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RBI's Financial Stability Report: Private banks' credit to PSUs grew in 2020, while PSB credit fell

By: Shritama Bose

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While private banks' exposure to public-sector units (PSUs) grew in double digits on a sequential basis in March, June and September 2020, PSB credit to this category of borrowers shrank in the June and September quarters.



Only in March 2020 did PSBs see a marginal rise in credit to private firms amid a rush for credit in the initial months of the lockdown.

December 2020. Industry executives attributed the phenomenon to the surfeit of liquidity in the system and the simultaneous lack of lending opportunities during the year.

While private banks' exposure to public-sector units (PSUs) grew in double digits on a sequential basis in March, June and September 2020, PSB credit to this category of borrowers shrank in the June and September quarters. In the non-PSU segment, credit deployed by both categories of banks declined on a quarter-on-quarter (q-o-q) basis throughout 2020. Only in March 2020 did PSBs see a marginal rise in credit to private firms amid a rush for credit in the initial months of the lockdown.

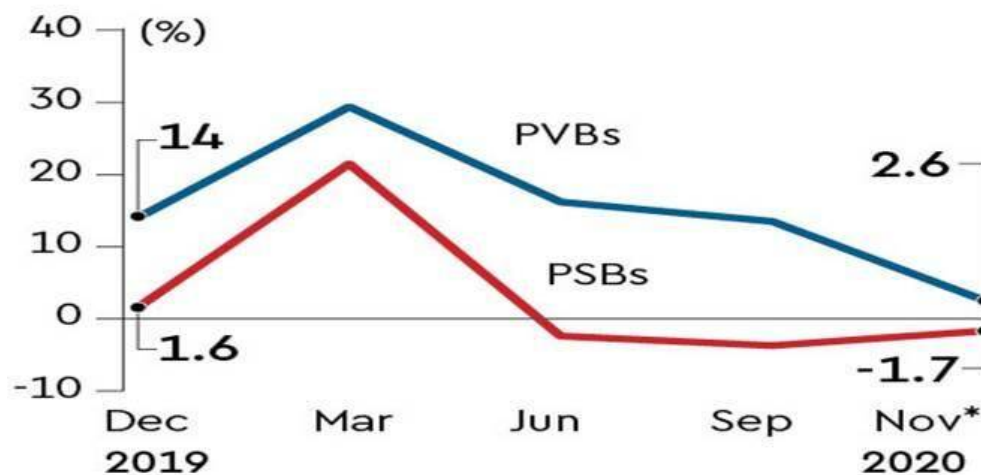
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*Growth over September 2020

Source: CRILC and RBI staff calculations

Historically, PSBs have held a larger market share in the government and PSU lending space. Lending to the government and state-owned entities is often done at a relatively finer pricing as the risk weights assigned to this segment is much lower. Private banks, which typically have to shell out more than PSBs for deposits, do not find it viable to lend too cheaply. Sameer Narang, chief economist, [Bank of Baroda](#), said that PSBs tend to have a higher market share in lending to government-owned enterprises, where the risk weights and thus lending rates are lower.

"Only those banks who meet that pricing who have a much lower cost of deposits," he said.

That changed in 2020 as the central bank inundated the system with liquidity at a time when there was little appetite for credit among companies. Madan Sabnavis, chief economist, [Care Ratings](#), said that there were fewer opportunities for lending with some companies preferring the bond market and therefore, private banks lent to PSUs.

to grow their books in an environment when there was not much borrowing taking place from the non-PSU companies."



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