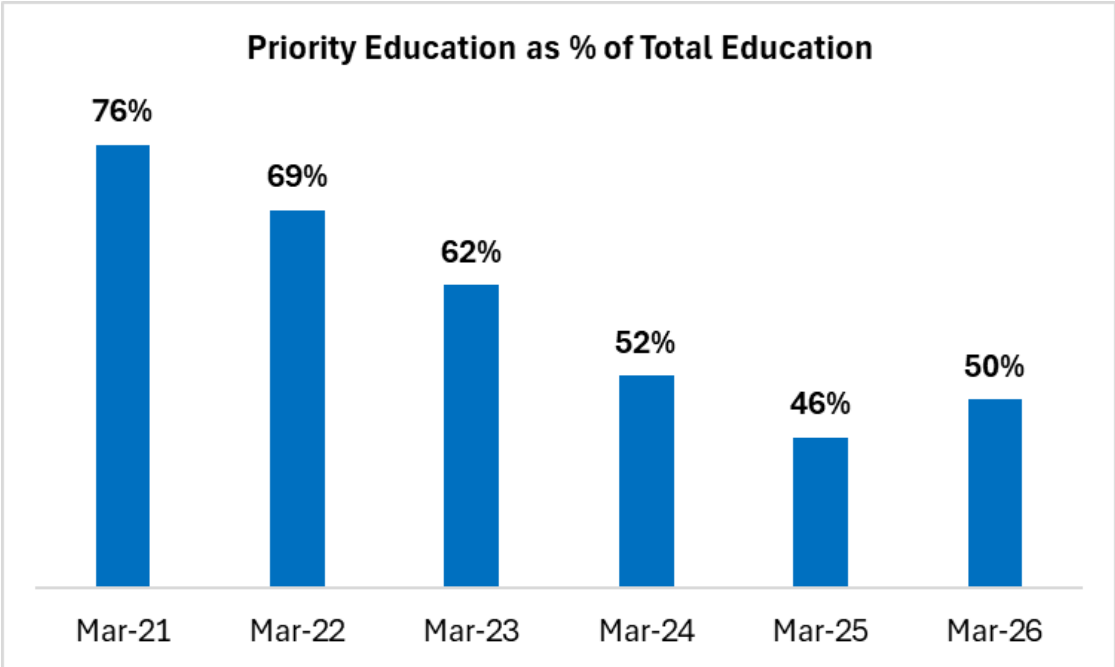
Source: RBI; SBI Research; P: SBI Projection

Enhancing Education Loan Limit

- Loans to individuals for educational purposes, including vocational courses, not exceeding ₹25 lakh are considered eligible for priority sector classification

- The cost of education has significantly gone up over the past few years as there has been substantial increase in the fee structure of various unaided private medical/ engineering/ professional college/ institutes in the past few years. In addition, many Indian Students are exploring foreign education. Considering it as a national priority, the loan limit may be increased

- Hence, loan limit of ₹25 lakh to individuals for educational purposes eligible for priority sector classification may be reasonably increased to a higher level (for example ₹50 lakh)



