

RBI raps PSU bank chiefs over poor credit growth

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RBI asks why state-run banks are losing market share to private lenders

Share of private sector banks in incremental loans has been rising since FY16

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MUMBAI : The Reserve Bank of India (RBI) on Monday pulled up chiefs of public sector banks (PSBs) for poor credit growth, two top executives of state-owned banks said, requesting anonymity. In a post-policy meeting, RBI governor Shaktikanta Das and deputy governor N.S. Vishwanathan also tried to find out why PSBs were losing market share to private sector lenders.

Last week the RBI's monetary policy committee had met against the backdrop of credit growth in the banking system slowing to 6.3% at ₹99.68 trillion in the fortnight ended 14 February from ₹93.78 trillion last year, according to the latest data available.

In the previous fortnight, ended 31 January, bank credit grew by 7.1% on an annual basis to ₹100.23 trillion.

The push from the central bank comes in the wake of Union finance minister Nirmala Sitharaman, in a similar meeting with PSB chiefs last week, asking banks to ensure “they get to the business of lending”, especially to small and medium industries.

Banks should not blindly rely on rating agencies, Sitharaman had said. The finance minister had urged banks to follow a judicious mix of personal relations that officials have with long-standing customers and technology to offer banking services.

“Public sector banks should bring back the personal touch and connect with customers at the branch level, as these lenders had this advantage over private banks,” she said.

Das had, at the Mint Annual Banking conclave last month, highlighted that domestic credit growth continues to be a challenge for the banking sector. This, along with a slowdown in global growth because of the impact of the Covid-19 outbreak, also poses a challenge to the system.

RBI's latest Trends and Progress report also showed that the shares of private sector banks in incremental loans has been rising since FY16 and stood at 69% in 2018-19.

On the other hand, the share of PSBs has been falling. At Monday's meeting, RBI officials also checked on the use of funds under the long term repo operations (LTRO) window, which was launched recently to push credit to specific sectors.

The central bank had introduced repos of one-year and three-year tenors for a total of ₹1 trillion at the policy rate. RBI has already conducted three LTROs so far, allocating ₹75,000 crore to banks under this window.

"Banks are not raising funds under LTRO because of the liquidity overhang. Banks do not want to raise money under LTRO and deploy it in government securities," one of the bankers present at the meeting said on condition of anonymity. On Monday RBI received ₹1.71 trillion in the third LTRO conducted for an amount of ₹25,000 crore. The central bank received 66 bids in the three-year tenor LTRO, which has reversal date on 1 March, 2023.

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