

Distress with PSB mergers

What is the issue?

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- The consensus among policymakers about greater consolidation in the public sector banking through mergers is gaining momentum.

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- NITI Ayog and RBI are working, to submit their recommendations to the Finance Ministry.

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- The key question, however, is whether PSB mergers can solve the problem that the Indian banking sector is facing.

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What is the concern regarding PSB Merger?

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- Merger as an important reform was suggested by the Narasimham Committee in 1998, which had argued for a three-tier structure for Indian banks: Three large banks with international presence at the top, eight to 10 national banks at tier two, and a large number of regional and local banks at the bottom. But the fact is that both the structure and logic have changed.

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- The recent need for mergers is to hide weakness of the growing non-performing assets (NPAs) in almost all PSBs.

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- Another alarm is, most of the NPAs were accumulated due to inefficient functioning of the PSBs. Merging 2 PSBs with high NPAs may not be a wise decision.

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- A merger in the private sector will include changing the shareholders but this is difficult with PSBs, where the government is the dominant shareholder.

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- Cultural compatibility, employee integration, synchronizing accounting, policies for recognition of bad loans, etc could be some of the challenges during merger.

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What is the way forward?

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- The policymakers have to remember that merging two weak banks, or a relatively strong bank with a weak one, are more likely to make things worse, particularly if the entire process is forced upon the merger candidates.

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- For example, the financial performance of the merged State Bank of India was in stark contrast to standalone SBI's sterling show in the fourth quarter of the last financial year. This shows merging several laggard PSBs one big profitable one is more likely to hurt the latter.

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- Instead, clearing the NPAs, improving administration, increased transparency in the working of PSBs would be a better way out in the current situation.

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Source: Business Standard

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