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Banks flush with liquidity, but can't lend recklessly: SBI official

BY PTI | UPDATED: JUN 09, 2020, 11.57 PM IST

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New Delhi: Banks are flush with liquidity but there are no credit demands from the private sector amidst [coronavirus](#) crisis, a senior [State Bank of India \(SBI\)](#) official said on Tuesday. However, the lenders at this juncture still have to be prudent in their lending decisions and cannot be "reckless", [Sujit Varma](#), Deputy Managing Director ([Corporate Finance](#)), State Bank of India, said, while addressing a webinar.

"Our chairman has mentioned that wherever there is a bankable proposal, we are willing to fund that, which we keep on saying as well. SBI being the largest bank, I can tell you that we are always willing and we are ready to play our part and extend that support to help the economy and various industries," he said.

There is a general perception that banks are increasingly becoming risk averse, he said, adding that one of the analysts mentioned that banks have actually moved from being risk averse to risk-phobic.

The webinar was organised by the PHD Chamber of Commerce and Industry on 'Corporate Finance - Emerging Issues, Challenges and Opportunities - During COVID-19'.

He said there is a complete lack of fresh investments by businesses.

"Today what we see that there is no demand for credit from the private sector other than the working capital requirements," Varma said.

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The banks on an average are parking Rs 6-7 lakh crore to the reverse repo window (of the [RBI](#) where they earn interest), because banks do not see any credit off-take, according to him.

He said the real contradictory situation is at one hand there is flush liquidity and on the other there lack of credit demand.

"My personal view is that banks, I am not just talking about SBI, I am talking about the whole banking system that we will have to do prudent lending at this juncture. There is absolutely no chance, banks will have to lend and they will have to lend prudently. I don't think it is fair to expect from the banks to lend recklessly," Varma said.

The SBI official said that the present situation is entirely different from the 2011-12 global financial crisis when lending by banks had gone up significantly on the back of government's fiscal stimulus package.



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Talking about the banking industry, he said even if the banks stop taking lending decisions, become completely risk averse even then the credit profile and **NPA** (non performing assets or bad loans) will rise.

"So I think it's not a choice, I think banks sooner or later will have to take that call. I think that message has gone not just from the government but also from the Indian Banks' Association. And I think banks will be little more pro-active and take decisions," Varma said.

He said that there are consequences of not lending as well because then the banks will lose their credit profile.

Post lockdown, he also suggested that the corporates -- big or small -- will have to re-evaluate and re-asses their business plans.

"Whatever credit limit you have from today by banks will be different in post **Covid** scenario. ...so our advise will be to re-evaluate your business plans, revise cash flow under the changed scenario," Varma said.

He also suggested the businesses to make best use of the relief package provided by the government and the RBI.

Also, there is a need to review and rationalise cost structure and cut all non-critical expenditure, he said.

The official, recognising that every crisis is an opportunity, said that the government should use this to introduce reforms with respect to land, labour and enterprise.

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