

Centre wants banks to continue lending to Punjab

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FinMin likely to review food credit issue with banks

New Delhi, April 19:

The government wants banks to continue lending to Punjab government for foodgrains after ₹ 20,000 crore worth of grains procured is understood to have been found missing from the State.

Sources close to the development said that a decision by the consortium of banks has to be based on their commercial interests, but ideally, they should not stop loans, adding that the irregularity will be fully investigated.

The issue will also be reviewed once Finance Minister Arun Jaitley returns to Delhi later this week, they added.

Banks under pressure

A consortium of 30 banks led by State Bank of India that are staring at losses of ₹ 12,000 crore have discussed an option to freeze lending to the State.

The RBI has asked banks to make 15 per cent provision on loans of ₹ 12,000 crore that could lead to total provisions of up to ₹ 3,000 crore on account of the scam. Sources indicated the Finance Ministry may also look at the provisioning challenge faced by lenders when it begins work on capital infusion in banks for this fiscal.

Bank recap

The government has provided ₹ 25,000 crore for recapitalisation of public sector banks in 2016-17 and the Finance Ministry will begin work on the first tranche next month once the fourth quarter results of banks are announced.

Minister of State for Finance Jayant Sinha had on Monday said the government is working with the regulators and banks to ensure look into the missing food stocks in Punjab and ensure that there is no systemic risk.

Sources said the government is of the view that a freeze on lending could have further ramifications on the rural economy that is already reeling from two consecutive years of droughts.

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