

BANKING: FOCUS ON NEW RESPONSIBILITIES AND GOOD GOVERNANCE

In the Union Budget 2023-24, a slew of measures have been taken to promote savings among women and secure the future of the elderly through savings. Acknowledging the wider acceptance of digital payments, the budget ensures continuous fiscal support for digital public infrastructure in 2023-24. The agriculture sector continues to get benefits like Kisan Credit Card, besides an increase in the agricultural loan target focusing on animal husbandry, dairy, and fisheries.

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If you ask anyone what happens in a bank, the typical answer would be that it accepts deposits and give loans. When you ask what the bank looks like, most people would answer that it is a building made of brick and mortar on which the board of a particular bank on display. There are different counters inside, some have the facility of deposit, and some have the facility of giving loan. After this, if you ask what the banking system is, most people would answer that the group of banks is the banking system.

Based on some of these definitions efforts are made to find and understand the banking provisions in the budget. It generally leads to the narrowing down of the discussions ranging from tax concessions on deposits or loans and privatisation of

banks to capital provisions. The definition of a bank is no more confined to the brick-and-mortar building. It has now been widely recognised as a secure and robust medium which, through various real and virtual mediums, has introduced innovation in deposit schemes, provided security for the deposited money, and extended prompt help in giving loans and transactions from the government to the common man. At the same time, the banking system has not only remained a conglomerate of traditional banks. New forms of banks such as payment banks, small finance banks, and the general banking system of post offices and non-banking financial companies have also made inroads in it.

For this reason, the concept of banking has become very broad in the budget. Many provisions



UNLEASHING THE POTENTIAL

TOWARDS A TRANSPARENT AND ACCOUNTABLE ADMINISTRATION

- Phase 3 of E-Courts to be launched for efficient administration of justice
- Vivad se Vishwas I** for less stringent contract execution for MSMEs
- Vivad se Vishwas II** for easier settlement of contractual disputes of Govt and Govt undertakings
- 'Input Based' to 'Result Based' Financing for better allocation of scarce resources
- Entity Digi Locker** to be setup for businesses for secure online storing and sharing of documents

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get associated with it directly or indirectly, such as a special savings scheme for a particular section of society, incentives for digital transactions, loan targets for specific sectors or government borrowing, etc. Considering this, the General Budget 2023-24 for the banking sector can be analysed by dividing it into five parts:

- New savings schemes and changes in existing savings schemes
- Sources of Government Borrowing
- Campaign to promote digital transactions
- Loan for a specific sector
- Reforms in banking governance

Deposit Schemes

In the Budget, measures have been taken to promote savings among women and secure the future of the elderly through savings. Keeping in view the importance of economic empowerment of half the population, Finance Minister Nirmala Sitharaman has announced 'Azadi ka Amrit Mahotsav Mahila Samman Bachat Patra.' Under this, a new small savings scheme, Mahila Samman Savings Certificate, will be available for two years until March 2025. It will offer a deposit facility of

up to Rs 2 lakh for women or girls for two years at a fixed interest rate of 7.5 percent with a partial withdrawal option.

Currently, there is a special scheme for girls, viz. Sukanya Samriddhi Yojana. It was launched on January 22, 2015 by Prime Minister Narendra Modi under the 'Beti Bachao Beti Padhao' initiative. The aim was to encourage families to invest in the girl child's education and save for her marriage expenses. Under the scheme, parents of girls below the age of 10 can open a maximum of two (three in case of first girl child twins) Sukanya Samriddhi accounts in an authorised bank or post office. In this, a maximum of Rs 1.50 lakh can be deposited every year and it is "EEE" (Exempt-Exempt-Exempt, i.e. tax exemption at the time of investment, tax exemption on the increase in investment, and tax

exemption at the time of withdrawing the entire amount of investment including interest).

It is also worth noting that the interest rate on Mahila Samman Savings Certificate is much higher than the existing schemes. For example, the interest rate on the two-year term small savings scheme is 6.8 percent, while the interest rate on the Sukanya Samriddhi scheme for January-March 2023 is 7.6 percent. Remember that these interest rates are reviewed every quarter, while there is no change in the interest rate for two years in the new scheme. On the other hand, banks have interest rates ranging from 6.75 to 7 per cent on two-year fixed deposit schemes. It is also worth noting that banks are continuously hiking the interest rate on fixed deposit schemes.

On the other hand, changes have been made in some of the existing post office schemes for older women, men, and third-gender persons. Under this, the maximum deposit limit for Senior Citizen Savings Scheme has been increased from Rs 15 lakh to Rs 30 lakh. In addition, the maximum deposit limit for Monthly Income Account Scheme has been increased from Rs 4.5 lakh to Rs 9 lakh for a single account and from Rs 9 lakh to Rs 15 lakh for a joint

account. The interest rate for January-March, 2023 under Senior Citizen Savings Scheme is 8 percent, while in Monthly Income Account Scheme, it is 7.1 percent. Remember that under both these schemes, an account can be opened in the post office. Also, the interest rates for both are reviewed quarterly.

