

Focus on MSMEs: RBI asks PSU banks to back small businesses

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Reserve Bank of India (RBI) governor Shaktikanta Das on Thursday sought to understand from heads of state-owned lenders whether there were any further steps that could be taken to lend more to the micro, small and medium enterprises (MSME) sector, a senior banker told FE.

For their part, PSU bank chiefs told the governor that they continued to lend to the sector. “There is no restriction per se to lend to the MSME sector and we indicated that banks are doing what they can for these companies,” a senior banker told FE.

According to bankers, the governor also asked for feedback on the effectiveness of central bank’s February 12 circular, specifically, the revised

asset recognition norms as stipulated under the circular, with respect to borrower behaviour and improvement in credit discipline. Bankers said they responded saying the new rules relating to the recognition of defaults were working well.

Bankers indicated there was no specific discussion on the prompt corrective action (PCA) scheme introduced by the RBI in December 2002. Neither did the governor seek suggestions. The liquidity issues facing non-banking financial companies (NBFC) too were touched on only briefly, bankers said. “The references to the resources crunch at NBFCs were few and no detailed discussions were held,” a banker said.

The PCA framework allows the central bank to initiate structured or discretionary actions with respect to banks which hit the ‘trigger points’ in terms of capital to risk weighted assets ratio, net non-performing assets and return on assets. “The governor did not give any directives or any suggestions though he did indicate he would continue to hold similar feedback sessions with stakeholders,” he added. The meeting at the RBI headquarters on Mint Street lasted somewhere between 45 minutes and an hour and was attended by heads of State Bank of India, Bank of India, IDBI Bank, Punjab National Bank, Union Bank of India, Central Bank of India and Dena Bank. All four deputy governors of the RBI were present.

“You could say it was more of a general conversation rather than a discussion on specific issues,” one of the bankers present at the meeting told FE.

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According to the February circular, norms suggest that if the principal or interest is overdue for a single day beyond 30 days, the account is identified as a special mention account-0 (SMA-0). With a delay of 30-60 days, it slips to the SMA-1 category. If it is overdue for more than 60 days until 90 days, it falls under the SMA-2 category. If repayment isn't made for more than 90 days, the account is to be classified as a non-performing asset (NPA).

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