

Sectoral Trends and Patterns of Priority Sector Lending (PSL) in India

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ABSTRACT- The paper draws on secondary data from the 2025–26 Economic Survey to investigate the trends and patterns of India's Priority Sector Lending (PSL) over the ten-year period spanning 2015–16 to 2024–25. The study finds that the total scale of PSL rose from 26.52 trillion rupees to 78.76 trillion rupees, nearly tripling. Agriculture, micro, small, and medium enterprises (MSMEs), and vulnerable groups are the core beneficiaries. The share of loans extended to vulnerable groups has increased significantly, while the shares of housing and education loans have declined, and lending for renewable energy has grown gradually. PSL has become increasingly diversified, and remains a core tool for driving India's inclusive and sustainable economic development.

KEYWORDS- Priority Sector Lending (PSL), Agriculture Credit, Micro and Small Enterprises, Weaker Sections, Financial Inclusion, Directed Credit, Gross Bank Credit, India.

I. INTRODUCTION

The Priority Sector Lending (PSL) scheme launched by the Reserve Bank of India (RBI) is the core instrument of India's targeted credit policy system. Its core founding objective is to channel sufficient, demand-aligned, and timely institutional credit to sectors that lack adequate formal financial coverage yet are critical to job creation, poverty alleviation, and inclusive economic development. According to RBI's official policy document updated and released in 2025[10], PSL has undergone multiple rounds of expansion to date, forming a complete framework covering ten major categories of supported sectors, with the design of each category closely aligned to the policy's core founding objective[2] [5]. As one of the world's major emerging economies, the Government of India has long positioned inclusive growth and balanced regional development as its core economic policy goals. The core foundation to achieve these goals is the establishment of an efficient and equitable institutional credit flow system. To this end, the Reserve Bank of India (RBI) launched the Priority Sector Lending (PSL) framework, which explicitly requires all domestic banks to allocate a regulated proportion of their Adjusted Net Bank Credit (ANBC) to vulnerable fields, including agriculture and Micro, Small and Medium Enterprises (MSMEs), to advance the national process of financial

inclusion. Since the framework took effect, RBI has continuously made dynamic adjustments to PSL's covered sectors and required lending ratios to align with development needs at different stages. In recent years, a clear trend has emerged in India's domestic credit allocation: credit is increasingly tilted away from the traditional agricultural sector toward a range of new priority areas. This paper carries out a targeted study of this cross-sectoral credit allocation trend, which will provide core support for accurately evaluating the implementation effectiveness of the PSL policy and identifying potential gaps in the current allocation of financial resources.

II. LITERATURE REVIEW

As the core pillar of India's directed credit policies since the nationalization of its banks, Priority Sector Lending (PSL) has long been a central topic of academic attention. It covers multiple socially disadvantaged sectors including agriculture, micro, small and medium enterprises (MSMEs), housing, and education, and existing research has developed a complete analytical framework examining its positioning, evolution, and actual outcomes. In early studies, Roy [11] and Sooden and Kumar [14] were the first to justify the developmental rationale of PSL, arguing that its core value lies in correcting market failures and driving socially equitable growth. On the front of policy evolution, Sehdev and Raman[12] note that regular reforms to PSL, paired with the Jan Dhan Yojana scheme and NABARD-led interventions, have significantly improved access to formal credit for historically underserved groups. Bano and Sharma [2] further sorted out the Reserve Bank of India's 2020 updated PSL guidelines, confirming that this round of adjustments expanded the scope of covered sectors and strengthened the regulatory framework. In research on allocation disparities, findings from Kaur's team [6][7] released in 2024 and 2025 show that while both public and private banks met their overall PSL targets in the post-pandemic period, the two types of institutions show clear divergence

in their social commitments and sectoral credit priorities. Currently, agriculture accounts for the largest share of total PSL volume, followed by MSMEs and housing, while notable regional and institutional gaps in credit allocation persist. Academic perspectives on PSL's actual impacts remain widely debated. In agricultural sector research, Sen

and Sana [13] and Jana and Mitra[5] confirm that directed credit has boosted rural development and improved the circumstances of smallholder farmers, but gaps in coverage and regional disparities remain. In discussions of banks' Non-Performing Assets (NPAs), Bag et al. [1] find that PSL has no significant negative impact on the profitability of public banks. Paul and Roy [8] similarly argue that growth in PSL is not the core driver of rising NPAs, while Jana and Mitra[5] point out that different PSL subsectors have uneven impacts on NPAs, leading to imbalanced risk distribution. Even so, Guru and Panda [4] and Chaturvedi [3] reaffirm PSL's core value in balancing regional development and advancing inclusive growth. Rajamohan and Durairaj [9] also highlight the problem of skewed credit allocation in PSL, calling for the establishment of a more equitable system for sectoral credit distribution. Existing academic literature points out that while India's priority sector lending policy has promoted financial inclusion and socioeconomic development, it remains necessary to track industry changes to ensure the policy aligns with local development priorities and sustains its long-term effectiveness.

