

FinMin to review PSBs co-lending, MSME credit

DFS secy M Nagaraju to chair meeting on November 5

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Department of Financial Services (DFS) Secretary M Nagaraju is likely to chair his first review meeting with the managing directors (MDs) and chief executive officers (CEOs) of public sector banks (PSBs) on November 5, according to a senior government official familiar with the matter.

In the meeting, Nagaraju is expected to discuss progress on building a credit rating system for micro, small, and medium enterprises announced in the 2024-25 Union Budget, as well as co-lending regulations for banks and non-banking financial companies (NBFCs).

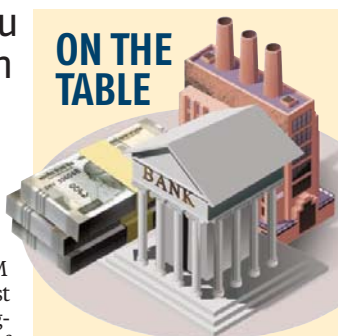
The last review meeting with PSBs was chaired by the then DFS secretary Vivek Joshi in June 2024.

“In light of recent actions by the regulator (Reserve Bank of India) concerning NBFCs, it is anticipated that the DFS may issue specific instructions related to co-lending. The report on co-lending has already been submitted by the State Bank of India (SBI)-led committee,” said a senior bank official.

The SBI-led committee, established to encourage co-lending between commercial banks and NBFCs following a directive from the finance ministry, has recommended eliminating the 18 per cent goods and services tax (GST) on co-lending activities.

“The committee has submitted a report to the finance ministry, suggesting that no GST should be imposed on co-lending. Furthermore, it has recommended that co-lending be limited to priority sector lending to mitigate larger associated risks.”

In May 2024, the finance ministry instructed SBI to form a co-lending committee to address issues related to its business model. Despite the central bank allowing co-lending since 2018, it has not gained considerable traction.



- **Focus on MSMEs:** Discussion on progress for credit rating system for MSMEs
- **Co-lending regulations:** Review of co-lending rules between banks and NBFCs; GST removal on co-lending recommended
- **Performance review:** Evaluation of PSBs' financial performance, including a net profit of over ₹1.4 trillion in FY24
- **Deposit growth concern:** Addressing asset-liability mismatch due to slower deposit growth compared to credit growth
- **Cybersecurity and IT:** Potential review of PSBs' digital initiatives and cybersecurity measures

The DFS secretary has also called upon the SBI chairman and the MD and CEO of IDBI Bank to attend the meeting. “Given that IDBI Bank will also be present, there is a distinct possibility of discussing the progress of its privatisation,” the official said.

In August, Finance Minister Nirmala Sitharaman held a performance review meeting with the heads of PSBs, urging them to improve their deposit growth. Deposits have been growing 300-400 basis points lower than credit growth in recent months, resulting in an asset-liability mismatch for banks.

On the performance front, PSBs' net profit has exceeded ₹1.4 trillion for the financial year ending March 2024, representing a growth of 35 per cent over the previous year, based on a high base of ₹1 trillion. The 12 PSBs together earned a net profit of over ₹1 trillion in 2022-23.