

India heading for massive bank consolidation? PSU banks included under new privatisation policy: DIPAM Secretary

By: FE Bureau

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The Centre's proposed new policy to have not more than four public sector undertakings (PSUs) in each 'strategic sector' will likely apply to the banking space too, department of investment and public asset management (DIPAM) secretary Tuhin Kanta Pandey said on Wednesday. This will essentially mean that the number of public sector banks (PSBs) could be brought down to four from 12 now, via privatisation or consolidation.

The move, part of the new, bolstered, clear-cut privatisation policy, will also be in conformity with the policy objective to create at least a few global-size entities in each important economic segment, more particularly in areas like energy and banking.

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An attendant benefit of the exercise will be that the government's non-tax revenues will see a timely, big jump over the next few years, helping it restore its fiscal strength. The slowing economy has seriously dented the government's tax revenues.

"We are very closely working with the department of financial services and I think the general framework will be the same as the finance minister announced...it is in the works, and to be out soon," Pandey said at an event organised by industry body Ficci, when asked about privatisation and consolidation of PSBs. Refusing to elaborate on the

new policy, Pandey, however, said "a broader vision is not just restricted to commercial enterprises".

The Cabinet in March approved the proposed amalgamation of 10 public-sector banks to create four larger lenders and the exercise came into effect from April 1.

The government had in August last year announced that [Oriental Bank of Commerce](#) and United Bank will be merged into [Punjab National Bank \(PNB\)](#) to create the country's largest state-run bank after [SBI](#), with a total business of close to Rs 18 lakh crore. Similarly, [Syndicate Bank](#) is to be amalgamated with [Canara Bank](#), and [Andhra Bank](#) and [Corporation Bank](#) will be merged into Union Bank. Also, [Allahabad Bank](#) will be amalgamated with [Indian Bank](#). The consolidation exercise was aimed at creating only a few (6-7) but strong banks to support the rising credit appetite of the economy, help reverse a slide in economic growth and cut costs through greater synergy. Each of the amalgamated entity, created in April, has a business of over Rs 8 lakh crore.

On May 17, finance minister Nirmala Sitharaman announced that the Centre will soon come out with a new policy to privatise central public enterprises (CPSEs) in non-strategic space and some in strategic sector in order to open all the industries to private players. “In strategic sectors, at least one enterprise will remain in the public sector but private sector will also be allowed,” Sitharaman had said. To minimise wasteful administrative costs, the number of enterprises in strategic sectors will ordinarily be only one to four; others will be privatised or merged or brought under holding companies, she had said.

“The idea is that you’re trying to give more space to private sector in terms of brownfield investments. But, at the same time, the government has to see that assets are sold at the right value as we have got some strategic disinvestment taking place on regular basis,” Pandey said.

According to official sources, the Centre’s much-awaited new policy to determine strategic/non-strategic sectors will likely see as many as 16 sectors being identified as ‘strategic’, virtually covering all conceivable sectors with supposed strategic nature.

In its six years, the Modi government has mopped up Rs 3.29 lakh crore via disinvestment, over three times of what was raised between 2004 and 2014 through minority stake sales. In the past six years, some Rs 66,000 crore was raised through strategic disinvestment, albeit most of it via PSU-to-PSU deals.

“We are shifting gears to the new territory, a very important territory of privatisation,” Pandey emphasised.

Even though Covid-19 has put the brakes on the privatisation process due to international travel curbs, DIPAM is engaged with potential investors for the strategic sale of [BPCL](#) and Air India. It has granted extensions for submission of expression of interest for these PSUs. Similarly, it is now in the process of selection of merchant bankers for the proposed listing of insurance behemoth LIC. Sale of BPCL and LIC IPO are crucial for achieving the FY21 ambitious disinvestment target of Rs 2.1 lakh crore, almost four times the amount raised via stake sales in FY20.



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