

Govt likely to lower number of public sector banks to 15

RBI has already started recognising bad assets, provision them and is taking some of them via bankruptcy and insolvency process

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India will have 10-15 [public sector banks](#) with government as the majority stakeholder, from 21 now, as part of its plan to consolidate lenders, [finance](#) ministry's principal economic advisor [Sanjeev Sanyal](#) said on Friday.

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He said cleaning up of the bad loan problems was a priority and after that the [PSU banks](#) could be consolidated.

“There are around 21-22 [PSU banks](#). The numbers will be reduced in terms of consolidation, but somewhere to the 10-15 range. We are not going to take it too far down... We need to consolidate some of these large number of banks, but be clear that we are not going to reduce these down to some people think like four to five national champions,” Sanyal said at the [India Economic Summit](#).

“We recognise that it will lead to too many ‘too-big-to-fail’ [banks](#). Currently, we have one large bank, State Bank of India...

We do not want to create a large number of them. Then we will have a real problem in terms of concentration of risks,” Sanyal added.

CONSOLIDATION PUSH

- Currently there are 21 public sector banks
- While deciding on the consolidation, finance ministry would keep in mind factors like regional balance, geographical reach, financial burden and smooth human resource transition
- Also a very weak bank would not be merged with a strong one 'as it could pull the latter down'
- In the last consolidation drive, five associate banks and Bharatiya Mahila Bank became part of State Bank of India
- This made SBI one of the top 50 banks in the world

He said consolidation of [banks](#) is a longer term commercial decision, whereas recapitalisation of PSBs is “more an urgent issue” in order to get the banking system running again.

Adding inefficient [banks](#) does not lead to a bigger efficient bank. So, the cleaning up of the bad loans problem is the priority, he said.

As part of the clean up process, the [Reserve Bank of India](#) has already started recognising bad assets, provision them and is taking some of them via bankruptcy and insolvency

process.

“Now, the second step consequently is recapitalisation and getting these [banks](#) running again... that will be done in next few months. The government is fully aware that we need a much larger banking system by

factors of multiple than what it is today,” Sanyal said, adding India’s banking system is way too small for future and needs to be expanded significantly.

Recapitalisation bonds is one of the options for infusing capital into banks, he said, adding that the government could also dilute its stake in some lenders to 52 per cent.

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