SBI RESEARCH

A Win-Win Proposition

Revised Priority Sector Lending (PSL) Norms should help the Economy, Beneficiary Sectors as also Financial Institutions: Credit disbursal may see revival of animal spirits at grassroots levels across critical building blocks

Issue # 34, FY25 Date: 26-March-2025

Executive Summary … (1/2)

- The recent amendments in Priority Sector Guidelines vouch ‘in sync’ approach to fine tune the building blocks of the factors of productions, chiefly the MSMEs, agri & allied sectors, housing / exports etc.
- The revised PSL guidelines, effective April 1’ 2025 cater to enhancement of several loan limits, including housing loans, for enhanced PSL coverage, broadening of the purposes based on which loans may be classified under ‘Renewable Energy’, Revision of overall PSL target for UCBs to 60% of Adjusted Net Bank Credit ANBC / CEOBSE as also Expansion of the list of eligible borrowers under the category of ‘Weaker Sections’, along with removal of the existing cap on loans by UCBs to individual women beneficiaries
- The higher limits set in housing segment should give a fillip to low cost / affordable housing across various population cohort, in particular Tier-III/IV/V/VI conglomerations
- The policy interventions on clean energy front should go a long way, for the NCE sector, to achieve dual objective of clean energy and PSL by boosting lending to the sector even as India has embarked on one of the most extensive renewable energy expansions in the world with its 500 GW non-fossil fuel installed capacity target for 2030 & Net Zero target for 2070
- **Explicit recognition and prioritization of renewable energy within the PSL framework has alleviated credit constraints thereby escalation in the share of non-conventional energy credit to the overall energy credit (basis a dummy variable linear regression model for FY 10-24), encouraging credit flows to the NCE sector that witnessed significant policy interventions too**

Executive Summary … (2/2)

- Tweaking of loan limits for artisans, village and cottage (₹2 lakh), Individual women beneficiaries (₹2 lakh per borrower), Loans against pledge/hypothecation of agricultural produce (including warehouse receipts- ₹ 90 lakh / ₹4 crore) and Loans up to ₹10 crore per borrowing entity to FPOs/FPCs should assist the growing requirements of individual farmers
- **As big banks continue facing problems in achieving PSL targets, hence It would be a prudent move to include all infrastructure loans given to Road projects, Port, Railways, Airports, Energy Sector Highways, etc. either as 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**
- **PSL bonds in lieu of PSL shortfall may be introduced which will increase availability of PSL instruments…. Also, PSLC purchases due to non-achievement of PSL targets may be exempt from ANBC computation**

Priority Sector Lending (PSL): *Progress So far*

SBI
The banker to every Indian

- The overarching philosophy behind prescribing the priority sector lending (PSL) target of 40% of ANBC for banks is to enable diverse sections of society, which though credit worthy, are unable to receive credit from the formal system, either in adequate measure or in a timely manner
- Over the years the scope of priority sector has been enhanced substantially. Not only new sectors like renewable energy, medium enterprises, Agro processing, social infrastructure and agricultural infrastructure etc. have been included but certain sub-limits for small and marginal farmers and micro enterprises have also been introduced
- The result has been quite encouraging. Before to FY18, PSBs achievement was below 40% but after the modifications, now they are well above that 40% mark. Private sector banks have exceeded 40% target by a good margin
- All bank groups are able to achieve the mandated target of 40% of ANBC

Priority Sector Lending: Bank Group-wise

Year	PSBs	PVBs	FBs	SCBs
FY13	36.2	37.5	35.1	36.4
FY14	39.4	43.9	35.8	40.1
FY15	37.3	42.8	35.9	38.3
FY16	39.3	44.1	35.3	40.1
FY17	39.5	42.5	36.9	40.1
FY18	39.9	40.8	38.3	40.1
FY19	42.6	42.5	43.4	42.6
FY20	41.1	40.3	40.8	40.8
FY21	41.1	40.6	41.0	40.9
FY22	42.9	43.7	42.7	43.2
FY23	44.2	45.6	42.9	44.7
FY24	42.6	47.4	41.6	45.0

