

Determinants of Priority Sector Lending (PSL) by Banks in West Bengal

Atanu Mitra¹, and Sebak Kumar Jana² 

¹ Former Ph.D. Scholar, Department of Economics, Vidyasagar University, Midnapore, West Bengal, India

² Professor, Department of Economics, Vidyasagar University, Midnapore, West Bengal, India

Correspondence should be addressed to Atanu Mitra; atanu.mit06@gmail.com

Received: 26 April 2026;

Revised: 13 May 2026;

Accepted: 28 May 2026

Copyright © 2026 Made Atanu Mitra et al. This is an open-access article distributed under the [Creative Commons Attribution License](https://creativecommons.org/licenses/by/4.0/), which permits unrestricted use, distribution, and reproduction in any medium, provided the original work is properly cited.

ABSTRACT- Priority Sector Lending (PSL) is a core policy tool for advancing the development of inclusive finance, and ensuring that underserved sectors such as agriculture and micro, small, and medium-sized enterprises (MSMEs) receive sufficient credit supply. This study takes banks in West Bengal, India as its research subject, uses cross-sectional data of 41 banks from 2019, and conducts analysis through an ordinary least squares (OLS) regression model. It sets the total volume of PSL disbursement as the dependent variable, and adopts bank ownership, number of PSL accounts, size of deposits and loans, and loan-to-deposit ratio as explanatory variables. The study finds that the three types of banks—public sector banks, private sector banks, and cooperative banks—show significantly different PSL performance. Three factors including the status of being a public sector bank have a statistically significant positive impact on PSL disbursement, while all other variables produce no significant effect. Finally, the study puts forward policy recommendations to expand service coverage and strengthen institutional capacity, so as to raise the local supply level of inclusive credit.

KEYWORDS- Priority Sector Lending, Financial Inclusion, Public Sector Banks, Credit Allocation, West Bengal, Banking Sector.

I. INTRODUCTION

Credit is central to the economic development process, as it mobilizes savings, stimulates investment and entrepreneurship, and directs resources among alternative uses within sectors of the economy [6]. Institutional credit is an important factor in poverty alleviation, income generation, employment creation and regional and social inequality reduction [7]. Additionally, credit is critical in enhancing innovation by creating possibilities for private-sector agents to invest in innovative technologies, products, markets and organisational structures. The pattern of formal credit distribution in India was, however, severely distorted for many decades after independence, despite being extremely crucial for development. While large industries and urban borrowers dominated the lending activities of commercial banks, agriculture, small enterprises and weaker sections in general continued to rely on informal sources of finance that charge higher interest rates at the cost of exploitation. The unevenness of the credit spread required

policy interventions for equitable access to institutional finance [9].

Recognizing such inequalities, Priority Sector Lending (PSL) was conceived as a nudge mechanism that channels institutional credit towards the sectors crucial for economic and social development but are neglected by formal banking channels. Commonly included sectors under priority sector are agriculture and allied activities, micro and small enterprises, education, cheap housing units (affordable housing), renewable energy, social infrastructure, export credit and weaker sections. Inevitably, such perceptions lead to these sectors struggling to access sufficient credit at the right time, as a result of perceived risks in their operations, their seasonality leading them to be treated with lower profitability (and thus higher risk), and geographical disadvantages as often these entrepreneurs are based in rural areas. PSL is just one of the directed credit programmes that have been used in various countries to promote inclusive growth and enhance financial inclusion. PSL has become one of the key policy tools in India to ensure that the fruits of growth reach disadvantaged and economically weaker sections[11]. The policy encapsulates the expanded development role of the banking sector in a mixed economy in which financial institutions are required to "lay special emphasis" on commercial targets as well as social objectives.

