Time to push divestment of state-owned banks: SBI report

'As banks are in good condition, the government should take stance on disinvestment of PSBs,' 'Prelude to Union Budget 2024-25' report said

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Highlights

- Presently, the government owns over 45% stake in IDBI Bank, and LIC has a 49.24 per cent shareholding
- The report also recommended that govt should tweak the tax on deposit interest & make flat tax treatment across the maturity ladder
- 'Household net financial savings has declined to 5.3 per cent of GDP in FY23 and is expected to be 5.4 per cent in FY24'

NEW DELHI: The government should go ahead with disinvestment of public sector banks (PSBs) as they are in good condition, SBI said in its research report on Monday. The report also pitched for the consolidation of existing government-owned banks.

"As banks are in good condition, the government should take stance on disinvestment of PSBs," the report titled 'Prelude to Union Budget 2024-25' said.

With regard to the privatisation of IDBI Bank, it said the government and Life Insurance Corporation of India are selling an almost 61 per cent stake in the lender.

"They invited bids from buyers in October 2022. In January 2023, the Department of Investment and Public Asset Management (DIPAM) received several expressions of interest for the IDBI Bank stake on offer. We expect the government to clarify this in the Budget," it said.

Presently, the government owns over 45 per cent stake in IDBI Bank, and LIC has a 49.24 per cent shareholding. The report also recommended that the government should tweak the tax on deposit interest and make flat tax treatment across the maturity ladder in line with mutual fund and equity markets. "Household net financial savings has declined to 5.3 per cent of GDP in FY23 and is expected to be 5.4 per cent in FY24. If we make deposit rate attractive in line with MFs, then this could push up household financial savings and CASA," it said.

As this amount will be in the hands of depositors, the report said, it could unleash additional spending and thereby, more GST revenue to the government.

"Increase in bank deposits will bring not only stability in core deposit base and financial system but also financial stability in household savings as the banking system is better regulated and having a superior trust as compared to other alternatives with high volatility/risk," it said. Deposits are taxed on an accrual basis and other asset classes only on redemption and there is also a need to remove this treatment, it added.

The report by the Economic Research Department, State Bank of India (SBI), expressed expectation that the government will look into the concerns over the Insolvency and Bankruptcy Code (IBC) that must be improved and expediting cases under the IBC should be a key change.

Recoveries through IBC in FY24 were 32 per cent, and financial creditors lost 68 per cent of their claims. The time taken to reach a resolution is 863 days instead of the stated 330 days, it said.

"IBC is a crucial pillar for a vibrant secondary market for stressed assets. But for this market to take off, the pool of prospective resolution applicants needs to widen. In this regard, the introduction of the Special Situation Funds (SSFs) by Sebi has been a promising start," it added.

Going forward, the report said, policymakers need to make the regulatory regime on SSFs more attractive for stressed asset investors. The opinion expressed in the report is of the research team and does not necessarily reflect those of the bank or its subsidiaries, according to the SBI report.

In a separate Budget recommendation, Akshat Khetan, founder of AU Corporate and Legal Advisory Services made a case for enhancing budget allocations for promoting mediation, arbitration, and other ADR methods to reduce the burden on traditional courts.

The Budget should also emphasise reforms related to commercial courts, insolvency and bankruptcy code, and other critical areas, he said.

The Budget 2024-25 is expected to be presented in Parliament on July 23 by Finance Minister Nirmala Sitharaman.