Source: SBI Research, RBI

PSL: Segment-wise Current Status

- All bank groups managed to achieve their overall priority sector lending target of 40% and all the sub-targets

- Overall ASCBs' PSL share is 45% in FY24 as against the target of 40% with all the sub-targets achieved with decent margins

PSL: Target and Achievement (%)- FY24						
Item	Target/ sub-target (% of ANBC/ CEOBE)	Achievement				
		PSBs	Private Banks	Foreign Banks	Small Finance Banks	ASCBs
Total Priority Sector Advances	40/75*	42.6	47.4	41.6	90.6	45.0
of which,						
Total Agriculture	18.0	19.1	18.7	18.6	26.8	19.0
Small and Marginal Farmers	10.0	11.2	10.0	11.0	18.2	10.8
Non-corporate Individual Farmers	13.8	14.8	14.0	14.2	25.4	14.6
Micro Enterprises	7.5	8.0	10.2	8.5	32.6	9.2
Weaker Sections	12.0	14.1	12.5	12.1	35.8	13.7
Source: SBI Research; * Total PSL target for Small Finance Banks is 75%						

Changes in PSL by RBI

- RBI has issued the revised guidelines on Priority Sector Lending (PSL) on Mar 24, 2025 after a comprehensive review of existing provisions taking into account feedback from stakeholders. The new guidelines which come into effect from April 01, 2025, include the following major changes:

1. Enhancement of several loan limits, including housing loans for enhanced PSL coverage

2. Broadening of the purposes based on which loans may be classified under 'Renewable Energy'

3. Revision of overall PSL target for UCBs to 60% of Adjusted Net Bank Credit (ANBC) or Credit Equivalent of Off-Balance Sheet Exposures (CEOBSE), whichever is higher

4. Expansion of the list of eligible borrowers under the category of 'Weaker Sections', along with removal of the existing cap on loans by UCBs to individual women beneficiaries

- The enhanced coverage of the revised guidelines is expected to facilitate better targeting of bank credit to the priority sectors of the economy

Enhancement of housing loans for enhanced PSL coverage

- RBI has revised considerably the loan limit and maximum cost of dwelling in the revised guidelines
- Instead of two categories, RBI has devised three categories for the purpose of housing loan (under PSL)
- The move should give a fillip to low cost / affordable housing across various population cohort, in particular Tier-IV/V/VI cities wherein the banks, along with non-bank players, can find their next gold mine given the surge in demand for own / individual housing post pandemic

In Lakh	**Revised/New**		**Existing**	
Category	Loan Limit	Max cost of Dwelling	Loan Limit	Max cost of Dwelling
Centres with population of 50 lakh and above	50	63	35	45
Centres with population of 10 lakh and above but below 50 lakh	45	57		
Centres with population below 10 lakh	35	44	25	30
Source: RBI; SBI Research				

Loan Limit for repairs to damaged dwelling units also increased

- RBI has also increased the loan limit for the repairs of damaged dwelling units in the revised circular
- This opens new opportunities for credit disbursement for FIs in one of the most secured niche areas, also lessening the burden on home-owners in search of liquidity to carry over the necessary repairs of their dwelling units in need and thus opens up a substantial market for credit off take

In Lakh	Revised/New		Existing	
Category	Loan Limit	Max cost of Dwelling	Loan Limit	Max cost of Dwelling
Centres with population of 50 lakh and above	15	63	10	45
Centres with population of 10 lakh and above but below 50 lakh	12	57		
Centres with population below 10 lakh	10	44	6	30
Source: RBI; SBI Research				

Renewable Energy – small steps for a long journey….