Through periodic master directions, the Reserve Bank of India has laid down an elaborate policy framework governing Priority Sector Lending, including sectoral classifications, targets on lending and timelines for reporting by banks. At present, domestic commercial banks are generally mandated to provide a specified percentage of their Adjusted Net Bank Credit (ANBC) towards priority sectors with sub-targets for agriculture and weaker sections. Banks that do not meet these targets end up contributing to certain institutions such as those engaged in the development of rural infrastructure, this creating motivation to comply. The list of sectors continues to include agriculture, micro and small enterprises, housing, education, renewable energy (RE), social infrastructure, export credit and weaker sections; but some broadening in scope is introduced along with measures for addressing regional imbalances in credit flows and improved monitoring. These provisions highlight the commitment made by policymakers to ensure proper availability of credit in economically significant sectors that are underserved.

West Bengal, with its relatively diverse economic structure, large rural population, high dependence on agriculture and the largest cumulative number of micro and small enterprises in the country, thus provides an interesting case to study the determinants of Priority Sector Lending. The state has a long-standing track record of expanding banking infrastructure and financial inclusion initiatives, but still faces very real challenges in areas such as access to credit, regional inequalities and sector-specific financing constraints. Understanding the determinants of PSL by West Bengal banks is thus important to evaluate the effectiveness of directed credit policies and areas for policy improvement. Factors like branch network expansion, deposit mobilization and profitability and asset quality of banks as well as socio-economic conditions can affect the components and volume of priority sector credit in a big way. In this context, the present study attempts to examine the determinants of Priority Sector Lending by banks in West Bengal while contributing to the growing literature on inclusive banking, financial development and regional economic growth.

II. LITERATURE REVIEW

This review synthesizes empirical research findings, existing challenges, and policy value of the Priority Sector Lending (PSL) framework across India as a whole and the state of West Bengal specifically. It first maps the trajectory of national-level research on the topic: public sector banks, due to their extensive branch networks and statutory social banking mandate, allocate a larger share of their lending to PSL than private sector banks, which universally face difficulties meeting their mandatory PSL targets.

The literature on PSL in India acknowledges that it is an important instrument of inclusive growth and financial inclusion. This policy was put in place to generate timely and appropriate institutional credit for sectors that banks don't lend to favourably (agriculture, small enterprises, higher socioeconomic segments, in fact, unless mandated by government or law[5] contend that PSL has been an essential tool for ensuring credit flow to underserved sections of the economy, even as concerns relating to repayment and increasing NPAs undermine its effectiveness. The scope of PSL has also changed significantly since then to incorporate financing for housing, education, renewable energy and social infrastructure as the developmental priorities of the Indian economy have also evolved, as reflected in recent reviews. The Reserve Bank of India periodically carries out revisions in the PSL guidelines to better the credit delivery mechanism and to remove geographical imbalances in access to formal finance.

Panda et al. [10] identified five internal bank factors that shape PSL scale: deposit mobilisation capacity, branch expansion rate, profitability, asset quality, and operational efficiency. In recent years, policy calls have emerged to launch PSL reforms to improve fund efficiency and extend coverage to underserved marginalized regions and population groups.

Ahmed [1] conducted a study on the PSL practices of commercial banks in India's Barak Valley region, noting that the original intent of this mechanism was to provide institutional credit support for underdeveloped areas including agriculture, small businesses, and lagging regions.

He also found that the PSL regulatory targets set by the Reserve Bank of India (RBI) were generally difficult to meet, leading to persistent credit constraints for farming households and small businesses.

Kumar et al.[8] analyzed PSL allocation patterns using a sample of 80 Indian banks, identifying three core bank-level influencing factors: ownership structure, bank size, and financial performance. They further found significant differences across banks in compliance with industry-specific targets, and that such targeted credit programs generally faced implementation challenges in practice.

Gaur and Mohapatra[4] focused on the macroeconomic impacts of PSL, confirming a positive bidirectional causal relationship between PSL and economic growth. They also refuted the mainstream criticism that PSL is the main source of banks' Non-Performing Assets (NPAs), proving that it does not significantly drive up the scale of banks' bad debts. Bag et al. [2] evaluated the impact of PSL on the profitability of India's state-owned banks, finding that it had no statistically significant negative impact on bank profitability, confirming that social banking goals can be advanced without undermining banks' financial performance.

