



भारतीय रिज़र्व बैंक

RESERVE BANK OF INDIA

वेबसाइट : www.rbi.org.in/hindi

Website : www.rbi.org.in

ई-मेल email: helpdoc@rbi.org.in

संचार विभाग, केंद्रीय कार्यालय, एस.बी.एस.मार्ग, मुंबई-400001

DEPARTMENT OF COMMUNICATION, Central Office, S.B.S.Marg, Mumbai-400001

फोन/Phone: 91 22 2266 0502 फैक्स/Fax: 91 22 22660358

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Revised Guidelines on Priority Sector Lending-Targets and Classification

The Reserve Bank of India today released on its website [revised guidelines](#) on Priority Sector Lending-Targets and Classification.

The priority sectors are broadly taken as those sectors of the economy which, if not designated as priority sectors, may not get timely and adequate credit. Typically these are small value loans to farmers for agriculture and allied activities, micro and small enterprises, poor people for housing, students for education and other low income groups and weaker sections.

The revised guidelines aim at implementing the essence of recommendations of Nair Committee without dismantling the established and accepted structure of priority sector lending. The overall target under priority sector is retained at 40 percent as suggested by the Nair Committee. The targets under both direct and indirect agriculture are retained at 13.5 percent and 4.5 percent respectively while refocusing the direct agricultural lending to individuals, Self Help Groups (SHGs) and Joint Liability Groups (JLGs) directly by banks. The focus of the revised guidelines is also on direct lending by banks and not through intermediaries like Non Banking Financial Companies (NBFCs) and Housing Finance Companies (HFCs).

The highlights of the revised priority sector guidelines are:

- Overall target under priority sector is retained at 40 per cent as suggested by Nair Committee.
- The targets for both direct and indirect agricultural lending are kept unchanged at 13.5 per cent and 4.5 per cent of Adjusted Net Bank Credit, respectively.
- The following important activities, among others, form part of priority sector lending as per the revised guidelines:
 - Loans to Micro and Small Service enterprises up-to ₹1 crore and all loans to Micro and Small manufacturing enterprises
 - Loans upto ₹25 lakh for housing in metropolitan centres of population above 10 lakh and ₹15 lakh at other centres.
 - Loans to Food and Agro processing units.
 - Loans to individuals for educational purposes including for vocational courses upto ₹10 lakh in India and ₹20 lakh abroad.

- Loans for housing projects exclusively for economically weaker sections and low income groups, provided the cost does not exceed ₹5 lakh per dwelling unit.
 - Loans to distressed farmers indebted to non institutional lenders.
 - Overdrafts upto ₹50000/- in No-Frills account.
 - Loans to State Sponsored Organisations for scheduled castes and scheduled tribes.
 - Loans to individuals for setting up of off-grid solar and other off-grid renewable energy solutions for households.
 - Loans to individuals other than farmers upto ₹50000/- to prepay their debt to non- institutional lenders.
- Foreign banks having 20 or more branches in the country will be brought on par with domestic banks for priority sector targets in a phased manner over a maximum period of 5 years starting April 1, 2013. They will be required to submit an action plan for achieving the targets over a specific time frame to be approved by RBI.
 - The foreign banks with less than 20 branches will have no sub targets within the overall priority sector lending target of 32 per cent. This is expected to allow them to lend as per their core competence to any priority sector category.
 - Bank loans to Primary Agricultural Credit Societies (PACS), Farmers' Service Societies (FSS) & Large Adivasi Multi-Purpose Co-operative Societies (LAMPS) ceded to or managed/controlled by such banks for on-lending to farmers for agricultural and allied activities are included under direct agriculture.
 - Investments by banks in securitised assets, outright purchases of loans and assignments to be eligible for classification under priority sector provided the underlying assets qualify for priority sector treatment and the interest rate charged to the ultimate borrower by the originating entity does not exceed Base Rate of such bank plus 8 per cent per annum.

Background

It may be recalled that as proposed in Para 94 of Monetary Policy Statement 2011-12, a Committee (Chairman: Shri M.V. Nair) was set up in August 2011 to re-examine the existing classification & suggest revised guidelines with regard to Priority Sector Lending Classification and related issues. The Committee submitted its report in February 2012 which was placed in public domain for comments. The recommendations of the Committee have been examined based on interface with and comments received from various stakeholders. The Committee has stated that the robust reporting system with granularity and system generation of priority sector data is of utmost importance for proper monitoring and appropriate policy making. The Reserve Bank of India is seized of the issue and separate guidelines will be issued in due course