- On July 1, 2015, RBI had expanded the ambit of PSL norms to include loans up to ₹15 crore to borrowers for purposes like solar-based power generators, biomass-based power generators, continue, micro-hydel plants and for non-conventional energy (NCE) based public utilities, viz., street lighting systems, and remote village electrification
- The limit was subsequently raised from ₹15 crore to ₹30 crore per borrower on September 4, 2020 **(limit increased by 2x in five year)**
- **In the recent guidelines, the limit was raised to ₹35 crore per borrower (limit increased by ~ 17%).** For individual households, the loan limit will continue to be ₹10 lakh per borrower
- **Though the increase of ₹ 5 crore appears to be small as compared to the revision made in last 2020 (five year period), the small policy interventions definitely will go long way, for the NCE sector, to achieve dual objective of clean energy and PSL by boosting lending to the sector**
- With its 500 GW non-fossil fuel installed capacity target for 2030 & Net Zero target for 2070, India has embarked on one of the most extensive renewable energy expansions in the world

Renewable Energy – PSL modulations have encouraged credit flows to the NCE sector

- Priority sector policy modulations have encouraged credit flows to the NCE sector, which increased from Rs 36578 in March’20 to ~ Rs 1 lakh now
- However, it needs to be recognized that this phase also saw significant policies and incentives by the government to promote green energy sources. The results reflect the combined impact of various policy measures and incentives
- The Share of NCE to power sector increased to 14.7% as of Jan’25 from around 6% in March’20
- PSL – renewable share also increased from 3% s of March’20 to around 8% now

Growth in Power Sector vis-à-vis NCE and PSL - Renewable credit

Period End	O/s Rs Crore			Growth (%)			Share (%)	
	Power Sector	NCE	PSL - Renewable	Power	NCE	PSL - Renewable	NCE to Power Sector	PSL-renewable to NCE
Mar-19	569857	35731	1089				6.3	3.0
Mar-20	577327	36578	1333	1.3	2	22	6.3	3.6
Mar-21	574257	40176	1646	-0.5	10	23	7.0	4.1
Mar-22	610650	44473	3845	6.3	11	134	7.3	8.6
Mar-23	620232	50192	4620	1.6	13	20	8.1	9.2
Mar-24	644042	75252	5991	3.8	50	30	11.7	8.0
Jan-25	664682	98000	7558	3.2	30	26	14.7	7.7

Source: SBI Research; RBI; NCE - non conventional energy; PSL - priority sector lending; NCE- Jan'25 estimated

Non-Conventional Credit augmented post PSL norms

- To evaluate the ramifications of PSL norms on the allocation of Credit to non- conventional energy sector, a dummy variable linear regression model has been employed from FY10 to FY24
- The model is expressed as

$$Y_t = \alpha + \beta D_t + \gamma X_t + \delta Z_t + e_t$$

Where Y_t represents Credit to NCE sector as a proportion of total credit to energy sector

$$D_t = \begin{cases} 1 \text{ if } t >= 2015 \\ 0 \text{ otherwise} \end{cases}$$