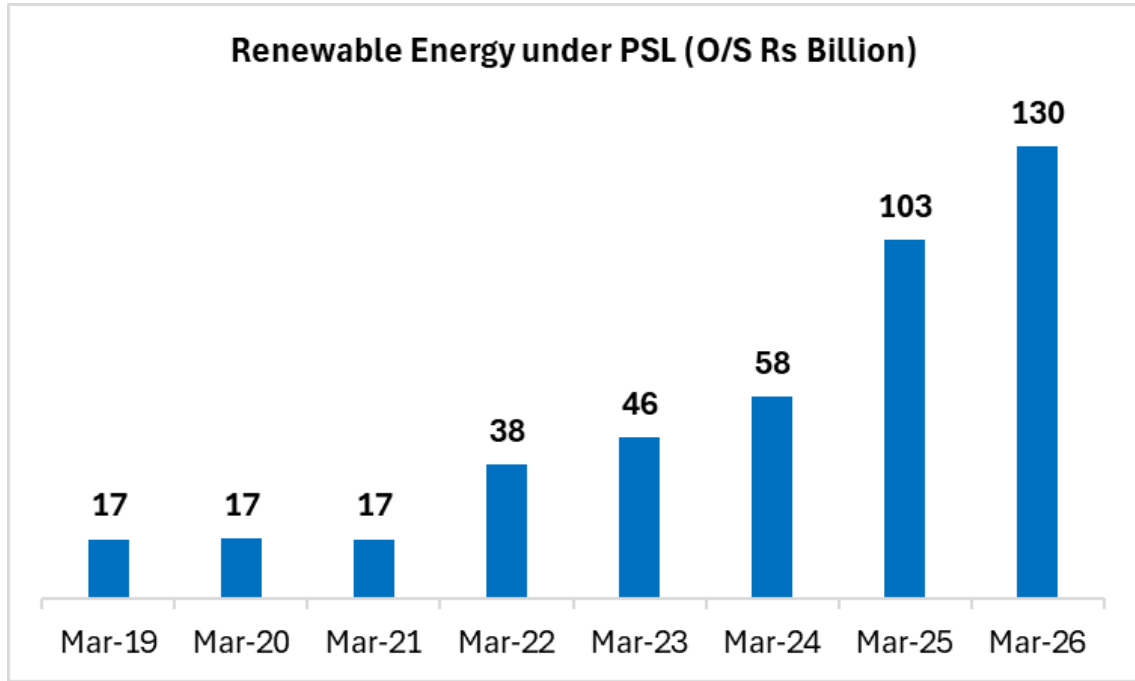
Source: RBI; SBI Research

Enhancing Renewable Energy Limit

- As per the guidelines, Bank loans up to a limit of ₹35 crore to borrowers for renewable energy-based power generators and for renewable energy based public utilities, viz., street lighting systems, remote village electrification etc., will be eligible for priority sector classification. For individual households, the loan limit will be ₹10 lakh per borrower

- The data indicate that in the last five years though it has made considerable progress, the 5-year CAGR of outstanding is only 9%

- **We therefore recommend that the limit may be raised to ₹100 crores for renewable energy which focuses on power generation from renewable source and ₹2 crore for individual (roof top solar plants)**



Source: RBI; SBI Research

Other Areas where loan limits may be enhanced

Heads	Existing	Proposed suggestion	Rationale
Food & Agro processing	Loans for Food and Agro-processing up to an aggregate sanctioned limit of ₹100 crore per borrower from the banking system	Enhancement of Food & Agro processing Loan sanctioned limit per borrower to ₹200 crores for individual banks, with aggregate sanctioned limits of ₹500 crores per borrower from the banking system, under Agriculture PSL eligibility	Loan limit has not been revised for the past several years as a result many existing Units having higher than the prescribed limit are getting excluded due to exposure cap
Agri Infra	Loans for agriculture infrastructure will be subject to an aggregate sanctioned limit of ₹100 crore per borrower from the banking system	Loan limit may be increased to ₹200 crores for individual banks, with aggregate sanctioned limits of Rs 500 crores per borrower from the banking system	Agri Infrastructure needs larger investments due to emergence of newer areas. Further, the limit cap was put in place several year back as a result many existing Units having higher than prescribed limit are getting excluded due to limit cap
Social Infrastructure	Loans up to a limit of ₹8 crore per borrower for setting up schools and a limit of ₹12 crore per borrower for building health care facilities in Tier II to Tier VI centres	• For schools limit may be revised upward to ₹15 crores in all cities • For healthcare facilities, may be revised upward to ₹25 crores in all cities	Social Infrastructure needs larger investment due to continuous increase in population and its attendant requirements. The limit cap has not been increased for several years as a result many existing Units having higher than prescribed limit are getting excluded due to limit cap.
Export Credit	Incremental export credit over corresponding date of the preceding year, up to 2% of ANBC/CEOBE, subject to a sanctioned limit of up to ₹50 crore per borrower (for non MSME borrowers)	i) Allow 'absolute' export credit outstanding instead of 'incremental' export credit under PSL ii) Remove upper cap of 2% of bank's ANBC/ CEOBE under PSL iii) Either remove or enhance the capping of ₹50 crore per exporter for PSL to a reasonable level of say ₹200 crore	To make it simpler and easier to comply with. The increase in limit per borrower would give banks more room to push for higher growth in export credit.

New Areas need to be included

Proposed Inclusion	Rationale
Loans under all Government Sponsored Schemes like PMMY, PM SVANidhi, PM Viswakarma, PMEGP, etc., to be classified as Micro Enterprises and weaker sections irrespective of presence of URN.	Government sponsored schemes are for the benefit of unemployed masses and unorganised sectors of the country, where sometimes documents like URN/URC are not available therefore can be considered under PSL on the basis of vendor certificate issued by ULBs
A separate head 'Climate Sustainability Finance' may be created in PSL for activities which contribute to climate sustainability so as to have specific focus	India has declared its allegiance to the SDG and the country's commitment to sustainability is evident from the aspiration of achieving net zero emission by 2070. This vision requires not only policy support but also easily accessible and affordable finance to green initiatives
Bank's investments in green bonds/ESG bonds/sovereign bonds, etc. may be permitted for PSL classification and the same may be counted under 18% of agriculture sub-target	As these are part of ESG initiatives and sustainable development hence need a fillip
Under the 7.5% sub-target for micro enterprises, eligible category may be broadened to include finance to all MSME entities involved in manufacture of electric vehicles (EVs)/ component manufactures, etc. This move aligns with India's commitment to reducing its carbon footprint and promoting green energy	Climate related risks are expected to have a significant impact on India's financial system and the future of our agricultural and MSME sector. At this stage, it is crucial to ensure that Banks are incentivized to finance projects that take India's objectives in addressing climate related risks
Sponsor Bank may be permitted to include RRB's PSL outstanding to the extent of its shareholding (35%) in its own book for computation of PSL targets and sub-targets.	Provision contained in RRB Act, directive issues by GOI, and RBI at various point of time have assigned larger role for sponsored Bank in measuring and monitoring performance of RRBs. As such, support of the sponsor bank is playing major role in ensuring the RRBs to improve their performance/achieve targets. We, therefore, are of the considered view that the achievements of the RRBs are to be factored in the achievement of its sponsor bank

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