While the announcement regarding the three savings schemes in the budget is beneficial for the common people, it will also be helpful for the government. To bridge the fiscal deficit the government has kept a target of raising more than Rs 4.71 lakh crore through small savings schemes.

Sources of government borrowing

Net market borrowing from dated securities has been estimated at Rs 11.8 lakh crore against a fiscal deficit of Rs 17.87 lakh crore in the Union Budget 2023-24. Banks will play an important role in fulfilling this estimate because on such dated securities (dated securities, tenure from 1 year to 40 years) interest is received at a fixed rate and the government guarantees both interest and principal. Banks invest a large amount of money in these bonds, with the objective to meet the statutory requirements and, on the other hand, to take advantage of the market conditions. For active participation in this system financial condition of

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the banks must be sound. All 12 public sector banks and major private banks are currently profitable. The deposits of these banks are continuously increasing, making it easier for them to participate in the government's borrowing.

Promoting digital transactions

There is a lot of competition among banks to provide a fast, secure, and accessible medium for digital transactions. One reason for the competition is the incentive scheme announced in the budget for the financial year 2021-22. It was continued in the financial year 2022-23. Under this, approval has been granted for giving Rs 2600 crore to banks for the current financial year to promote Point-of-Sale (POS) and e-commerce transactions using RuPay Debit cards and low-value BHIM-UPI transactions (P2M).

In the budget for the financial year 2023-24, the Finance Minister stated that digital payments are continuously getting wider acceptance from different sectors of the economy and sections of society. Sharing last year's data, the Finance Minister said, "In 2022, they showed a 76 percent increase in transactions and

SUBSTANTIAL RELIEF IN PERSONAL INCOME TAX

CHANGE OF TAX STRUCTURE IN NEW PERSONAL INCOME TAX REGIME:

- Tax slabs reduced to 5
- Tax exemption limit increased to ₹3 lakh

Tax Slab (in lakh)	Tax Rate (in %)
0-3	Nil
3-6	5
6-9	10
9-12	15
12-15	20
Above 15	30

UNION BUDGET 2023-24

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Agriculture is most important for specific sector lending. It was stated in the budget that about 86 percent of small farmers in the country had significantly benefited from the Kisan Credit Card (KCC). These farmers should continue to get benefits like this. Hence for this time, a provision of Rs 23 thousand crores has been made.

91 percent in value; fiscal support for this digital public infrastructure will continue in 2023-24 as well." This provision will be beneficial for the banks.

Sector-specific loans

The banking sector keeps an eye on credit targets for different sectors. In fact, banks get some facilities with these targets such as the provision of a part of the interest rate by the government or the credit guarantee fund. It helps the banks to give their loans to a specific sector.

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It must be kept in mind that the government assists farmers with short-term crop loans up to Rs 3 lakh. The interest rate on such loans is 7 percent, but if the farmer repays the loan on time, he gets an interest subvention of 3 percent, making the effective interest rate 4 percent. On the other hand, for allied activities including fisheries, animal husbandry and dairy, short-term loans up to Rs 2 lakh are also available at an interest rate of 7 percent, but in case of timely repayment of the loan, the interest subvention of 3 percent is available, due to which

the effective interest rate here also becomes 4 percent. In addition, if the bank gives agricultural loans through its resources, then they get 2 percent assistance. Thus, targeted loans can benefit all banks and farmers and agriculture-related activities.

An essential part of the economy is the Micro, Small and Medium Enterprises, i.e., MSME. Keeping this in view, the government has also been running targeted schemes for MSMEs. Considering this, it is stated now that the renewal of the Credit Guarantee Scheme for MSMEs in the last budget was proposed. After the addition of 9 thousand crore rupees, this renewed scheme will commence from April 01, 2023. "This will enable collateral-free loans of an additional Rs 2 lakh crore, besides bringing down the cost of credit by about one percent," she said.

Due to the guarantee factor, banks will not have to worry much about the loss in case of loan default and it will be easier for small and medium businessmen to get loans.

Reforms in Banking Governance

In the last few years the scope of the banking system has expanded a lot due to which there is a need to reform the governance of banks. Given this, the budget has proposed some amendments to the Banking Regulation Act, Banking Companies Act and Reserve Bank of India Act to improve the banking system and increase investor protection. Although the blueprint of these amendments has not been disclosed yet, it is understood that through these reforms, new guidelines regarding the bank's board of directors would be drawn which may include the eligibility and tenure of the director. Along with this, it may also consider the duration and manner of the re-appointment of the director.

Now you must have understood that with the changes taking place in the banking system the mode of analysing the general budget for the banking sector has also changed. Also, neither in the budget of the financial year 2022-23 nor in the budget of the financial year 2023-24 has there been a move for the recapitalization of public sector banks. The main reason for this is that the financial health of public sector banks has improved a lot, bad loans have come down, and the situation is likely to remain the same in the future. □