1. **At times the banks have failed to meet the priority sector lending targets and the money has instead gone into RIDF. In this context, will the guidelines for Priority Sector Lending Certificates (PSLCs) by RBI enable banks to achieve the purpose of providing finances to the needy, when the banks themselves are bogged down with issues of rising non-performing loans and low credit growth?. (250 Words)**

**Answer:**

In order to achieve financial inclusion and balanced credit flow RBI mandate PSL targets to every commercial bank and also foreign banks that have more than 20 branches in number. 40 % of their adjusted net bank credit should be remained for the sectors with 18% for agriculture and 10% for weaker sections. But they have often failed to meet these targets and the money goes into the RIDF. So, the RBI has come with the new idea of PSL certificates.

According to the new guidelines, banks unable to meet their priority sector lending (PSL) targets and sub-targets can buy PSLCs issued by the banks that have over-achieved their targets.

This mechanism works like carbon credit in Kyoto protocol. Accordingly, banks can issue four kinds of PSLCs — agriculture, small and marginal farmers, micro-enterprises and those issued for overall lending targets.

Thus, a bank not meeting any sub-targets will have to buy the specific PSLC to meet its goal. As the bank's PSL achievement would be computed as the sum of outstanding priority sector loans, and the net nominal value of the PSLCs issued and purchased, there will be no transfer of loan or risks. The buyer would pay a fee to the seller, which will be market determined.

This is seemed to be a good move in the directions when banks are bogged down with issues of rising non-performing loans and low credit growth as it has many significances such as:

- This will provide flexibility to the banks in achieving priority sector lending (PSL) targets as they can buy these certificates if they fail to comply with the limits.
- Currently, several small and even large banks find it tough to meet their target and as a last-ditch effort deploy money into Rural Infrastructure Development Fund (RIDF) or disburse loans to some exporter towards the end of the year.
- RIDF offers comparatively lower yields and thus serves as a key disincentive for banks to fall below their priority sector lending targets. With the new guidelines in place, industry experts say that this flexibility being provided by the central bank will not only allow banks to efficiently utilize their resources in their strong business domains, but will also go on to help develop a secondary market for trading and provide liquidity for such papers.
- PSLCs will allow market mechanism to drive priority sector lending by leveraging the comparative strength of different banks. It said that while a bank with expertise in lending to small farmers can over-perform and get benefit by selling its over performance through PSLCs, another bank— better at lending to small industry—can buy these certificates while selling PSLCs for micro enterprise loans.

- It is an interesting innovation and is in line with other changes that the RBI has brought for priority sector lending. Directed credit on a large percentage of credit book is not desirable and some degree of flexibility was required. Also, many foreign and small banks don't find it viable to do rural banking or lending to SMEs, so this will help them meet their targets without deploying much of their resources for the same.

The coming time will be critical to see if the idea will be useful to the banks and will enable them to make their business profitable

# PRACTICE QUESTIONS

## Answer the following Questions

1. Oceans are claimed to be 'last frontiers' of growth and development, however, this potential needs to be utilised in a balanced manner. In this backdrop, examine whether creation of Marine protected areas is in sync with India's Blue economy strategy? (250 words)
2. Critically analyze whether India needs a modification in its nuclear doctrine to secure national interest? (250 words)