How strong state-owned banks drive growth

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A week after Finance Minister Nirmala Sitharaman announced a series of measures to revitalize the economy, the government's decision to merge 10 public sector banks (PSBs) to create four large banks will create big next-generation banks that are imperative for a $5 trillion economy. With this, the total number of PSBs will come down to 12, from 27 earlier. These big banks will have enhanced capacity to increase credit, a strong national presence, as well as global reach, and this can help reduce the cost of lending through operational efficiency.

Further, the government also plans an upfront capital infusion in PSBs for credit growth and regulatory compliance to support the economy.


The merged PNB, OBC and United Bank will be the second-largest PSB with business of $1.3 trillion, and will have the second-largest branch network in India with 11,437 branches. Canara Bank and Syndicate Bank, when merged, will be the fourth-largest PSB with business of $125.3 billion and will have the third-largest branch network in India with 10,542 branches.

The merged Union Bank of India, Andhra Bank and Corporation Bank will be the fifth-largest PSB with business of $145.9 billion and will have the fourth-largest branch network in India with 9,009 branches. Indian Bank and Allahabad Bank will be the seventh-largest PSB with business of $68.08 billion.

Recently, the finance ministry had directed PSBs to initiate a month-long consultation process to seek suggestions for achieving a $5 trillion economy in five years. This move by the ministry is aimed at reviving the sluggish Indian economy. The finance ministry will be tracking credit flow to areas like housing, infrastructure, the Stand-Up India scheme, education, the farm sector, micro, small and medium enterprises (MSMEs), the Stand-Up India scheme, education, exports, the green economy, cleanness activities, financial inclusion and women's empowerment, as well as areas such as direct benefit transfers and the digital economy.

PSBs are the foundation of the Indian banking sector and account for about 63 per cent of the banking industry's total assets. These banks play an important role through the mobilization and allocation of resources.

The Modi 2.0 government aims to make India a $5 trillion economy by 2024 and has committed to invest $100 trillion to develop modern infrastructure that will aid in doubling the economy in the next five years.

PSBs who have adapted to changing demographic profiles, low liquidity levels, and a declining interest rate scenario, have taken upon themselves the onus of realizing the government's dream of doubling the size of India's economy by boosting consumption and ensuring higher credit flow to productive sectors.

They hold a consultative and ideation process at branch levels across the country to identify the issues and challenges on how to improve their performance and contribute to national growth. This exercise was undertaken as part of a bottom-up approach to shape policies that will enable PSBs to act as catalysts in achieving the objective of a $5 trillion economy. Banks need to identify and resolve ways and means to increase credit flows to various sectors of the economy and to enhance the use of technology to bring about innovation.

The PSBs are expected to focus on infrastructure financing, credit growth, financial inclusion, and digital transactions. This process will help the banks to understand and reach out to corporates, MSMEs, retail borrowers, traders and businesses. Banks deliberated on topics such as credit for MSMEs, digital payments, corporate governance in PSBs, export credit, retail, agriculture and establishing a financial grid to chart out a specific road map. Banks have decided to simplify processes for borrowers and fine-tune their products.

The ideation process has resulted in a renewed sense of involvement on the part of banks and has helped them gear up towards implementing the road map for the future. The banks will now be more responsive towards the aspirations and needs of farmers, industries, start-ups, senior citizens, youths, women and students.

It is important to understand the reasons for the decline in loans to businesses, the number of loan applications accepted and rejected under the retail, MSME and corporate categories in recent years, the reasons for the steep rise in bad loans and the possibility of co-originating of Mudra loans with non-bank finance companies.

To facilitate credit expansion and improve liquidity, the government has decided to inject ₹70,000 crore into the PSBs. This measure is expected to generate liquidity and additional lending in the financial system to the tune of ₹6 trillion. The banks have also decided to pass on the RBI's rate-cut benefits to borrowers through reduction in the Marginal Cost of Funds-based Lending Rate (MCLR). These steps are expected to create positivity and alleviate stress in the system.

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