III. METHODOLOGY AND DATA SOURCE

This study is descriptive analytical research, focusing on the sectoral trends and patterns of Priority Sector Lending (PSL) in India over the ten-year period from 2015–16 to 2024–25. The core data for this study is drawn primarily from the Government of India's Economic Survey 2025–26, supplemented by relevant publications and policy documents from the Reserve Bank of India (RBI). This study divides PSL into ten sub-sector categories: agriculture and allied activities, micro and small enterprises, medium enterprises, housing, education loans, renewable energy, social infrastructure, export credit, disadvantaged groups,

and other eligible categories. The study analyzes PSL dynamics across three core dimensions: the absolute volume of lending to each sector, the share of each category in total PSL, and the share of total PSL and its sub-sectors in overall gross bank credit (GBC). It adopts tabular statistical techniques including percentage analysis and trend analysis to present research findings via tables, interprets the evolving policy orientation of directed lending, changes in the relative importance of each sector, as well as PSL's contribution to financial inclusion and inclusive economic development in India.

IV. FINDINGS OF THE STUDY

Table 1 maps out the 10-year growth trend of Priority Sector Lending (PSL) in India's banking sector from 2015-16 to 2024-25: Overall, the scale of PSL across India's banking sector climbed from ₹26.52 lakh crore in 2015-16 to ₹78.76 lakh crore in 2024-25, marking a nearly three-fold increase. Among its specific allocation areas, the three core segments are lending to agriculture and related fields, loans to micro, small, and medium-sized enterprises, and credit to vulnerable groups, which grew from ₹8.83 lakh crore, ₹8.48 lakh crore, and ₹4.77 lakh crore respectively to ₹22.88 lakh crore, ₹22.39 lakh crore, and ₹18.65 lakh crore. Loans to medium-sized enterprises, a category newly added in 2018-19, rose from ₹1.65 lakh crore to ₹6.01 lakh crore. Housing loans saw a sharp overall increase except for a minor decline in the final year; only education loans stagnated at around ₹0.60 lakh crore. Export credit recorded a 10-year decline, and renewable energy loans, which remain small in scale, achieved steady growth. India's PSL has realized broad-based expansion, and its targeted credit policies have effectively advanced inclusive economic growth.

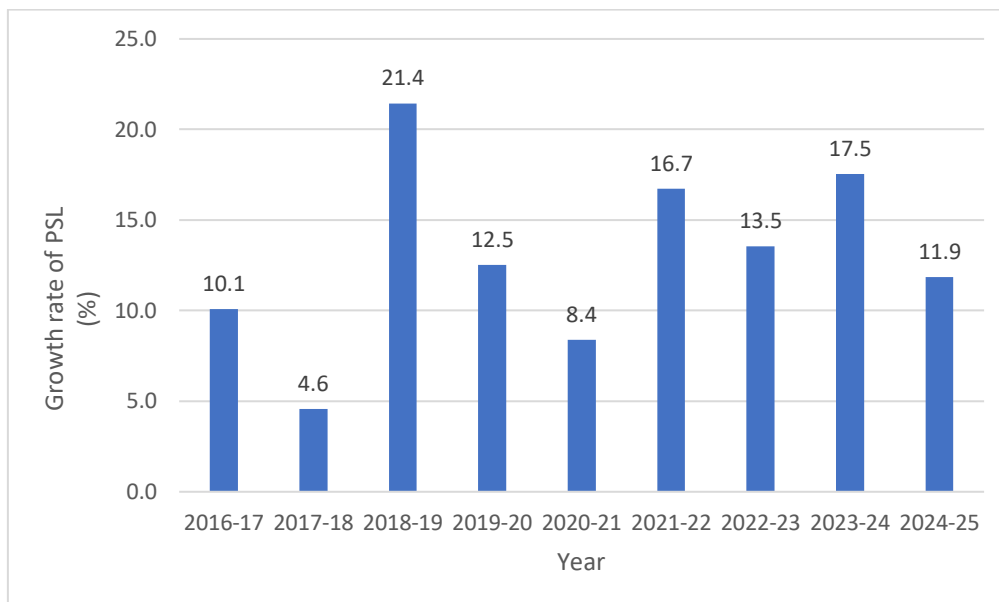
Table 1: Amount of Priority Sector Lending by Banks across Different Sectors in India ,2015-16 to 2024-25 (Rs. Lakh crores)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
1. Agriculture and Allied Activities	8.83	9.91	10.22	11.12	11.83	13.39	15.17	17.44	20.61	22.88
2. Micro and Small Enterprises	8.48	9.02	9.96	10.67	11.98	12.06	14.28	16.43	19.74	22.39
3. Medium Enterprises	0.00	0.00	0.00	1.65	1.79	2.58	3.74	4.24	4.91	6.01
4. Housing	3.42	3.68	3.76	4.82	5.59	5.78	6.18	6.23	7.55	7.47
5. Educational Loans	0.60	0.60	0.61	0.58	0.61	0.60	0.58	0.59	0.62	0.63
6. Renewable Energy	0.00	0.00	0.00	0.02	0.02	0.02	0.04	0.05	0.06	0.10
7. Social Infrastructure	0.00	0.00	0.00	0.01	0.02	0.03	0.02	0.02	0.01	0.01
8. Export Credit	0.42	0.43	0.28	0.16	0.30	0.27	0.29	0.17	0.12	0.12
9. Others	0.00	0.00	0.00	0.12	0.19	0.16	0.42	0.61	0.61	0.50
10. Weaker Sections	4.77	5.55	5.69	7.91	9.37	10.31	12.04	14.12	16.18	18.65
Total	26.52	29.19	30.52	37.06	41.70	45.20	52.76	59.90	70.41	78.76

