Trader's Credit Card Scheme - Concerns

Why in news?

In a traders' convention held recently, Prime Minister Narendra Modi suggested bringing in a traders' credit card scheme.

What is the proposal?

- The traders' credit card scheme would be similar to the Kisan credit card scheme available to the famers.
- Under this, loans as much as Rs 50 lakh would be made available to traders without any collateral whatsoever.

What is the rationale?

- Many traders have faced a cash squeeze after the twin blows of demonetisation and the introduction of the GST.
- Resultantly, credit has become hard to come by.
- The scheme thus comes as an acknowledgement of this impact on small traders.
- It is thus necessary for the good of this particular sector as well the economy to ensure that credit flows more freely to the trading sector.

Is it a sustainable idea?

- India has gotten credit mostly wrong over the past decades.
- The past decades have shown that loan melas, whether for the rural sector or for infrastructure, rarely achieve their ends.
- Ultimately, directed lending, especially collateral-free one, ends up stressing those banks that have been forced into making these loans.
- E.g. nationalisation of banks was originally justified by the need to force credit into "priority" sectors of the planned economy
- However, experiences show that when nationalised banks turn into tools of government policy, they fall into crisis in the medium to long term.
- Moreover, the idea of a collateral free credit is not advisable at this moment of the Indian financial sector.
- It's because the banks are yet to properly emerge from the current bad loans crisis.
- Infrastructure, construction, power, and commodities lending continue to

remain stressed.

- Alongside this, government has already added some committed credit responsibilities such as the MUDRA loans.
- Notably, MUDRA loans have seen a leap in misuse of funds over the past financial year.
- So in many ways, the new trade credit scheme would add yet another source of bad loans to the banks' list of directives, causing further an economic slowdown.

Source: Business Standard

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