Business Standard

CII proposes reforms in India's priority sector lending framework

The framework ensures equitable credit distribution, contributing to the socio-economic growth of underserved areas

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(Photo: Bloomberg)

Industry body CII has proposed reforms in India's Priority Sector Lending (PSL) framework, suggesting inclusion of emerging sectors and high-impact sectors like digital infrastructure, green initiatives, healthcare, and innovative manufacturing.

Arguing that current Development Finance Institutions (DFIs) like SIDBI and NaBFID (National Bank for Financing Infrastructure and Development) have their roles cut out as they have earmarked sectors to finance, the chamber also suggested setting up of a high level committee to look at the revision of PSL norms and explore the need for any new DFIs to cater to some of the new and emerging sectors.

Priority Sector Lending is a policy tool aimed at ensuring that key sectors crucial to the nation's development receive adequate financial support. Mandated by the Reserve Bank of India (RBI), PSL obligates banks to allocate a specified proportion of their loans to sectors such as agriculture, education, housing, and small industries.

The framework ensures equitable credit distribution, contributing to the socio-economic growth of underserved areas.

Despite its massive success, the PSL framework requires regular recalibration to remain relevant. This recalibration is essential to ensure that the financial resources are optimally distributed, in harmony with our vision of Viksit Bharat 2047, CII stated.

For instance, while agriculture contributes 14 per cent of the GDP today, its PSL allocation remains at 18 per cent, unchanged from when its GDP share exceeded 30 per cent.

Similarly, sectors like infrastructure and innovative manufacturing lack adequate PSL focus despite their potential to drive economic growth, the chamber pointed out.

Chandrajit Banerjee remarked, "Sectors like agriculture have reduced contribution to GDP from 30 per cent in 1990s to about 14 per cent now.

Hence, it is time that Priority Sector Lending (PSL) framework be reviewed every 3-4 years to align based on emerging priorities and PSL allocations should be in line with GDP contributions and sectoral growth potential. For instance, we could look at inclusion of emerging and high-impact sectors, including digital infrastructure, green initiatives, healthcare, and innovative manufacturing.

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