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● Scrutiny on on-lending routes tightened

KSHIPRA PETKAR
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THE RESERVE BANK of India's latest changes to priority sector lending (PSL) norms are aimed at pushing banks towards direct lending and tighter borrower-level accountability, while reducing reliance on indirect routes such as on-lending through NBFCs, bankers and industry experts said.

"The idea behind these changes is that banks should do PSL themselves and not rely on NBFCs. A bank should directly be involved in priority sector lending," said Amitava Chatterjee, managing director and CEO of Jammu & Kashmir Bank.

On January 19, the RBI revised the PSL framework to align it with recent regulatory changes, allowing banks to treat lending to the National Cooperative Development Corporation as eligible PSL under specified conditions. It also clarified certain existing provisions and references in the guidelines.

Without altering headline PSL targets, the revised frame-



work sharpens the focus on how banks meet these obligations. Under current rules, scheduled commercial banks are required to lend 40% of their adjusted net bank credit (ANBC) to priority sectors. As of March 31, banks had exceeded this threshold, with PSL being 43.1% of ANBC, according to data collated by Knight Fintech.

Public sector banks accounted for 42.4% of ANBC in PSL, contributing 36% of the overall PSL pool, while private sector banks reported higher PSL ratios at 44.3% of ANBC, but accounted for 27.1% of total PSL. The total PSL book is estimated to exceed ₹65 lakh crore. Within this, loans to micro, small and medium enterprises rose to ₹31.3 lakh crore in FY25 from ₹27.3 lakh crore a year earlier, while affordable housing

loans are estimated at around ₹35 lakh crore.

Banks currently meet PSL requirements through a combination of direct lending, co-lending and securitisation with NBFCs and housing finance companies, on-lending to intermediaries, and purchase of priority sector lending certificates (PSLCs). "The on-lending book is estimated at ₹10–11 lakh crore, but it remains capped at 5% of PSL. In contrast, direct lending, co-lending and securitisation face no such limits, which effectively nudge banks towards these routes to meet their PSL targets," Kushal Rastogi, founder and CEO at Knight Fintech, said.

A key change in the revised PSL framework is the introduction of external auditor certification, aimed at preventing misclassification and double counting of loans across institutions or PSL categories. "The introduction of an external auditor certificate appears to be aimed at curbing misclassification, including cases where multiple loans to the same borrower... The regulator wants greater assurance that such practices do not continue," Sachin Sachdeva, vice president – financial sector ratings at ICRA, said.