(Source: Based on Economic Survey: 2025-26, Government of India)

Figure 1 shows that between 2016–17 and 2024–25, the annual growth rate of priority sector lending (PSL) in India's banking sector remained consistently positive but

saw significant fluctuations. The growth rate peaked at 21.4% in 2018–19, before falling back to 11.9% in 2024–25.



(Source: Based on Economic Survey: 2025-26, Government of India)

Figure 1: Annual Growth Rate (%) of PSL by Banks in India during 2016-17 to 2024-25

This study focuses on Priority Sector Lending (PSL) in India’s banking sector, sorting out its sectoral composition and changing trends over the 10-year period from 2015-16 to 2024-25. This type of lending has long been concentrated in three core areas: agriculture, micro and small enterprises (MSEs), and disadvantaged groups. In Table 2, share of agriculture and related fields dropped from 33.30% at the start of the period to 29.05% at the end. The share of MSEs fluctuated between 27% and 32%, and stood at 28.43% in 2024-25; the share of lending to disadvantaged groups rose from 17.99% to 23.68%, which underscores the growing emphasis placed on financial inclusion. In 2018-19, a

separate standalone segment for medium-sized enterprises was added, and its share reached 7.63% in 2024-25. The shares of housing loans and education loans fell from 12.90% and 2.26% to 9.48% and 0.80% respectively. Other segments, such as export credit accounted for a very small proportion; only lending for renewable energy recorded a mild increase in recent years, which aligns with the sustainable development orientation. On the whole, the PSL portfolio has gradually diversified, but the three core areas still maintain an absolute dominant position. Targeted credit provision remains a core pillar supporting India’s inclusive economic development.

Table 2 : Shares (%) of Priority Sector Lending by Banks across Different Sectors in India, 2015-16 to 2024-25

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
1. Agriculture and Allied Activities	33.30	33.95	33.49	30.01	28.37	29.62	28.75	29.12	29.27	29.05
2. Micro and Small Enterprises	31.98	30.90	32.63	28.79	28.73	26.68	27.07	27.43	28.04	28.43
3. Medium Enterprises	0.00	0.00	0.00	4.45	4.29	5.71	7.09	7.08	6.97	7.63
4. Housing	12.90	12.61	12.32	13.01	13.41	12.79	11.71	10.40	10.72	9.48
5. Educational Loans	2.26	2.06	2.00	1.57	1.46	1.33	1.10	0.98	0.88	0.80
6. Renewable Energy	0.00	0.00	0.00	0.05	0.05	0.04	0.08	0.08	0.09	0.13
7. Social Infrastructure	0.00	0.00	0.00	0.03	0.05	0.07	0.04	0.03	0.01	0.01
8. Export Credit	1.58	1.47	0.92	0.43	0.72	0.60	0.55	0.28	0.17	0.15
9. Others	0.00	0.00	0.00	0.32	0.46	0.35	0.80	1.02	0.87	0.63
10. Weaker Sections	17.99	19.01	18.64	21.34	22.47	22.81	22.82	23.57	22.98	23.68
Total	100	100	100	100	100	100	100	100	100	100

