

Using private banks for government business

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In news

Recently, the Centre has lifted the ban on use of private banks for the conduct government-related banking transactions

Key updates

- As the Ministry of Finance lifted the ban, **Private banks may now be used for government-related banking transactions such as taxes, pensions,** and receipts and disbursements under government schemes.
- This move is expected to enhance customer convenience, spur competition and high efficiency in the standards of customer services
- The Finance Minister stated that “Embargo lifted on grant of govt business to private banks. All banks can now participate”
- She further mentioned that all banks can now be equal partners in development of the Indian economy. “Private banks can now be equal partners in development of the Indian economy, furthering Govt’s social sector initiatives, and enhancing customer convenience,”
- The proposed changes may be operationalised once the Reserve Bank of India issues guidelines in this regard.
- RBI also said that there will be no bar on Reserve Bank of India (RBI) for authorisation of private banks for government businesses, including government agency businesses

How are the government transactions handled?

Government’s banking transactions are **primarily handled by public sector banks.**

Are there any private banks permitted for such transactions?

- In 2003, three private sector banks (HDFC Bank, Axis Bank and ICICI Bank) were permitted to undertake government business
- RBI had allowed all private sector banks to undertake government business in 2012.
- However, this decision to provide further authorisation for banks was reversed by the Ministry of Finance in September 2012.