

New mechanism to spur PSB mergers

Conditions apply: Bank boards will have to take a call on mergers, according to Finance Minister Arun Jaitley.

Paving the way for quicker consolidation among public sector banks, the Cabinet approved 'in-principle' the constitution of an alternative mechanism, likely to be a ministerial group, that will oversee the proposals for mergers among banks.

"As of today, there are 20 public sector banks plus the State Bank of India (SBI)," Finance, Corporate Affairs and Defence Minister Arun Jaitley said after the Cabinet meeting on Wednesday, adding SBI's five subsidiaries and Bharatiya Mahila Bank had already been merged with the country's largest bank.

"Now, if the board of any other public sector bank proposes a consolidation, this mechanism will oversee that process," Mr. Jaitley said. "The Prime Minister will take a call on who will be members of this group and this will be intimated later," he added.

Stressing that the decision to create 'strong and competitive banks will be solely based on commercial considerations and such decisions must start from the boards of the banks,' the Minister said the proposals received from banks will be reviewed by the members of the alternative mechanism, enabling 'quick decisions.'

"Following an in-principle nod from the group, banks will take necessary steps under the law and as per SEBI norms for amalgamation and the final scheme will be notified by the Centre in consultation with the Reserve Bank of India," Mr. Jaitley said, expressing hope that some consolidation activity would begin in this financial year itself.

The Centre's nudge towards consolidation among public sector banks assumes significance as most of them are grappling with huge levels of non-performing assets or NPAs, slow credit offtake and resultant pressures on capital adequacy.

'First step'

Rating agency Crisil termed the Cabinet decision as an important first step towards kick starting the consolidation process and said such mergers would improve NPA resolution following swifter decision making and an unified strategy. "This is structurally positive for public sector banks as they will benefit from operational and functional synergies resulting in better efficiencies," said Krishnan Sitaraman, senior director, CRISIL Ratings. "Merger amongst similar performing banks can also result in effective implementation of NPA resolution strategies across PSBs," he said.

"Our experience of consolidation has been positive so far," said Mr. Jaitley.

"It adds commercial strengths, prevents multiplicity of resources being spent in the same areas, and it improves the capacity of the banking system to absorb shocks that the market throws up," he said.

When asked the likely criteria for bank mergers, the Minister said these will have to be driven by the bank boards. "It will be purely commercial... which are the banks, which is the merging bank, which is the principal bank with which it should merge – these initial proposals have to come from the boards of the banks," he said.

An official statement said that stronger public sector banks will help meet the credit needs of a growing economy, absorb shocks and give them the capacity to raise resources without depending unduly on the state exchequer.

This year's Budget provided Rs. 10,000 crore for bank recapitalisation, which, most bankers said, was inadequate. Mr. Jaitley had, however, held out the possibility of allocating more funds for banks if the requirement arose. The Centre said though suggestions to have fewer but stronger banks had been around since 1991, it was in May 2016 that effective action to consolidate them began. The merger of six banks into SBI was completed in 'record time unlike earlier mergers of State Banks of Indore and Saurashtra,' it stressed.

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