

Hon'ble Union Finance Minister

Thiru P Chidambaram,

Chief Ministers and Finance Ministers of various Southern States and Union Territory,

Lieutenant Governor of Lakshadweep Islands and Administrator of Andaman and Nicobar Islands,

Governor, Reserve Bank of India,

Officials of the Government of India,

Senior Bankers and Other Officials,

In the past few years, the banking sector has undergone a significant transformation and I am happy to note that our banks have performed extremely well and have supported the Government's efforts. There was always a felt need for addressing issues of mutual interest and concerns of banks and State Governments on a common platform and I think this meeting is serving exactly that purpose. I am confident that the deliberations in this meeting will resolve the critical issues that impede our progress and help us to take our efforts forward in achieving inclusive development.

2. The credit plan for 2011-12 had an ambitious target of Rs.56,621 crores for the State of Tamil Nadu. I am happy to inform you that the target has been surpassed by around 7%, making a total disbursement of Rs.60,598.92 crores. The target for the current financial year is also pegged at Rs.82,513 crores, which is 36% higher than the previous year's actual disbursement. Up to June 2012, the CD ratio has gone up to 117.36%, while the deposits have grown by 19.36%. I am confident that the target would definitely be achieved.

3. Although the quantitative targets are overachieved and present a pleasant picture, there are certain areas of concern. The Government of Tamil Nadu has given top priority to the Primary Sector and has made unprecedented budget allocations for sectors like dairy development, animal husbandry, horticulture, etc. The priority sector lending by banks for the farm sector is also showing a remarkable increase over the years. However, the bulk of this lending is dominated by crop loans and there are instances where jewel loans are being classified as crop loans and diverted to non-agricultural purposes. This is not going to improve our productivity. Therefore, efforts need to be taken by financial institutions to strengthen post-sanction monitoring mechanisms to prevent such diversions. The credit flow for investment purposes, allied sector activities, and micro level soil and

water conservation projects needs to be stepped up substantially to address productivity issues. I hope the banks will address these issues in future.

4. The Tamil Nadu Civil Supplies Corporation (TNCSC) procures paddy between October and May every year under a decentralized procurement system for supplying rice under the Public Distribution System. As the reimbursement of subsidy comes only later from the Government of India, TNCSC is in need of cash to pay the farmers and hence it avails of loans from various financial institutions. However, as of now, lending to TNCSC for paddy procurement is not considered as priority sector lending which results in high cost borrowings. As this money is being used to make payments directly to the farmers, I request the Honorable Union Finance Minister to intervene appropriately to classify the lending to the procurement agencies like TNCSC for the purpose of procuring paddy from farmers as priority sector lending. This will help the procurement agencies to avail of timely credit without much hardship.

5. The State Government is taking all the necessary steps to implement the Revival Package for Short Term Credit Structure in Tamil Nadu. So far the Government of India has released Rs.1078.84 crores to our State as against its total commitment of Rs.1676.36 crores. I request the Honorable Union Finance Minister to release the balance amount through NABARD as the State has already taken steps to comply with all the conditions including the conduct of elections in co-operatives.

6. NABARD has raised the interest rates for refinance to seasonal agricultural loans from 2.5% in 2006-2007 to 4.5%. At present, this refinance is available only up to 50% of the total credit requirement. These changes have led to tremendous strain on co-operative banks' finances due to the reduced interest spread. Further, 2% interest subvention support to co-operatives remains unchanged, since 2006-2007, though the co-operatives have to apply their high cost own funds or deposits for low yielding agricultural loans. While the commercial banks apply only 18% of their total credit to agriculture, co-operatives involve 75% of their resources to unremunerative agricultural credit. This has affected the financial viability of the co-operatives. Therefore, I would suggest that either the refinance provided by NABARD for seasonal agricultural operations should be increased to 100%, or the interest subvention support to co-operatives needs to be increased to meet the gap between cost and actual lending rate. Further, the interest rate for investment credit is also increased to 9.9% by NABARD. Investment credit with such a high interest rate becomes unattractive to farmers for taking up investment projects. Therefore, the investment credit may be disbursed at a reduced rate of 7% with an appropriate interest subvention programme from the Central Government.

7. Tamil Nadu was the first State in the country to give Old Age Pension at the doorstep 40 years ago. In continuation of this proud tradition, our Honorable Chief Minister Selvi J Jayalithaa announced the disbursement of Social Security Pensions through banks. This was successfully implemented on a pilot basis from September 2011 and is being scaled up to

all the 4446 villages with a population of more than 2000. I am happy to say that due to this initiative of our Hon'ble Chief Minister, out of 29.19 lakh beneficiaries, 5.37 lakh beneficiaries in the State are getting pension through their bank accounts. We expect that by June 2013 coverage will reach 100%. Similarly, payments under the Dr.Muthulakshmi Reddy Maternity Benefit Scheme are now being routed through bank accounts. The State Government is aiming to create an Aadhaar enabled payment system to disburse such benefits to all the beneficiaries in the near future. We expect that banks will extend their full co-operation to switch over to a new Aadhaar enabled Electronic Benefit Transfer (EBT) system through bank accounts as early as possible. Though our Hon'ble Chief Minister is desirous of implementing EBT expeditiously, the banks need to walk the extra mile to overcome their limitations at field level quickly to fulfill our expectations.

8. The Tamil Nadu State Government has put financial inclusion on high priority. While the banks were given a target of establishing one branch per village having a population of 2000 or more, our Honorable Chief Minister has gone a step further and has appealed to the banks to provide banking facilities to every single village of the State. A total of 7571 villages have been identified with a population below 2000 where financial inclusion programme has to be taken up in the next stage. I am hopeful that we will achieve our target of covering all villages in the State with the active participation of the banks.

9. The healthy relationship between the State Government and the banks is reflected in a higher CD ratio, credit expansion, performance in major welfare schemes etc. The banking sector has coped well with the financial distress for the past few years. I congratulate them and also hope that their co-operation will continue even in future, particularly in the infrastructure and energy sector as the State is in the process of implementing a Financial Restructuring Plan for power utilities.

10. Before I end my speech, I would like to thank the Honorable Union Finance Minister for continuing this initiative of exchanging ideas on a common platform. I also thank the Government of Karnataka for hosting this event and making this conference a success.

THANK YOU