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Punjab foodgrain funding row: Worried banks to petition RBI on bad loan tag

By [Sangita Mehta](#) & [Viney Sharma](#), ET Bureau | Updated: Apr 16, 2016, 01.33 AM IST

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MUMBAI/CHANDIGARH: Banks that have extended loans of Rs 12,000 crore to fund the Punjab government's foodgrain procurement programme will meet RBI officials next week to try and avoid taking a hit on their books. RBI has told the lenders to mark the loans as potential non-performing assets and provide for them because the food stocks can't be verified. That's jolted the banks, which have traditionally assumed loans to state governments to be sovereign debt in no danger of default.

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The Punjab government has denied any misuse of funds.

"Funds availed by the state government on account of food credit limits have been utilised for food procurement operations, in the national interest," the government told ET in a release. "There has been no misutilisation of funds, and... the differential amount is on account of difference between claims and amounts received."

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Lenders to meet on Monday to strategise on way forward



Banks have exposure of ₹12,000 crore to Punjab government with regard to FCI

They have to make provision of 15% spread over two quarters (March & June)

Banks' exposure to food credit is close to ₹1 lakh cr

Many small banks may be hit by RBI directive



Ahead of their meeting with the Reserve Bank of India officials, the lenders are concerned that small banks would be hit severely due to the provisioning mandated because of the Punjab government's inability to bridge the shortfall between the amount of foodgrain that should have been bought with bank funds and the actual stock, said several people aware of the matter.

"Loans to FCI (Food Corporation of India) have been directed lending since it was based on the allocation made by the nodal bank and based on the direction given by RBI and the central government," said a banker who did not want to be identified. "We are caught in the crossfire between the state and the central government." This seemed to be borne out by the state government's response.

"The matter regarding the outstandings/receivables pertaining to the food credit account of the state is already under discussion with GoI (government of India)," it said. "A joint committee of GoI and state government has been looking into the gamut of issues on this account, and the matter is being deliberated upon so as to settle the claim of the FCI/GoP (government of Punjab)."

Punjab has traditionally been supplying about 40% of the total stocks toward the central pool and is by far the largest contributor to it, the state said.

"In the said news item, it has been sought to be highlighted that food stocks of Punjab have 'disappeared' and that there is a gap between the available food stocks in the state and the amount it owes the banks," the government said. "The said assertion is wholly incorrect, as the foodgrains procured over the years have been duly accounted for and handed over to the FCI, through well-documented transactions, and the same are duly audited."

Banks provide loans to FCI on the basis of orders from RBI depending on the size of the bank, in consultation with the central government. RBI has already rejected the banks' plea that the loans should be regarded as sovereign debt but it's not clear how the regulator will respond at next week's meeting.

'NOTHING TO DO WITH RBI DIKTAT' The state said it doesn't have anything to do with the central bank's instruction on provisioning.

"As far as the issue of provisioning norms on banks are concerned, it is submitted that the same are as per RBI regulatory directions, and state government has no comments to offer on this," the state said.

The regulator directed banks to set aside 15% as provisions after it came to light that the stocks that the Punjab government said are in its warehouses were not adequate to cover the loan amount. The amount of loans that could be at risk is about Rs 12,000 crore while some bankers put it higher at Rs 20,000 crore. Although these will continue to be classified as standard loans, RBI has told the banks to set aside 7.5% of their earnings in the March quarter and another 7.5% in the June quarter against them.

This came as a rude shock to the banks, already going through a painful bad-loan cleanup exercise, which were under the impression that loans to any state will be treated as sovereign debt.

The banking regulator's actions put a question mark on this faith. Bankers say this could completely change the way lenders look at loans to states or any state-backed entities in the future.

"Till now the lending rates for most states were slightly marked up above the central government yields," said another banker who did not want to be identified.

"From now on, probably the risk could be priced based on a state's financials and any institution's financial capabilities." [State Bank of India](#), which leads the syndicate of banks, has called for a meeting on April 18 to discuss the issue. The development could also cause political discomfort to the Parkash Singh Badal government whose popularity is waning due to rising drug-related issues and lawlessness. Aam Aadmi Party and Congress have raised the issue as the state heads to polls in 2017. [Shiromani Akali Dal](#), a partner in the ruling coalition at the Centre, runs the state in alliance with Bharatiya Janata Party.

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