PAPER I - INDIAN ECONOMY & INDIAN FINANCIAL SYSTEM

Module A: INDIAN ECONOMIC ARCHITECTURE

Chapter 4: Role of Priority Sector and MSME in the Indian Economy

Quick Revision

4.1 & 4.2: The Priority Sector

- **Definition:** The **Priority Sector** refers to specific sectors of the economy that the Reserve Bank of India (RBI) has identified as crucial for the country's development. Banks are mandated to give special attention and a certain percentage of their loans to these sectors.
- **Objective:** To ensure that important, employment-intensive, and socially beneficial sectors like agriculture and small industries receive adequate and timely credit.
- **The Eight Identified Priority Sectors are:**
    1. Agriculture
    2. Micro, Small and Medium Enterprises (MSMEs)
    3. Export Credit
    4. Education
    5. Housing
    6. Social Infrastructure
    7. Renewable Energy
    8. Others (including lending to "Weaker Sections")

4.3: Priority Sector Lending (PSL) Norms Banks are required to lend a specific percentage of their **Adjusted Net Bank Credit (ANBC)** to these sectors.

- **Overall Targets:**
  - **Domestic Commercial Banks** and Foreign Banks (with 20+ branches): **40%** of ANBC.
  - **Regional Rural Banks (RRBs): 75%** of ANBC.
  - **Small Finance Banks (SFBs): 60%** of ANBC (revised as of June 20, 2025).
- **Key Sub-targets (for Domestic Banks, RRBs, SFBs):**
  - **Agriculture:** 18% (with a further sub-target of 10% for Small & Marginal Farmers).
  - **Micro Enterprises:** 7.5%.
  - **Weaker Sections:** 12% (15% for RRBs).

4.4, 4.5 & 4.6: Micro, Small, and Medium Enterprises (MSMEs)

- **New Definition (effective July 1, 2020):** The classification of MSMEs is now based on a composite criterion of both **investment** and **annual turnover**.

Enterprise Category	Investment in Plant & Machinery	Annual Turnover
Micro	Not more than ₹1 crore	Not more than ₹5 crore
Small	Not more than ₹10 crore	Not more than ₹50 crore
Medium	Not more than ₹50 crore	Not more than ₹250 crore

- **Role and Significance:**
  - MSMEs are considered the **engine of economic growth** in India.
  - They have high **employment potential** at a low capital cost and are the **second-largest employer after agriculture**.

  - They promote entrepreneurship, balanced regional development, and innovation.
- **Contribution to the Economy:**
  - Over **28%** of India's GDP.
  - Over **45%** of the country's total manufacturing output.
  - Over **40%** of India's total exports.

4.7: Recent Government Initiatives for MSMEs The government has launched several schemes to support and promote the MSME sector.

- **Atmanirbhar Bharat Abhiyan (Self-Reliant India):** Launched during the COVID-19 pandemic, it included major support for MSMEs through the **Emergency Credit Line Guarantee Scheme (ECLGS)** (collateral-free loans), debt for stressed MSMEs, and equity infusion.
- **Make in India:** An initiative to transform India into a global manufacturing hub, which directly benefits MSMEs.
- **Start-up India:** A scheme to build a strong ecosystem for startups by providing benefits like simple online registration, cost reductions, tax holidays, and easier access to funds.
- **Stand-up India:** An initiative to promote entrepreneurship among **women, Scheduled Castes (SC), and Scheduled Tribes (ST)**. It facilitates bank loans from **₹10 lakh to ₹1 crore** for setting up a new enterprise. Each bank branch is mandated to support at least one SC/ST and one woman entrepreneur.
- **Production Linked Incentive (PLI) Scheme:** A scheme to boost domestic manufacturing in key sectors by providing financial incentives to companies on their incremental sales.