Local PSL studies cluster around three core themes: agricultural credit, rural banking institutions, and financial inclusion. Sen and Sana's [12] empirical study of sampled districts and sub-districts found that PSL has significantly boosted local agricultural development and improved rural livelihoods.

Dutta and Bhattacharya[3] noted that Regional Rural Banks (RRBs) and non-banking financial institutions are the core providers of PSL in remote rural areas, covering four sectors: agriculture, micro and small enterprises, housing, and self-help groups. West Bengal's PSL regime faces three core challenges: low credit penetration in marginalized regions, complex loan application procedures, and prominent loan recovery risks. Gaps in banking infrastructure, disparities in regional socioeconomic conditions, and uneven institutional operational efficiency are the root causes of imbalanced credit allocation across the state's districts. Overall, PSL remains a core policy tool for West Bengal to advance inclusive rural development, support micro and small producers, and strengthen financial inclusion across the state.

Consensus across existing studies confirms that while PSL has effectively improved credit access for agriculture and micro, small, and medium enterprises (MSMEs), it also suffers from poor credit quality, insufficient regulation, and excessive geographic concentration of lending. The core consensus reached by existing research is that PSL is a core tool for achieving inclusive growth and financial inclusion, and its effectiveness is jointly shaped by three categories of factors: institutional characteristics, implementation challenges, and macroeconomic conditions.

III. METHODOLOGY AND DATA SOURCE

We have used the following OLS regression model (Eq. 1) to find the determinants of PSL by Banks in West Bengal.

$$PSLAM = \alpha_0 + \alpha_1 PSLNO + \alpha_2 PSU + \alpha_3 COOP + \alpha_4 DEPOSITS + \alpha_5 ADVANCES + \alpha_6 CD RATIO + u_i$$

(Eq. 1)

where,

PSALM = Amount of PSL by Banks (Rs. Crore)

PSLNO = Number of Accounts of PSL

PSU = Dummy Variable indicating whether the bank is in public sector (=1 if PSU, 0 otherwise)

COOP = Dummy Variable indicating whether the bank is cooperative (=1 if PSU, 0 otherwise)

DEPOSITS = Total amount of deposits in the bank in the corresponding year (Rs. Crore)

ADVANCES = Total amount of advances in the bank in the corresponding year (Rs. Crore)

CDRATIO = Credit Deposit Ratio

u_i = random error term

The analysis for the study is based on secondary which have been collected from SLBC [13].

IV. FINDINGS

This study draws on the 2019 Priority Sector Lending (PSL) statistical data for India’s West Bengal, which is recorded in Table 1. It uses two assessment dimensions, the number of PSL accounts (PSLNO) and the volume of PSL lending (PSLAM), to unpack differences in the distribution and performance of PSL allocation across three bank categories: public sector banks (PSUs), private sector banks (PVTs), and cooperative banks (COOPs). It also clarifies the role

positioning of each bank type and variations across different institutions. Among the public sector bank group, Union Bank of India (UBI) ranks first among all public sector banks, with a total lending volume of ₹22636.70 crore and 800,353 PSL accounts. It is followed closely by institutions such as the State Bank of India (SBI). Supported by their extensive branch networks and clear policy orientation, public sector banks are the dominant force driving PSL allocation within the state.

Within the private sector bank group, Bandhan Bank ranks first in account coverage and second in total lending volume, with 3,861,320 accounts and a lending amount of ₹20741.40 crore. This performance stems from its strategic positioning focused on microcredit and inclusive finance. While other private banks including HDFC Bank, ICICI Bank, and Axis Bank boast considerable lending amounts, their total account numbers are far lower than Bandhan’s. Among the cooperative bank group, West Bengal State Cooperative Bank Ltd. ranks first in the state’s cooperative banking system, with a lending volume of ₹13329.90 crore and 1,668,245 accounts.