X_t represents Credit- Deposit ratio,

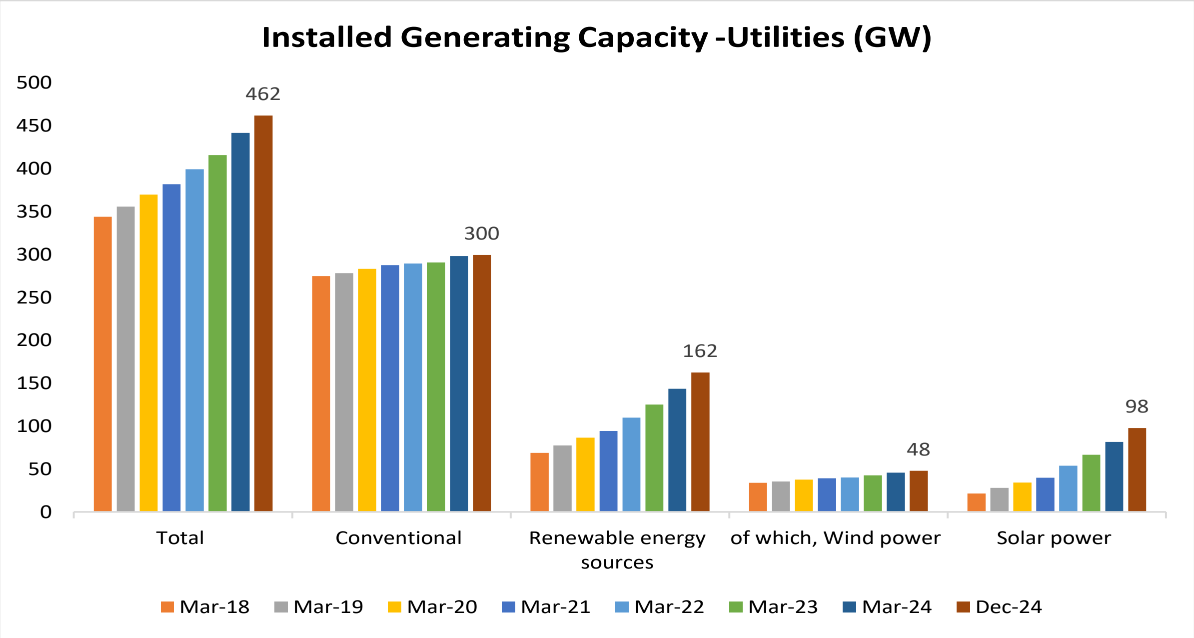
Z_t represents growth rate of GDP

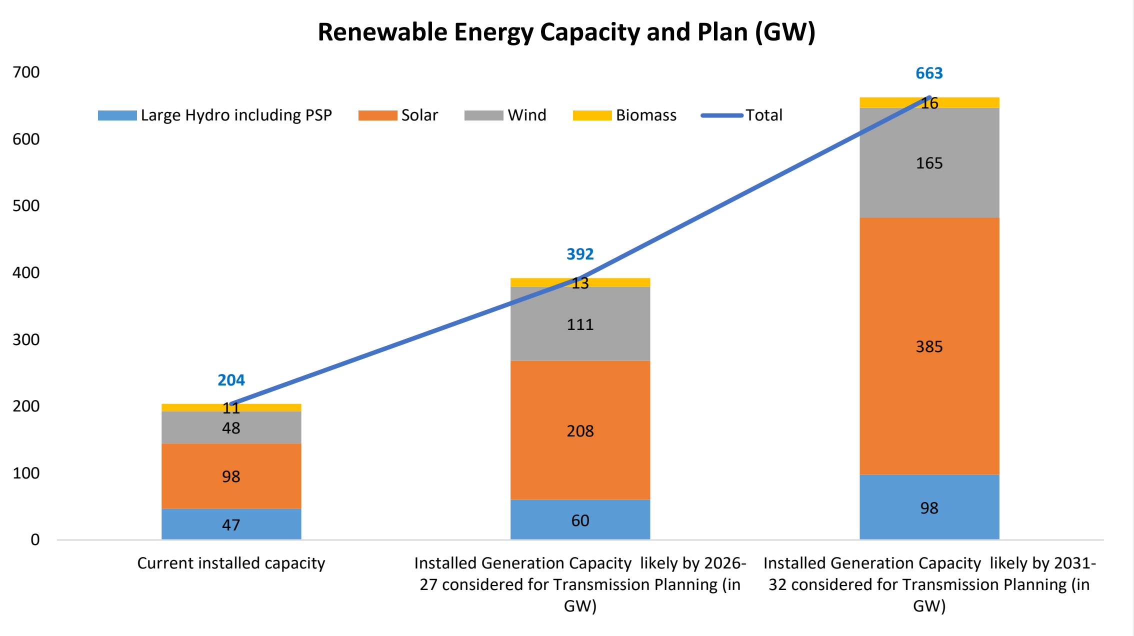
Regression Results		
Variable	coefficient	p-value
CD_ratio	0.1827	0.0233*
Dummy	0.0375	0.0009*
GDP_Growth_rate	0.0304	0.1038**
C	-0.099	0.3996
* Significant at 5%		
** Significant at 10%		

