



GUJARAT URBAN CO-OPERATIVE BANKS FEDERATION

Co-operative Banks Bhavan, Nr. Jaihind Press, Mithakhali Under Bridge, Navrangpura, Ahmedabad-380009.
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GUCBF/48/No 542/2022-23

24 February 2023

Respected Shri Shaktikanta Das ji,

Sub: Enhancement of PSL targets & compulsion to invest shortfall amount in SIDBI bonds for UCBs

This is to invite your kind attention to the RBI circular letter CO.FIDD.PCDNo.S1739/04-09-067/2022-23 dated February 22, 2023 issued to urban cooperative banks (copy attached) on the subject of allocation towards MSE Refinance Fund (MRF) of FY2022-23 on account of PSL shortfall directing banks to deposit the shortfall PSL contribution for 2020-21 and/or 2021-22 with SIDBI failing which it would be treated as serious violation Para 28(ii) of Master Direction on PSL.

2. Sir in this connection we invite a reference to our letter dated 14th February, 2022(copy enclosed) in terms of which the problems faced by all UCBs in achievement of PSL targets and the issue of consequences of enhancement of proportion of such PSL from 40% to a steep 75% of ANBC and that too to be attained in just three years have been highlighted in detail. Further the compulsion to invest shortfall in very low yielding SIDBI bonds severely impacting profitability of banks, has also been brought to notice of RBI in our letter under reference and in several other communications addressed to RBI.

3. The matter was also brought up and discussed in detail at the 35th meeting of SAC held on Jan 6, 2023 which was chaired by the Deputy Governor (MRR). It was submitted that some of the larger and best managed UCBs would lose



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heavily to the extent that they may go into net losses during the current financial year due to the sudden and unreasonable decision taken by RBI for all UCBs irrespective of their size even though UCBs are heterogeneous in character. The minutes of the SAC meeting indicate that RBI will revisit both the issues of enhanced PSL targets and the problem of deposit of shortfall contribution with SIDBI etc. In fact RBI also agreed to examine the requirement of having 50% of the total loan amounts being those of less than Rs25lacs or 0.2 per cent of own funds subject to maximum of Rs1 cr. Accordingly, we have been given the impression that the requirements of reaching PSL target fixed for all UCBs at 50% in 2022, 60% in 2023 and 75% in 2024 will be kept in abeyance till the issue is revisited and finalised. Further the requirement of investing the shortfall in PSL will be reckoned to existing target of attaining 40% of ANBC and not 50 or 60 percent.

4. You will kindly appreciate that sudden imposed changes in business model and business strategies to be adopted by UCBs from their existing model to retail and small business only to achieve priority sector targets at 75% of ANBC will surely result in shrinking the share of co-operative banking sector considerably more particularly when the target group for financing by different entities has been blurred to a large extent. With the implementation of directions issued by RBI in terms of their Circular dated 22nd February, 2023 directing to deposit shortfall in PSL lending, even the sound and healthy large UCBs may be rendered unprofitable and financially weak due to distress sale of SLR securities for compulsory deposit of shortfall in contribution of PSL with SIDBI and other agencies as prescribed by RBI. It may also cause ALM mismatches creating chaos in the smooth functioning of UCBs in general.



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Surely it will act as a death knell for the UCB sector having regard to the large number of UCBs involved in the problem of non-achievement of PSL targets. In our Gujarat region there are 62 UCBs that have been asked to deposit fund in RIDF and many of them these UCBs have liquidity crunch and will have to sell its Government Securities at loss to deposit these funds.

In view of the above it is earnestly requested for your kind intervention in the matter to keep the instructions issued by RBI vide their letter dated 22nd February, 2023 in abeyance till a final decision is taken by RBI in the matter. In view of the urgency in resolving the issue, it is requested to grant a personal hearing with the Deputy Governor to us along with representatives from NAFCUB and other State Federations to make a detailed presentation for consideration of RBI.

With kind regards,

Yours Sincerely,

J V Shah

Chief Executive Officer

Shri Shaktikanta Das
Governor
Reserve Bank of India
Mumbai