Regional institutions including Bangiya Gramin Vikash Bank (BGVB), Paschim Banga Gramin Bank (PBGB), and Uttar Banga Kshetriya Gramin Bank (UBKGB) also form an important part of the state’s PSL delivery layout. Overall, public sector banks are the core carrier for large-scale PSL allocation, while Bandhan Bank is the key contributor among private sector entities. These diverse channels jointly support the development of priority sectors within the state, including inclusive finance, agriculture, and micro, small, and medium enterprises. Inter-bank differences arise from variations in institutional size, branch penetration, lending strategies, and target customer groups.

Table 1: PSL by Banks in West Bengal in 2019

Bank Types	Type of Bank (PSU=1, PVT=0)	No. of PSL a/c holders	Amount (Rs. Crore))Crore)
		PSLNO	PSLAM
Allahabad bank	PSU	274222	10158.6
Andhra Bank	PSU	27413	1918.96
Bank of Baroda	PSU	67919	5866.57
Bank of India	PSU	330673	7142.67
Bank of Maharashtra	PSU	3517	352.77
Canara Bank	PSU	57897	2792.43
Central Bank of India	PSU	175725	3388.11
Corporation Bank	PSU	20090	762.15
Dena Bank	PSU	5084	502.97
Indian Bank	PSU	20745	1215.71
IOB	PSU	140006	6102.91
OBC	PSU	123727	5758.4
PNB	PSU	267641	4779.29
Punjab & Sind Bank	PSU	7450	889.4
Syndicate Bank	PSU	30470	1525.93
SBI	PSU	651540	18799.8
UCO	PSU	538113	7795

UBI	PSU	800353	22636.7
Union Bank of India	PSU	40436	1728.69
Vijaya Bank	PSU	150774	6497.33
IDBI	PSU	164147	7196.84
Axis	PVT	300371	5714.83
Bandhan Bank	PVT	3861320	20741.4
Federal Bank	PVT	8200	840.26
HDFC	PVT	499442	6759.15
ICICI	PVT	95598	6679.32
Indusind Bank	PVT	940033	2956.52
IDFC	PVT	103413	444.99
Kotak Mahidra Bank	PVT	21870	1985.27
Jana Small Finance Bank	PVT	196683	492.4
Ratnakar Bank Ltd	PVT	541010	1093.56
South Indian Bank Ltd.	PVT	15788	639
Tamilnad Mercantile Bank	PVT	105	35.36
Ujjivan Small Finance Bank	PVT	394645	1181.97
Utkarsh Small Finance Bank	PVT	14968	43.14
YES Bank	PVT	15648	1586.63
BGVB	COOP	604538	5590.79
PBGB	COOP	210900	2345.08
UBKGB	COOP	178636	1394.2
WB State Co-Op Bank Ltd.	COOP	1668245	13329.9
WBSCARD Bank Ltd.	COOP	225384	1105.45

Source: Author’s calculation based on SLBC [13]

This study examines the determinants of Priority Sector Lending (PSL) adopted by banks in West Bengal, India. Table 2 presents the summary statistics of all analytical variables used in this research, and the characteristics of core variables are interpreted one by one as follows: The average value of PSL disbursement amount, PSLAM, is ₹4701.72 crore, with a standard deviation of ₹5517.65 crore, which demonstrates that the scale of PSL issuance varies drastically across banks. The average number of PSL accounts, PSLNO, is 336457, with a value range of 105 to 3861320, reflecting significant gaps in banks' service coverage. The mean of the dummy variable for public sector banks, PSU, is 0.51, indicating that 51% of the banks in the sample are public sector banks. The mean of the cooperative bank variable, COOP, is 0.12, corresponding to 12% of sample banks being cooperative banks. The average bank deposits and loans are ₹18605.87 crore and ₹10429.12 crore respectively, and their large standard deviations highlight gaps in banks' scale and operation. The average loan-to-deposit ratio, CDRATIO, is 106.71%, ranging from 19.53% to 676.22%, pointing to extremely strong heterogeneity in banks' lending behaviour. In conclusion, the banking sector in West Bengal is highly diverse in terms of ownership, scale and PSL input, which confirms the necessity of studying the determinants of PSL by bank category.

