Privatisation of PSBs

What is the issue?

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- The NPA related concerns are rising in public sector banks.
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- Privatisation of PSBs is seen as a viable option but it alone won’t solve the concerns.
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What factors aggravated NPAs in PSBs?

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- During high growth period, FY07 to FY12, corporate groups has invested in mega projects in power, metals and infrastructure.
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- They were funded by domestic banks.
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- By FY13, with regulatory hurdles hitting some projects and scams stalling others, many projects failed to take off and these groups landed in a classic debt trap.
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- Many companies took on more loans to manage their debts, which eventually turned into NPAs.
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- Which in turn took on a five-fold expansion in their aggregate debt from Rs. 1 lakh crore to Rs. 5.5 lakh crore (present value of NPAs).
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- Many PSBs chairman were given high political pressures to sanction loans to the companies which were favourable to politicians.
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Why privatisation is encouraged?

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- PSBs have been criticised for poor lending decisions, inadequate risk controls, and bad governance.
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- Privatisation has been presented as a panacea to the many ills plaguing Government-owned banks.
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- There is a belief that the public sector equates to inefficiency and corruption, while private ownership automatically brings with it efficiency, financial prudence and governance.
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- RBI data shows that that 9.3 per cent of the industry loan book for private sector banks was stressed by March 2017, as opposed to 28.8 per cent for PSBs.
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- As of end-March 2016, RBI data showed that public sector lenders accounted for over 90 per cent of the Rs. 5.5 lakh crore gross NPAs with banks.
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What measures needs to be taken?

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- Forcing the owners of the distressed corporates to sell their assets and de-leverage them will tackle existing stressed loans, the process is already underway under the new Bankruptcy Code.
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- To ensure greater checks and balances against miss-allocation of capital, borrowings and diversion of funds India need to introduce structural reforms.
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- Indian banks need access to early warning systems on NPA recognition, which can be achieved by integrated efforts of SEBI, RBI and the Bankruptcy Board.
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Source: Business Line

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