

Revised PSL Norms by RBI

September 5, 2020

The Reserve Bank of India (RBI) released revised priority sector lending (PSL) guidelines to augment funding for COVID-19 impacted companies. This has come after a comprehensive review of the PSL guidelines to **align them with emerging national priorities and bring sharper focus on inclusive development**, after having wide ranging discussions with all stakeholders, the RBI said.

Revised PSL Norms

The RBI brought financing of start-ups under the priority sector lending (PSL) category of the banking sector, proposed more credit flow to districts with lower PSL, and doubled loan limits for renewable energy and health infrastructure. In a bid to **address regional disparities in the flow of priority sector credit**, the RBI, in its revised PSL guidelines, decided to **rank districts on the basis of per capita credit flow to the priority sector, and build an incentive framework for districts with lower flow of credit** and a disincentive framework for districts with higher flow of priority sector credit.

Accordingly, from FY 2021-22 onwards, a **higher weight (125%) would be assigned** to the incremental priority sector credit in the identified districts **where the per capita PSL is less than Rs 6,000**, and a lower weight (90%) would be assigned for incremental priority sector credit in the identified districts where the per capita PSL is more than Rs 25,000. **As many as 184 districts with low per capita PSL credit flow will benefit from the RBI move.** A higher credit flow to the rural sector is expected to boost rural spending at a time when GDP growth has contracted by 23.9 per cent in the June quarter.

The RBI has also brought **loans to farmers for installation of**

solar power plants for solarisation of grid-connected agriculture pumps, and loans for setting up compressed biogas (CBG) plants as fresh categories eligible for finance under the priority sector. In a push to the start-up sector, the central bank said **loans up to Rs 50 crore can be availed by start-ups** – as per the definition of the Ministry of Commerce and Industry – that are engaged in activities other than agriculture or micro, small and medium enterprises (MSMEs).

Commercial banks, including foreign banks, are required to **mandatorily earmark 40% of the adjusted net bank credit for priority sector lending. Regional rural banks and small finance banks will have to allocate 75% of adjusted net bank credit to PSL.** Doubling the loan limits for renewable energy, the RBI has said bank **loans up to a limit of Rs 30 crore to borrowers for purposes like solar-based and biomass-based power generators, windmills, micro-hydel plants, and non-conventional energy-based public utilities** – such as street lighting systems and remote village electrification – will be eligible for priority sector classification. For individual households, the loan limit will be Rs 10 lakh per borrower, the RBI said in a notification to commercial banks.

The RBI has also **doubled the credit limit for improvement of health infrastructure**, including those under Ayushman Bharat. Bank loans up to a limit of Rs 5 crore per borrower for setting up schools, drinking water facilities, and sanitation facilities including the construction and refurbishment of household toilets and water improvements at household level; and up to a limit of Rs 10 crore per borrower for building healthcare facilities including under 'Ayushman Bharat' in Tier II to Tier VI centres, have been allowed.