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PSBs to resume SME lending post-balancesheet clean-up: Raghuram Rajan

By PTI | Updated: Jun 20, 2016, 10.19 PM IST

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MUMBAI: Reserve Bank Governor [Raghuram Rajan](#) today hoped that once the clean-up of public sector banks is over, they will start focusing on small and medium enterprises, which have been ignored during the past couple of years by them.

"My sense is as the clean-up largely gets over and the public sector banks are looking at the new places to conquer, they will go back to some of their old spaces and say these are clients that we know, that we understand, let's lend to these people rather than going after business that we don't understand."

"So, I am hopeful that a number of public sector banks will refocus on small and medium credit as they regain their health and look to that for profitability in future," Rajan said after delivering the foundation day lecture at the Tata Institute of [Fundamental Research](#) here this evening.

He admitted that the non-availability of credit to [SME](#) segment is a real problem.

When asked whether banks have stopped lending to SMEs due to the asset quality review, the [Governor](#) said the problem stems not from the asset quality review, but from a slowdown in public sector lending, which started way before the asset quality review was kicked off.

"It is a source of worry that the access to credit has slowdown considerably from a more reliable or an erstwhile reliable source, which was public sector banks. And that is what has made the need to clean up those banks much more important so that they have capacity to re-enter these areas," Rajan, who the other day announced his decision to go back to academics after his three-year term ends on September 4.

The Governor said the [RBI](#) will release a data-chart on lending by state-run banks relative to private sector banks on Wednesday.

He said there are other institutions that are emerging to lend to these kinds of enterprises.

"The small finance banks, which are a transformation of the earlier MFIs will have the mandate of lending to the small and medium enterprises," he said.

The Governor admitted that there is a need to focus on improving the instruments of lending, including the institutions, which support lending so the flow actually takes place to these entities.

"The Bankruptcy Code will help, improving Sarfaesi, DRT Acts will also help because the more confident the lenders feels of getting the money back, the cheaper they are willing to lend," Rajan said.

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