

RBI strengthens priority sector lending oversight

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FE BUREAU
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THE RESERVE BANK of India (RBI) on Monday issued a comprehensive set of amendments to the Priority Sector Lending (PSL) – Targets and Classification Directions, 2025, refining earlier provisioning on how banks compute adjusted net bank credit (ANBC), classify assets, and report PSL exposures. Effective immediately, the amendments tighten operational clarity, align PSL norms with updated regulatory frameworks, and strengthen oversight on on-lending and credit risk transfer mechanisms.

A key change relates to the computation of ANBC, where the RBI has clarified the treatment of exemptions linked to long-term bonds for infrastructure and affordable housing is now aligned with the Resource Raising Norms Directions, 2025. Banks can issue unsecured, rupee-denominated bonds with minimum maturity of 7 years which is excluded from the cash reserve ratio (CRR) and statutory liquidity ratio (SLR) requirements.

REFINED FRAMEWORK

■ The amendments will come into effect immediately

■ These tighten operational clarity, align norms with revised regulatory frameworks



■ Amendments strengthen oversight on on-lending and credit risk transfer mechanisms

■ The methodology for calculating credit equivalent off-balance-sheet exposures has been updated

The central bank has also included a detailed formula for calculating incremental advances arising from foreign currency non-resident bank (FCNR-B) and non-resident external (NRE) deposits, capping the ANBC deduction strictly to the incremental eligible deposits and disallowing any deduction if the incremental figure is zero or negative.

The amendments also

strengthen the audit trail for on-lending. Non-banking financial companies (NBFCs), housing finance companies (HFCs) and the National Cooperative Development Corporation (NCDC) must now furnish external auditor certificates confirming PSL-eligible utilisation and preventing double-claiming. A new provision allows PSL classification for bank loans to NCDC, subject to quarterly certification by CAG-empanelled auditors.

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Priority sector lending norms...

THE OVERALL CAP on on-lending to NBFCs/HFCs/NCDC remains at 5% of the previous year's PSL.

"The latest revisions to the PSL framework is a shift towards simplification, transparency, and stronger governance. By reducing the PSL requirement for SFBs the regulator has eased operational pressures on these institutions without diluting their developmental mandate," said Sanjay Agarwal, senior director, CareEdge Ratings.

The inclusion of NCDC as an eligible participant broadens the market for PSL certificates and finally brings the cooperative sector into the mainstream of priority sector intermediation, he said. The new requirement for external auditor certification is an important measure, that ensures that priority sector benefits are not claimed twice for the same asset—a governance gap that has long needed tightening, he added.

The amendments also update the methodology for calculating credit equivalent off-balance-sheet exposures (CEOBSE), directing banks to follow the Large Exposures Framework and the 2025 prudential norms applicable to small finance banks (SFBs), urban co-operative banks (UCBs), regional rural banks (RRBs), and local area banks (LABs). Small finance banks receive further clarity on the treatment of grandfathered loans transferred from NBFCs/MFIs during conversion, ensuring that PSL benefits are not double-counted between the lending bank and the SFB.

The PSL targets across bank categories have been refined, including a correction in SFB targets — earlier stated as 75% — has been revised to 60% of ANBC/CEOBSE. For RRBs, lending to medium enterprises, social infrastructure and



renewable energy will count only up to 15% of ANBC. Export credit definitions have been aligned with the updated Credit Facilities Directions, 2025, while export credit to agriculture and MSMEs continues to qualify under respective categories. The document also updates eligibility norms for export credit, microfinance loans, and government-sponsored schemes.

A significant change is codifying the PSLC framework where it has clarified the four PSLC types—agriculture, SF/MF, micro enterprises and general—and mapped each to specific targets and sub-targets. Banks may issue PSLCs up to 50% of the previous year's PSL achievement without underlying assets, provided they meet targets at year-end. All PSLCs will continue to expire on March 31.

Further, the RBI has updated co-lending provisions, reporting timelines, interest-rate norms, and service-charge caps for small-ticket PSL loans. Several districts have been removed from the list of special-category areas, reflecting updated regional classifications.