

Investment of Surplus Funds of Central Public Sector Enterprises (CPSEs).

Reference is invited to this Office Memorandum No. DPE/4/6/94-Fin. Dated 14th December, 1994 on the above mentioned subject. The extant policy of the Central Public Sector Enterprises is to park surplus funds in term deposits with any scheduled commercial bank (i.e. banks incorporated in India) with a paid up capital of at least Rs. 100 crore, fulfilling the capital adequacy norms, as prescribed by the RBI from time to time.

2. It has been brought to the notice of Government that certain agencies/entities under the control of the Departments/Ministries have transferred their entire business, or a substantial part of their business to private sector banks to the virtual exclusion of the public sector banks. On a careful examination of the matter, Government have issued instructions regarding preference to Public Sector Banks for handling Government transactions vide O.M. No. 7(2)/E.Coord/2007 dated 15th January, 2008 (copy enclosed). It has been accordingly decided that at least to the extent of 60% of funds under the control of Ministries/Departments/other agencies/entities etc. be placed with Public Sector Banks. Moreover, in order to avoid undesirable competition amongst banks leading to arbitrary hikes in deposit rates (even for short periods) which have consequences for the economy, it has been decided that the practice of inviting competitive bids for bulk deposits should be discontinued forthwith. Any Department/Ministry or any of the agencies/entities/bodies etc. should, therefore, place their bulk deposits with the bank(s) with whom they have a regular course of business, including public sector banks.

3. The Central Public Sector Enterprises (CPSEs) will also comply with above instructions while making investment decisions with regard to placement of their funds with banks. The Administrative Ministries/Departments are requested to instruct CPSEs suitably under their administrative control in this regard.

4. This issues with the approval of Minister (HI&PE).

(DPE OM No. 11(47)/2006-Fin dated: 11/04/2008)

Copy of Ministry of Finance, Department of Expenditure O.M. No. 7(2)/E.Coord/2007 dated 15 January, 2008.

Subject: Preference to Public Sector Banks for handling Government transactions—reg.

In August 2003, the Reserve Bank of India (RBI) had taken a decision to induct certain private sector banks for the conduct of Government business. Accordingly, the Departments/Ministries were advised that, if they desired, they could induct these private sector banks also for handling accounts pertaining to their respective Departments/ Ministries. These instructions were issued vide RBI Circular No. DGBA.GAD No. 60/42.01.033.2003-04 dated July 18, 2003.

2. It has been brought to the notice of the Government that some Departments/ Ministries as well as agencies/entities under the control of Departments/Ministries have transferred their entire business, or a substantial part of their business, to private sector banks to the virtual exclusion of public sector banks. It is observed that public sector banks have a special role and importance in the banking industry and in advancing the economic policies of the Government. It is, therefore, important that Departments/ Ministries conduct their business, as far as possible, through public sector banks. In any event, it is not desirable that any

Department/Ministry should conduct its business through private sector banks alone to the exclusion of public sector banks. On a careful examination of the matter, it has now been decided that the funds under the control of the Departments/Ministries or funds amenable to their control (including funds distributed by Departments/Ministries to agencies/entities) shall, at least to the extent of 60 per cent, be placed with public sector banks. These instructions would apply equally to subordinate offices, attached offices and autonomous organizations which are mainly funded by Government. The Departments/Ministries are requested to issue forthwith suitable instructions, in accordance with the above decision, to State Governments, agencies and entities to which they distribute funds for the purpose of executing the programmes funded by the Departments/Ministries.

3. It has also been brought to the notice of the Government that, in recent times, there is an emerging practice of inviting competitive bids for placing bulk deposits with banks. As a consequence, there is (undesirable competition amongst banks leading to arbitrary hikes in deposit rates (even for short periods) which have consequences for the economy). It is therefore advised that the practice of inviting competitive bids for bulk deposits should be discontinued forthwith. (Any Department/Ministry or any of the agencies/entities/bodies etc. referred to in para 2 above should place their bulk deposits with the bank(s) with whom they have a regular course of business, including public sector banks.)