- The positive and statistically significant coefficient of dummy indicates that PSL norms have engendered a substantive augmentation in credit flow to the non- conventional energy sector
- **This suggests that explicit recognition and prioritization of renewable energy within the PSL framework has alleviated credit constraints thereby escalation in the share of non-conventional energy credit to the overall energy credit**
- Thus, the priority sector policy modulations have encouraged credit flows to the NCE sector. It, however, needs to be recognized that this phase also saw significant policies and incentives by the government to promote green energy sources. The results reflect the combined impact of various policy measures and incentives

Renewables Energy – reshaping the energy sector

- Indian power sector has evolved over the years and so does the share of fuel mix, comprising conventional sources such as coal, hydro etc. and environmentally sustainable sources including solar and wind
- The share of renewable energy (RE) increased from 17.5% in March 2017 to more than 35% in December'2024 and the share of solar power increased from 3.76% to 21.2% during the same period: In last five years, share of renewable energy grew at a CAGR of ~ 14%, while solar energy grew at CAGR of ~ 30%
- Country's green finance market will reach $300 billion by 2030, with renewable energy alone requiring at least $150 billion in the next decade
- The 500 GW mission is translating a target of nearly 60-65 GW of RE capacity to be added per annum over the next six years, that is by 2030, suggesting huge opportunity in the renewable space





Source: CEA; draft National Electricity Plan

Weaker Section: Existing & Revised Guidelines

Existing	Revised
Small and Marginal Farmers	Small and Marginal Farmers
Artisans, village and cottage industries where individual credit limits do not exceed ₹1 lakh	Artisans, village and cottage industries where individual credit **limits do not exceed ₹2 lakh**
Beneficiaries under Government Sponsored Schemes	Beneficiaries under Government Sponsored Schemes
Scheduled Castes and Scheduled Tribes	Scheduled Castes and Scheduled Tribes
Beneficiaries of Differential Rate of Interest (DRI) scheme	Beneficiaries of Differential Rate of Interest (DRI) scheme
Self Help Groups	Self Help Groups/**Joint Liability Groups (Individuals and individual members of SHGs/JLGs)**
Distressed farmers indebted to non-institutional lenders	Distressed farmers indebted to non-institutional lenders
Distressed persons other than farmers, with loan amount not exceeding ₹1 lakh per borrower to prepay their debt to non-institutional lenders	Distressed persons other than farmers, with loan amount not exceeding ₹1 lakh per borrower to prepay their debt to non-institutional lenders
Individual women beneficiaries up to ₹1 lakh per borrower	Individual women beneficiaries **up to ₹2 lakh per borrower**
Persons with disabilities	Persons with disabilities
Minority communities	Minority communities
	Transgenders

Agri & Allied (1/2)

Parameter	Existing Guidelines	Revised Guidelines
Farm Credit- Individual farmer	Loans against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months subject to a limit up to ₹75 lakh against NWRs/eNWRs and up to ₹50 lakh against warehouse receipts other than NWRs/eNWRs.	Loans against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months subject to a limit up **to ₹90 lakh** against Negotiable Warehouse Receipt (NWRs)/Electronic Negotiable Warehouse Receipt (eNWRs) and up to **₹60 lakh** against warehouse receipts other than NWRs/eNWRs
Farm Credit - Corporate farmers	Loans for specific activities will be subject to an aggregate limit of ₹2 crore per borrowing entity	Loans for the specific activities, subject to an aggregate limit of **₹4 crore per borrowing entity**, will be eligible for PSL
Farm Credit - Corporate farmers	Loans up to ₹75 lakh against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months against NWRs/eNWRs and up to ₹50 lakh against warehouse receipts other than NWRs/eNWRs.	Loans up **to ₹4 crore** against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months against NWRs/eNWRs and **up to ₹2.5 crore** against warehouse receipts other than NWRs/eNWRs
Farm Credit - Corporate farmers (FPOs)/(FPC)	Loans up to ₹5 crore per borrowing entity to FPOs/FPCs undertaking farming with assured marketing of their produce at a pre-determined price.	Loans up **to ₹10 crore** per borrowing entity to FPOs/FPCs undertaking farming with assured marketing of their produce at a pre-determined price

