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GOVERNMENT OF INDIA

**FINANCE MINISTER URGES PUBLIC SECTOR BANKS (PSBs)
AND FINANCIAL INSTITUTIONS (FIs) TO ACHIEVE THEIR
TARGETS AND MEET SOCIAL COMMITMENTS; ASKS THEM TO
DEVISE STRATEGIES FOR CONTAINING NPAs; REVIEWS
PERFORMANCE OF PSBs AND FIs**

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The Finance Minister Shri Pranab Mukherjee has urged all Public Sector Banks/Financial Institutions to exert themselves in containing the downward trend of Asset Quality by devising suitable strategies for containing and rolling back NPAs. He was addressing the review meeting of the Chief Executives officers (CEOs) of Public Sector Banks/Financial Institutions, here today.

In his initial remarks, the Finance Minister Shri Mukherjee congratulated the Chief Executives present on the significant credit growth of 22.44% recorded by Public Sector Banks (PSBs) in the last financial year 2010-11. However, he also noticed that there has been a moderation in the last quarter. Net Profits of PSBs have gone up from approximately Rs. 39,000 crore to approximately Rs. 45,000 crore in the year 2010-11. He sounded a note of caution to all in respect of Asset Quality.

Shri Mukherjee said that the core CRAR ratio of Scheduled Commercial Banks on 31st March 2010 stood at 10.1 per cent under the Basel II framework which was much above the RBI's stipulation of 6 per cent and underlined the core capital strength of the Indian banking system. He was also happy to note that the RBI had reported that stress tests of the credit risk exposure of

banks revealed a reasonably comfortable position and resilience of banks to withstand unexpected deterioration in credit quality.

The Finance Minister advised the CEOs to undertake a comprehensive capital planning exercise, particularly in view of the Basel III capital adequacy benchmarks, which banks are gearing up to adopt. He stated that considering that the investment needs of the infrastructure sector are increasing, banks need to sustain and improve the flow of credit to the sector. Banks should gain more headroom for lending to infrastructure projects by availing Takeout Finance from IIFC, he said.

Regarding Micro, Small and Medium Enterprises, the Finance Minister was happy to note that banks have achieved 35% growth in credit to MSE Sector against the target of 20%. However, he expressed concern that there is a decrease in the number of micro enterprises accounts. Shri Mukherjee urged the banks to proactively extend credit to this sector and also utilize the Credit Guarantee Trust Fund for Micro and Small Enterprises (CGTMSE) Scheme.

The Finance Minister Shri Mukherjee said that the performance under 1% Interest Subvention Scheme for Housing Loans and Interest Subsidy for Housing Urban Poor (ISHUP) is not upto the desired level and that banks need to give greater thrust to the housing sector and increase credit disbursement.

Moving to the Agriculture Sector, Shri Pranab Mukherjee noted that against the target of flow of Rs. 3,75,000 crore as agricultural credit in 2010-11, the achievement has been over Rs. 4,46,000 crore. He said that it is imperative that this momentum be maintained. While the overall progress of agricultural credit was a matter of satisfaction, the Finance Minister expressed concern that many banks have failed to meet this obligation. He expected these banks to focus attention on this important aspect and show visible signs of improvement in their performance.

The Finance Minister said that the increase in the number of active Kisan Credit Cards has been around 16%. Most of the banks have reported increase of over 20% in the advances. The number of agricultural loan accounts have also increased by 80 lakh to reach 566 lakh, he said However, Shri Mukherjee stated

that there is a wide gap between the number of farm loan accounts and the Kisan Credit Cards (KCCs) issued which suggests that there are still a large number of inactive cards. He said that banks need to put in place a system for renewal of these cards on an on-going basis and ensure disbursement of credit through these cards.

