

Govt ready to provide capital support for PSU banks' merger, say sources

Proposals from PSBs to require in-principle approval for consolidation

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The Union Cabinet has approved the setting up of an alternative mechanism, or a panel of ministers, to decide on [consolidation](#) proposals for state-run banks.

On receiving a proposal from stressed banks, if the ministerial panel finds that the merger is going to create a strong bank, it will not let it go for want of fund shortage, the sources said, adding that [acquisition](#) will come at a cost.

"First, the merger proposal should come from the board," said a source, who did not want to be named.

"If the Alternative Mechanism finds the match viable, the [finance](#) ministry could provide capital support to the acquiring [bank](#) if there is a shortfall," he said.

Sources said the government is keen that at least one merger proposal reaches a logical conclusion by the end of the current financial, which is next March-end.

[Finance](#) Minister Arun Jaitley, after the Cabinet decision last week, had said that the government has not set any target for [consolidation](#).

There are now 20 public sector banks (PSBs) other than [SBI](#). These state-owned banks are grappling with Rs 6 lakh crore worth of non-performing assets (NPAs) or bad loans, which is about 75 per cent of the total distress.

After in-principle approval for consolidation, the banks would take steps in accordance with the law and Sebi requirements. The final scheme will be approved by the Cabinet.

An official source said: "It is not necessary that a larger public sector [bank](#) should overtake a small or mid-size lender. If there is synergy, two or three banks can merge to create a bigger and stronger entity so that the dependence on public exchequer is minimised."

Earlier this year, the government had approved the merger of SBI's five associate banks with itself.

In March, the Cabinet also approved the merger of Bharatiya Mahila [Bank](#) (BMB) with [SBI](#).

Five associates and BMB became part of [SBI](#) on April 1, 2017, catapulting the country's largest lender to among the top 50 banks in the world. State [Bank](#) of Bikaner and Jaipur (SBBJ), State [Bank](#) of Hyderabad (SBH), [State Bank](#) of Mysore (SBM), State [Bank](#) of Patiala (SBP) and [State Bank](#) of Travancore (SBT), besides BMB, were merged with [SBI](#).

With the merger, the total customer base of the [SBI](#) reached around Rs 37 crore with a branch network of around 24,000 and nearly 59,000 ATMs across the country. The merged entity began operation with a deposit base of more than Rs 26 lakh crore and advances level of Rs 18.50 lakh crore.

SBI first merged State Bank of Saurashtra with itself in 2008. Two years later, State Bank of Indore was merged with it.