Agri & Allied (2/2)

	Existing Guidelines	Revised Guidelines
Agriculture	Loans up to ₹5 crore to co-operative societies of farmers for purchase of the produce of members (Ancillary Services)	Loans up to **₹10 crore** for purchase of the produce of members directly engaged in agriculture and allied activities (Farm Credit-corporate)
Small and Marginal Farmers	Loans up to ₹2 lakh to individuals solely engaged in Allied activities without any accompanying land holding criteria.	Loans up to **₹2.5 lakh** to individuals solely engaged in allied activities without any accompanying land holding criteria

Other Sectors

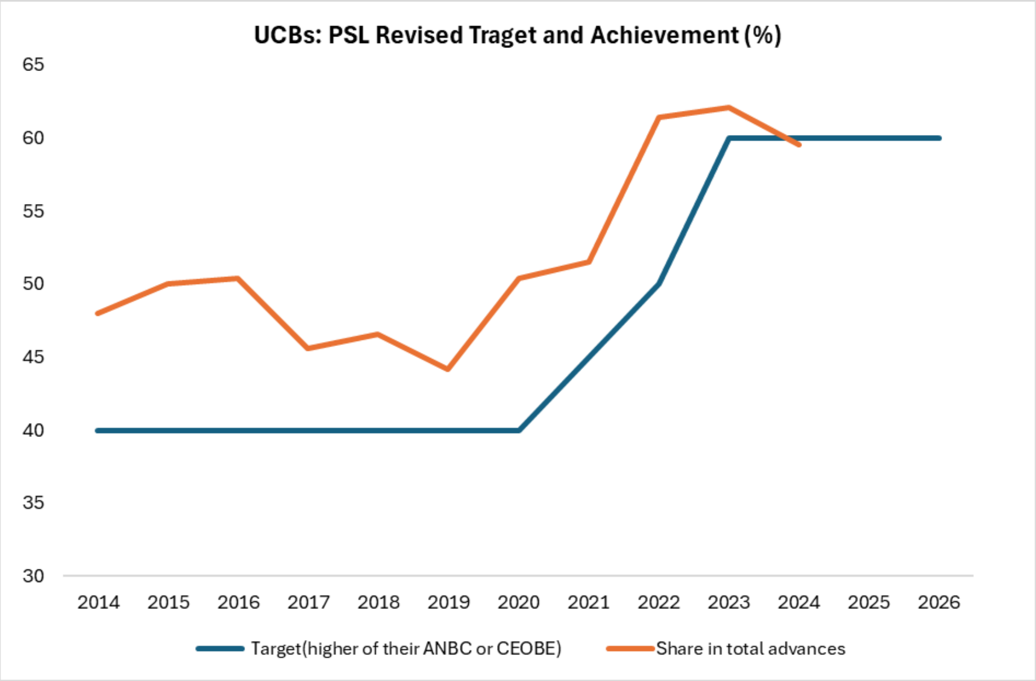
SBI
The banker to every Indian

	Existing Guidelines	Revised Guidelines
Export Credit	Incremental export credit over corresponding date of the preceding year, up to 2 per cent of ANBC or CEOBE whichever is higher, subject to a sanctioned limit of up to ₹ 40 crore per borrower.	Incremental export credit over corresponding date of the preceding year, up to 2 per cent of ANBC or CEOBSE whichever is higher, subject to a sanctioned limit of up to **₹50 crore per borrower**.
Education	Loans to individuals for educational purposes, including vocational courses, not exceeding ₹ 20 lakh will be considered as eligible for priority sector classification. Loans currently classified as priority sector will continue till maturity.	Loans to individuals for educational purposes, including vocational courses, not exceeding **₹25 lakh** will be considered as eligible for priority sector classification.
Social Infrastructure	Bank loans up to a limit of ₹5 crore per borrower for setting up schools, drinking water facilities and sanitation facilities including construction/ refurbishment of household toilets and water improvements at household level, etc. and loans up to a limit of ₹10 crore per borrower for building health care facilities including under 'Ayushman Bharat' in Tier II to Tier VI centres. In case of UCBs, the above limits are applicable only in centres having a population of less than one lakh.	Loans up to a limit of **₹8 crore per borrower** for setting up schools, drinking water facilities and sanitation facilities including construction/refurbishment of household toilets and water improvements at household level, etc. Loans up to a limit of **₹12 crore per borrower** for building health care facilities in Tier II to Tier VI centres. In case of UCBs, the equivalent centres are those in Category 'D'5.