(Source: Authors’ Calculation Based on Economic Survey: 2025-26, Government of India)

Based on the data in Table 3 compiled from India's banking industry statistics in Economic Survey: 2025-26, we sorted out changes in the share of Priority Sector Lending (PSL) in Gross Bank Credit (GBC) between the 2015-16 and 2024-25 periods, and analyzed the policy orientations behind these trends. On the whole, over the decade, this share rose

from 36.58% to 43.17%, peaking at 44.37% in 2021-22 before seeing a small decline in the most recent three years, which confirms the long-term policy tilt toward priority sectors. In disaggregated terms, agriculture and related activities have long ranked first with a stable share of 12% to 13%; the share of Micro and Small Enterprises (MSEs)

grew from 11.70% to 12.27%, aligning with the policy orientation to support entrepreneurship and employment. Medium-sized enterprises have been counted as a separate statistical category starting from 2018-19, and their share rose from 1.69% to 3.29%, indicating increased support for this sector. The share of housing loans fell from 4.72% to 4.09%, while education loans and export credit have declined continuously, reaching only 0.35% and 0.07% respectively in 2024-25. The share of credit to disadvantaged groups rose sharply from 6.58% to 10.22%,

delivering on the fair lending commitment embedded in the financial inclusion framework. The shares of credit for renewable energy and social infrastructure remain extremely low, but renewable energy lending has grown gradually, echoing the new shift toward green finance. In summary, the importance of PSL in India's banking system has continued to rise, with agriculture, micro and small enterprises, and disadvantaged groups as its core beneficiaries.

Table 3: Percentage Share of Priority sector lending in Gross Bank Credit by banks in India 2015-16 to 2024-25

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
1. Agriculture and Allied Activities	12.18	12.64	11.85	11.38	11.41	12.23	12.76	12.75	12.54	12.54
2. Micro and Small Enterprises	11.70	11.50	11.55	10.92	11.55	11.01	12.01	12.01	12.01	12.27
3. Medium Enterprises	0.00	0.00	0.00	1.69	1.73	2.36	3.15	3.10	2.99	3.29
4. Housing	4.72	4.69	4.36	4.93	5.39	5.28	5.20	4.56	4.59	4.09
5. Educational Loans	0.83	0.77	0.71	0.59	0.59	0.55	0.49	0.43	0.38	0.35
6. Renewable Energy	0.00	0.00	0.00	0.02	0.02	0.02	0.03	0.04	0.04	0.05
7. Social Infrastructure	0.00	0.00	0.00	0.01	0.02	0.03	0.02	0.01	0.01	0.01
8. Export Credit	0.58	0.55	0.32	0.16	0.29	0.25	0.24	0.12	0.07	0.07
9. Others	0.00	0.00	0.00	0.12	0.18	0.15	0.35	0.45	0.37	0.27
10 Weaker Sections	6.58	7.08	6.60	8.09	9.03	9.42	10.13	10.33	9.85	10.22
Total	36.58	37.23	35.39	37.92	40.21	41.28	44.37	43.80	42.85	43.17

(Source: Authors' Calculation Based on Economic Survey: 2025-26, Government of India)

V. CONCLUSION

This study conducts core analysis centred on the implementation outcomes, structural evolution, and future optimization directions of India's Priority Sector Lending (PSL), and confirms that India's PSL has become a core tool supporting inclusive, balanced economic development. The study covers the time window from 2015-16 to 2024-25, during which the total scale of PSL grew nearly threefold, and its share of total bank credit rose from 36.58% at the start of the period to 43.17% at the end, with its importance within the banking system rising continuously. The core recipients of PSL have consistently been agriculture and related industries, Micro and Small Enterprises (MSEs), and disadvantaged groups, aligning with policy commitments to advance rural development, job creation, and financial inclusion. The credit structure has adjusted dynamically: the relative shares of agricultural, housing, and education loans have declined, while the share of lending allocated to disadvantaged groups has increased. A new standalone lending category for medium-sized enterprises was added, and the share of renewable energy lending has gradually risen, though its overall contribution remains limited. This study finds that both the scale and coverage of PSL have achieved successful expansion, driving overall financial inclusion and balanced growth. Going forward, key priorities are to strengthen lending in areas including education, export credit, and green finance, to build a more balanced and diversified sectoral credit structure.

CONFLICTS OF INTEREST

The authors declare that they have no Conflicts of Interests.

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