

## **RBI issues guidelines on priority sector lending certificates**

***PSLC is a short term accounting instrument which will expire at the end of the fiscal***

The Reserve Bank of India (RBI), on Thursday, released guidelines for priority sector lending certificates (PSLCs), where banks can buy and sell instruments to manage the priority sector lending limits on their loan books.

The instruments are aimed at achieving the priority sector lending target and sub-targets by purchase of these instruments in the event of shortfall and at the same time incentivize banks with a surplus; thereby enhancing lending to the categories in the priority sector, RBI said.

While the issuer bank will be selling the certificates to a bank in need of achieving its targets, there will be no transfer of loan or risks, the central bank said in its guidelines. The PSLC is a short-term accounting instrument which will expire at the end of the financial year that it has been issued in and is meant to only cover a shortfall that is largely seen in weaker public sector banks, private banks and foreign banks. Scheduled commercial banks (SCBs), regional rural banks (RRBs), local area banks (LABs), small finance banks (when they become operational) and urban cooperative banks are eligible to buy and sell these certificates, RBI said.

According to the guidelines, banks can issue four different kinds of PSLCs—those for the shortfall in agriculture lending, those for a shortfall in lending to small and marginal farmers, those issued for lending to micro enterprises and those issued for overall lending targets.

Banks in need to cover for sub-targets in priority sector lending or overall targets can buy the certificate of their choice. According to RBI guidelines issued on 23 April last year, the overall priority sector lending target for all banks is set at 40%, while for foreign banks having under 20 branches, the target has been set at 32%.

The nominal value of a PSLC would represent the equivalent of the priority sector lending that would get deducted from the priority sector portfolio of the seller and added to the portfolio of the buyer. The buyer would pay a fee to the seller which will be market determined. PSLCs would have a standard lot size of Rs.25 lakh and can be purchased in multiples thereof, RBI said.

*(HT Mint)*