

Priority Sector Lending (PSL)

[UPSC Notes]

What is Priority Sector Lending?

Priority Sector Lending is the lending to the sectors of an Economy that may not get otherwise adequate and timely credit. They may not otherwise be in a position to generate the required funds on their own as well as arrange them from the available sources.

- It serves the basic needs of the people and the development of the country. The word priority in itself indicates that they are given extra importance over other sectors. And to do so, the banks are given the instructions to work for the growth of such sectors by providing them with sufficient credit at the correct point in time.
- The Reserve Bank of India assigns this task to the smaller banks by helping these low-income groups and weaker sections to grow and prosper. This will prove beneficial for the overall development of the economy rather than just concentrating on the financial sector.
- The RBI is the governing authority that releases different classifications and guidelines with the sole intention of making a match between the rising national priorities and comprehensive development by bringing all the stakeholders together.
- Under the scheme, the already decided sectors of the economy are allotted funds for their further growth by the RBI with an overview that they are on the lookout for credit and financial assistance. If they are not provided with funds at the correct time, they would incur heavy losses and the very thought of availing of a credit boost seems a little difficult for such sectors.

Priority Sector Lending New Guidelines

Reserve Bank of India has revised the PSL categories and credit limit. As per the Priority Sector Lending new guidelines:

- Bank finance to start-ups up to Rs. 50 crore
- Loans for installation of compressed biogas plants
- Loans for farmers for setting up solar power plants.
- The limit has increased to 10 crores for Health infrastructure,
- The renewable energy limit has increased to 30 crores
- Banks can give up to 5 crores loans for building schools, sanitation, and drinking water facilities.

Different Categories of the Priority Sector

The eight different broad categories under priority sector lending would include the following:

- 1. Agriculture
- 2. Micro, Small, and Medium Enterprises (MSMEs)
- 3. Export Credit
- 4. Education
- 5. Housing
- 6. Social Infrastructure
- 7. Renewable Energy
- 8. Others

History of Priority Sector Lending

PSL as it is known for short got initiated way back in 1966 when the agriculture and small industries as important sectors had a demanding need for the credit to be increased as assessed by Morarji Desai being the part of the then government.

- Otherwise, it was a report by the Reserve Bank of India (RBI) as mentioned in the National Credit Council in 1972 that made these priority sectors official and gave them the definition that they hold till now.
- After the banks got nationalized, the then government had the powers to focus on various other sectors that too were in the need of funds and this was made possible by direct lending so that they can have the available credit.
- With this, there came a change in the definition of the priority sector which was not just limited to important groups only anymore but the ones that earlier got neglected too had their share in the economy.

Features of Priority Sector Lending

This initiative by the government believed in providing credit to the weaker sections of the society and not just to the priority sectors that are already in a profitable situation adding to the economic growth of the country. With this implementation, all such sectors get the right to ask for financial assistance in the form of bank loans at a much cheaper rate.

Significance of Priority Sector Lending

With the availability of funds from the bank at a lower interest rate, the number of industries grew specifically and related activities at the ground level saw major changes.

- This helped the living standards of the rural people and further improved them to a greater extent by putting an end to poverty.

- With all this in hand, infrastructure saw many developmental changes, and the rural areas got transformed making them the desirable place for the economy and its funding capacity.
- Agriculture and allied goods saw major growth in the production levels as the small and marginal farmers got the increased lending that made it quite simpler for them, which was not possible otherwise.
- All this was a major boost for the economy as a whole with the right support to gross domestic product making the country flourish and get the profits shared amongst all the sectors in an equal proportion.

Defects of Priority Sector Lending

With the extra funds and easily available credit, the Priority sector lending aroused the fear related to non-performing assets being given undesired importance. And that too at a low rate of interest in the form of credits and advances that have strongly impacted the profitability of the banks. Such transactions were processed at an increased rate making them a disadvantage for the government as well as the related banks in the long run.