Now UCBs need to lend only 60% as PSL

- The existing guidelines for priority sector lending set higher targets for UCBs to be achieved in a phased manner
- The guidelines issued in March 2020 and revised in July 2023 require UCBs to meet the target of 60%, 65% and 75% of the higher of their ANBC or CEOBE by end-March 2024, 2025, and 2026, respectively
- While the UCBs had met the target comfortably at end-March 2023, they missed the target of 60% at end-March 2024 and **hence RBI relinquish the path of higher targets and stick to the 60% target for the coming fiscal years**

FY	Existing Target	Revised Target
FY25	65%	60%
FY26	75%	60%



PSLCs: Rewarding the Over Achievers

- PSLCs is one of the most successful instrument to achieve the PSL targets by banks. The was introduced by RBI in April 2016 provides for the purchase of these instruments by banks in the event of a shortfall in their achievement of PSL targets/sub-targets. Four types of PSLCs viz. General, Agriculture, Small and Marginal Farmers and Micro Enterprises can be bought/ sold by banks
- The PSLC trading volume has increased to Rs 8951 billion in FY24 from RS 140 billion end of September 2016, primarily led by PSLC-General and small and marginal farmers (SMF) category. the SMF category registered he the highest trading volume to Rs 4.15 lakh crore in FY24, partly reflecting specialization by a few banks in lending to this category of borrowers and the inability of other banks to meet sub-targets through direct lending
- In the last five years, PVBs have emerged as major sellers of PSLCs. In 2023-24, PVBs accounted for 49.2% of total sales as compared with 20.7% in the case of PSBs
- **Banks have achieved PSL target by buying PSLC certificate of Rs 8951 billion, which is around 14% of ASCB ANBC. Smaller banks, who have relatively lower corporate portfolio, are the sellers of PSLC in the market**

Scope for further Refinement of PSL Guidelines to meet the Need of Viksit Bharat

- **It would be a prudent move to include all infrastructure loans given to Road projects, Port, Railways, Airports, Energy Sector Highways, etc. either as 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**
- **PSL bonds in lieu of PSL shortfall may be introduced which will increase availability of PSL instruments**
- **PSLC purchases due to non-achievement of PSL targets may be exempt from ANBC computation**
- Loans under Government sponsored schemes like PMMY, PM SVANidhi, PM Viswakarma etc should be classified as micro-enterprises and weaker sections
- **Deposits made in RIDF may be exempt from purview of risk weight and CRAR calculation, as these deposits are regulatory in nature as SLR requirements and may be considered as sovereign deposits**
- **A separate category of "Climate Sustainability Finance" may be created in PSL. Further Banks investment in green bonds/ESG bonds etc may be permitted under PSL classification and same may be considered under 18% of Agriculture sub target**

Disclaimer:
This Report is not a priced publication of the Bank. The opinion expressed is of Research Team and not necessarily reflect those of the Bank or its subsidiaries. The contents can be reproduced with proper acknowledgement. The write-up on Economic & Financial Developments is based on information & data procured from various sources and no responsibility is accepted for the accuracy of facts and figures. The Bank or the Research Team assumes no liability if any person or entity relies on views, opinion or facts & figures finding in this Report.

Contact Details:
Dr. Soumya Kanti Ghosh
Group Chief Economic Adviser
State Bank of India, Corporate Centre
Nariman Point, Mumbai - 400021
Email: soumya.ghosh@sbi.co.in
gcea.erd@sbi.co.in
Phone:022-22742440
:@kantisoumya