

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:2512
ANSWERED ON:09.12.2005
NPA OF RRBS
Shaheen Shri Abdul Rashid

Will the Minister of FINANCE be pleased to state:

- (a) whether the main causes of Regional Rural Banks (RRBs) incurring losses are- limited area of operation, narrow client base, high cost of services, high establishment cost and low margin and high proportion of Non-Performing Assets(NPAs), as replied Vide Lok Sabha Starred Question No.191 on August 5,2005 ;
- (b) if so the manner in which the Government will continue to bear the losses as the above conditions are not going to change ;
- (c) whether the Government has not considered these facts, before opening of these Regional Rural Banks ;
- (d) if not, the reasons therefor ;
- (e) whether the Government proposes to merge these banks with the Nationalized Banks; and
- (f) if so, the details thereof ?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S.S. PALANIMANICKAM)

- (a): Yes, Sir, these are some of the factors responsible for the losses in Regional Rural Banks (RRBs)
- (b): With concerted institutional strengthening measures, development action planning, organizational development interventions and other supportive actions like capacity building of staff etc. by National Bank for Agriculture and Rural Development (NABARD) and sponsor banks, the RRBs have substantially reduced the losses. The number of loss making RRBs has gradually reduced from 40 on 31/03/2003 to 33 on 31/03/2004 and to 29 on 31/03/2005. Similarly the gross NPAs in RRBs have reduced to 8.53% in March 2005 as compared to 14.44% as of March 2003.
- (c)&(d): The RRBs were set up to cater to the banking needs of rural areas and providing employment to rural educated youth and to bring down the cost of rural banks by recruiting staff for the banks on the same scale of pay and allowances as of State Government/local bodies. However, in view of the NIT award in 1990 and the Supreme Court Judgment in the year, 2001 the pay scales of the employees of RRBs were brought at par with the corresponding categories of the employees of nationalized banks. This was an unforeseen development and one of the major reasons contributing to losses in RRBs.
- (e)&(f) : The provisions of RRBs Act 1976 do not provide merger of RRBs with sponsor banks.