

RBI/2025-26/61

DOR.LIC.REC.36/16.13.218/2025-26

June 20, 2025

All Small Finance Banks

Madam/ Dear Sir,

Review of Priority Sector Lending norms - Small Finance Banks

Please refer to the '[Guidelines for Licensing of Small Finance Banks in Private Sector](#)' dated November 27, 2014 and the '[Guidelines for 'on-tap' Licensing of Small Finance Banks in Private Sector](#)' released by Reserve Bank on December 5, 2019. In terms of paragraph II (9) of the aforesaid Licensing Guidelines, a small finance bank (SFB) is required to extend 75 per cent of its Adjusted Net Bank Credit (ANBC) to the sectors eligible for classification as priority sector lending (PSL) by the Reserve Bank. Further, while 40 per cent of its ANBC should be allocated to different sub-sectors under PSL as per the extant PSL prescriptions, the bank can allocate the balance 35 per cent to any one or more sub-sectors under the PSL where it has competitive advantage.

Revised provisions

2. On a review, it has been decided that financial year 2025-26 onwards, the additional component (35 per cent) of PSL shall be reduced to 20 per cent, thereby making the overall PSL target as 60 per cent of ANBC or Credit Equivalent of Off-Balance Sheet Exposures (CEOBE), whichever is higher. The SFB shall continue to allocate 40 per cent of its ANBC or CEOBE, whichever is higher, to different sub-sectors under PSL as per the extant PSL prescriptions, while the balance 20 per cent shall be allocated to any one or more sub-sectors under the PSL where the bank has competitive advantage.

3. These instructions are issued in exercise of the powers conferred on the Reserve Bank of India under Section 22 (1) of the Banking Regulation Act, 1949.

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“...the primary objective of monetary policy is to maintain price stability while keeping in mind the objective of growth.”

Preamble to the Reserve Bank of India Act 1934

- Under the Reserve Bank of India, Act, 1934 (RBI Act, 1934) (as amended in 2016), RBI is entrusted with the responsibility of conducting monetary policy in India with the primary objective of maintaining price stability while keeping in mind the objective of growth.
- Section 45ZB of the RBI Act provides for the constitution of a six-member Monetary Policy Committee (MPC) to determine the policy rate required to achieve the inflation target.
- **Failure to Maintain Inflation Target:** The Central Government has notified the following as the factors that constitute failure to achieve the inflation target: (a) the average inflation is more than the upper tolerance level of the inflation target for any three consecutive quarters; or (b) the average inflation is less than the lower tolerance level for any three consecutive quarters.
 - o Where the Bank fails to meet the inflation target, it shall set out in a report to the Central Government:
 - a. the reasons for failure to achieve the inflation target;

- b. remedial actions proposed to be taken by the Bank; and
- c. an estimate of the time-period within which the inflation target shall be achieved pursuant to timely implementation of proposed remedial actions.
- The operating framework of monetary policy aims at aligning the operating target – the weighted average call rate (WACR) – with the policy repo rate through proactive liquidity management to facilitate transmission of repo rate changes through the entire financial system, which, in turn, influences aggregate demand – a key determinant of inflation and growth

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