Shri Mukherjee said that the Government has introduced additional interest subvention for timely repayment of short term crop loans which is being raised to 3% this year as a result of which farmers will get short term crop loans at an effective rate of 4% only. However, he said that it appears that all the eligible loanees are not getting this benefit. He urged banks to put in place an effective system to ensure that every eligible loanee gets the benefit of additional interest subvention.

The Finance Minister said that inclusive growth is a priority of the Government. In his Budget Speech of 2010-11, the Finance Minister had asked banks to cover 20,000 habitations with population of 2000 and above under the Financial Inclusion campaign by 31.03.2011. He noted with happiness that the banks have extended banking facilities to over 29,500 such villages last year. He asked the CEOs to gear up for the next phase of the campaign and prepare a detailed road map for covering the remaining villages.

Shri Mukherjee stated that while the Public Sector Banks have accomplished more than 50% of their targets for two years, the coverage by Regional Rural Banks has been much less. He said that as Chairmen of Public Sector Banks, they must ensure that not only targets for their banks are achieved, but also that the targets of your sponsored RRBs are met. He said that the Government has taken a decision to recapitalize the Regional Rural Banks and that Central Government share is to be released after the release of share by the concerned State Government and sponsor banks. He asked the sponsor banks to pursue the matter vigorously with the State Governments for early release of their share. He said that their guidance and hand holding will be the key to ensuring that all RRBs are on the CBS platform by September 2011, as targeted.

The Finance Minister Shri Mukherjee said that the Task Force under the Chairmanship of Shri Nandan Nilekani in its interim report has recommended a general, unified, platform called Core Subsidy Management System for direct subsidy and entitlement transfer. He said that UIDAI has empaneled 64 banks for opening Aadhaar enabled bank accounts along with Aadhaar enrollment, which is in consonance with the Financial Inclusion agenda of the Ministry of Finance. This will lead to the opening of millions of bank accounts for farmers and marginalized sections of society, into which subsidies and entitlements will flow, thus leading to effective financial inclusion. He asked the CEOs to pay more attention to the extension of banking through the Business Correspondent (BC) model and make it more effective which will only happen if the entire process of opening accounts and transacting through these accounts is made efficient and time bound. He said that they need to closely monitor the efficacy of the BC model and ensure that banks provide lending facilities to these new customers as soon as possible, which will make the BC model a self-sustaining proposition.

The Finance Minister Shri Mukherjee stated that as Public Sector Banks, they are also required to meet their social commitments. Ensuring equitable share of credit is one of the important priorities under the Prime Minister's 15 Point Programme for the Welfare of Minorities. He said that while there has been good growth in the flow of credit to the minorities in the past few years, the targeted level of 15% of the priority sector lending is yet to be achieved. In particular, he asked the lagging banks to step up their performance and ensure that the target of minority sector lending is met this year.

Shri Mukherjee said that extending education loan to the deserving and needy students is of special interest to him. He was happy to note that the number of education loan accounts have more than doubled in the last 5 years, while the outstanding loan amount has more than tripled in the same period. However, he said there has been a deceleration in this activity last year and inordinate delays in the sanction and disbursement of education loans needs to be addressed immediately. He advised that the model scheme being revised the Indian Banks' Association (IBA) in consultation with the Department should also provide for time

bound disposal of applications and effective grievance redressal system.

In his concluding remarks, the Finance Minister said that while there have been areas of good performance, there are issues that require more focused attention.

On the occasion, Chairman, Unique Identification Authority of India (UIDAI) of India, Shri Nandan Nilekani made a presentation on “Financial Inclusion and e-Payment” highlighting the role of banking network in direct transfer of cash subsidy in case of fertilizer, kerosene and LPG in real time and other payments due to beneficiaries in case of other rural development and social welfare programmes. Minister of State for Finance, Shri Namo Narain Meena, Secretary (Financial Services), Deputy Governor, RBI, Additional Secretary (Financial Services), CEOs of Public Sector Banks and Financial Institutions and senior officials from the Ministry of Finance were also present.

DSM/SS/GN