Table 2: Summary statistics of the considered variables: Determinants of PSL

Variable	Mean	Std. Dev.	Min	Max
PSU	0.51	0.51	0.00	1.00
COOP	0.12	0.33	0.00	1.00
PSLNO	336457.00	652192.00	105.00	3861320.00
PSLAM	4701.72	5517.65	35.36	22636.74
DEPOSITS	18605.87	31434.34	61.78	187136.10
ADVANCES	10429.12	12450.44	43.71	68128.15
CDRATIO	106.71	124.63	19.53	676.22

Source: Author’s calculation based on SLBC [13]

The results of the regression analysis on the factors influencing Priority Sector Lending (PSL) conducted for the banking sector in West Bengal, India, in this study are collated and presented in Table 3. First, we verified the overall validity of the model. The F-statistic of this regression is 37.834, with $p < 0.001$, meaning the model is statistically significant as a whole. The goodness of fit R^2 reaches 0.870, which indicates that the included explanatory variables can explain 87% of the variation in the PSL scale, so the model's reliability meets the basic requirements of empirical research. We then sort out the statistical significance and business implications of each explanatory variable one by one. Among the three variables that passed the significance test, the regression coefficient β of the

public sector bank dummy variable PSU is 2389.706, with $p=0.007$. When all other variables are held constant, public-sector banks disburse roughly 2389 crore Indian rupees more in PSL on average than non-public sector banks. The β value of the number of PSL accounts (PSLNO) is 0.004, with $p<0.01$, indicating that the wider the customer reach measured by the number of accounts, the larger a bank's PSL disbursement scale. The β value of a bank's total loan amount is 0.308, with $p=0.014$, which confirms that banks with a larger overall lending scale allocate higher PSL

quotas. The other three variables—cooperative bank dummy variable COOP, deposit scale, and loan-to-deposit ratio CDRATIO failed to pass the significance test. To sum up, the core driving factors of PSL disbursement in West Bengal's banking industry are public sector bank ownership, the customer reach capacity reflected by the number of PSL accounts, and banks' overall lending scale; deposit scale, cooperative bank status, and loan-to-deposit ratio have no significant impact on PSL performance.

Table 3: Regression Results: Determinants of PSL by Banks in West Bengal

PSLAM	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
PSU	2389.706	832.494	2.87	.007	697.875	4081.537	***
COOP	1886.974	1195.87	1.58	.124	-543.325	4317.274	
PSLNO	.004	.001	6.81	0	.003	.006	***
DEPOSITS	-.019	.046	-0.43	.672	-.112	.073	
ADVANCES	.308	.118	2.60	.014	.068	.549	**
CDRATIO	-2.194	2.965	-0.74	.465	-8.22	3.833	
CONSTANT	-837.834	907.846	-0.92	.363	-2682.799	1007.132	
Mean dependent var	4701.719		SD dependent var	5517.650			
R-squared	0.870		Number of obs	41			
F-test	37.834		Prob> F	0.000			
Akaike crit. (AIC)	752.263		Bayesian crit. (BIC)	764.258			

*** $p<0.01$, ** $p<0.05$, * $p<0.1$

Source: Authors' Estimation

V. CONCLUSION

This study takes 41 banks in West Bengal, India, in 2019 as its sample, and uses cross-sectional data to conduct empirical analysis. Focusing on the core influencing factors of local banks' Priority Sector Lending (PSL), the study sequentially presents the core conclusions of two types of analysis and derives appropriate policy directions. Descriptive analysis shows that there is significant heterogeneity in PSL performance across different bank categories: state-owned banks including the State Bank of India, Union Bank of India, and UCO Bank are the main providers of PSL; the private bank Bandhan Bank stands out for its inclusive finance performance, as it focuses on micro and small enterprise-related financial services; the West Bengal State Cooperative Bank and regional rural banks play a key role in priority areas such as agriculture-related lending. All sample banks show marked gaps in core indicators including the number of PSL accounts, total lending volume, and loan-to-deposit ratio. Subsequent regression analysis results indicate that state ownership, the number of PSL accounts, and a bank's total lending scale are core factors that significantly affect PSL disbursement volume, while deposit absorption capacity, cooperative bank status, and loan-to-deposit ratio have no statistically significant impact on PSL allocation. Based on the above findings, this study puts forward the following core policy directions: expand the coverage of financial services, encourage private and cooperative banks to deeply participate in PSL, and improve the credit circulation mechanism for weak areas such as agriculture-related and micro and small enterprise finance.

