Test Case Privatization of PSU Banks

What is the issue?

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- In recent times Indian PSU banks poses major problem for policy makers, for which privatization is a logical way forward.
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- But the idea of Privatization of banks has many practical difficulties for implementation.
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What are the problems with PSU banks in India?

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- PSU banks faces a slow credit growth delaying the revival in private sector investment, which is crucial for the economy’s return to a higher growth trajectory.
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- There has been only little improvement in functioning of PSU banks despite the introduction of various mechanisms aimed at improving governance in these banks.
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- Many PSUs are underperforming even after measures which has taken to reduce their tendency towards poorly judged or outright fraudulent lending.
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- Banks Board Bureau which was created to oversee banks has been noticeably absent at this time of crisis, partly due to less emphasis of the government.
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What are few issues with Privatization?

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- There are many barriers to a programme of privatisation the primer one is that political risks are considerable for any government.
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- In addition, the banks themselves will be unpalatable acquisition targets for any private sector entity as many of them have books burdened with bad loans.
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- The government will naturally not receive a good price for them, opening itself up to attacks from the political opposition in some cases, it could be fortunate if it received any price at all.
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- It is also worth noting that many of the banks are vastly over-staffed or staffed by employees with low productivity, this excess employment cannot be easily shed by any acquirer.
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- Any programme of wholesale privatisation will have to deal with an aggressive campaign of obstruction by bank employee unions with political influence.
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How test case privatization can be used as a solution?

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- The government could select one of its weakest banks as a test case for privatisation.
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- This could be sold as a special case of privatising a public sector bank that has conspicuously failed to perform.
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- Since it will be a special case, political opposition to the move could be muted.
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- If this bank performs well, the positive example could open the door to further privatisation in future.
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- Demand for erstwhile public sector banks might build up among possible acquirers, leading to the discovery of more remunerative prices.
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- Each additional privatised bank will support the argument, reducing opposition and increasing demand further.

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Source: Business Standard

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