CONFLICTS OF INTEREST

The authors declare that they have no Conflicts of Interest.

REFERENCES

- [1] Ahmed, J., "Priority sector lending by commercial banks in India: An evaluative study," *Asian Journal of Finance & Accounting*, vol. 2, no. 1, pp. 92–110, 2010. Available from: <https://ideas.repec.org/a/mth/ajfa88/v2y2010i1p92-110.html>
- [2] S. Bag, N. Ray, and B. Roy, "Does priority sector lending affect profitability? An empirical study on Indian public sector banks," in *Green Production Engineering and Management*, Woodhead Publishing, 2022, pp. 81–92. Available from: <https://doi.org/10.1016/B978-0-12-821238-7.00008-7>
- [3] P. Dutta and M. Bhattacharya, "The performance of Regional Rural Banks and non-banking institutions in priority sector lending: A study on West Bengal," *The IUP Journal of Bank Management*, vol. 15, no. 3, pp. 36–51, 2016. Available from: <https://tinyurl.com/y76j26mn>
- [4] D. Gaur and D. R. Mohapatra, "The nexus of economic growth, priority sector lending and non-performing assets: Case of Indian banking sector," *South Asian Journal of Business Studies*, vol. 10, no. 1, pp. 70–90, 2021. Available from: <https://doi.org/10.1108/SAJBS-01-2020-0010>
- [5] N. Goyal, R. Agrawal, and R. Aggarwal, "Review of priority sector lending performance of Indian commercial banks," *Asian Journal of Management*, vol. 6, no. 4, pp. 302–306, 2015. Available from: <https://tinyurl.com/42b28s5u>
- [6] S. K. Jana and A. Mitra, "Demand for agricultural credit: A study in the district of South 24 Parganas, West Bengal, India," *Vidyasagar University Journal of Economics*, vol. 23, pp. 109–120, 2020. Available from: <http://vu.dspaces.org/handle/123456789/5532>
- [7] S. K. Jana and A. Mitra, "Priority sector lending (PSL) and non-performing assets (NPA) of public and private sector banks in India," *International Journal of Research in Social Sciences*, vol. 11, no. 3, pp. 169–181, 2021. Available from: <https://tinyurl.com/386ym5vv>
- [8] M. Kumar, N. Batra, and F. Deisting, "Determinants of priority sector lending: Evidence from bank lending patterns in India," *The International Journal of Business and Finance Research*,

- vol. 10, p. 20, 2016. Available from:
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2826071
- [9] M. Narasimham, *Report of the Committee on the Financial System*. New Delhi, India: Government of India, 1991.
- [10] S. K. Panda, G. P. Panda, and A. K. Swain, "Determinants of priority sector lending of Indian public sector banks: An econometric analysis," *International Journal of Research-GRANTHAALAYAH*, vol. 5, no. 7, pp. 166–175, 2017. Available from:
<https://doi.org/10.29121/granthaalayah.v5.i7.2017.2154>
- [11] Reserve Bank of India, *Master Directions – Reserve Bank of India (Priority Sector Lending – Targets and Classification) Directions, 2025*. Mumbai, India: Reserve Bank of India, 2025. Available from:
<https://www.seair.co.in/dData/RBI/166698.pdf>
- [12] N. Sen and A. K. Sana, "Impact of priority sector lending in agriculture: A study on select districts in West Bengal," *International Journal on Recent Trends in Business and Tourism*, vol. 8, no. 2, 2024. Available from:
<https://doi.org/10.31674/ijrtbt.2024.v08i02.003>
- [13] SLBC, "Performance of Banks, Bank-wise NPA Status as on 31.03.2019," *State Level Bankers' Committee, West Bengal*, Punjab National Bank, Kolkata, India, 2019.