Banking Crisis – The ways ahead

What is the issue?

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- RBI Deputy Governor Acharya recently acknowledged that the financial health of India's public sector banks (PSB) is shocking.
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- Also, the extremely slow pace of reforms to address NPAs is worrying.
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What is the background?

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- For the first time in at least two decades, the loan books of the PSBs shrank as advances fell by Rs 1.35 lakh crore in 2016-17.
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- This is not surprising since weak balance sheets cannot support healthy credit growth.
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- Far from kick-starting growth, Indian PSBs actually need capital to merely survive.
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- The government is in no position to supply the capital to kick-start the PSBs.
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What are the measures taken so far to address the NPAs?

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- The Central Repository of Information on Large Credits (CRILC) was created in 2014.

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- Asset Quality Review (AQR) was initiated in 2015.
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- Also, the enactment of the Insolvency and Bankruptcy Code (IBC) in 2016 helped plug a massive regulatory gap.
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- While this was expected to provide for a quicker resolution of NPAs, some of the recent court verdicts in insolvency cases may queer the pitch.
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What are the measures being considered?

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- **Recapitalisation -** The "Indradhanush scheme" for recapitalising banks, although a good initiative, it might not be enough to address the current crisis.
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- The PSBs need a far more powerful impetus that could save them, from the non-performing assets (NPAs) burden, which in some cases is in excess of their net worth.
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- **Disinvestment -** The Cabinet Committee on Economic Affairs had authorised an alternative mechanism to bring down the government's stake in the PSBs to 52%.
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- But this is not a practical solution given the political compulsions as well as the lack of investor appetite in buying weak banks.
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- **Mergers -** The Union Cabinet has also been pushing for mergers.
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- But as the case with the State Bank of India shows, mergers are no guarantees for turnarounds.
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- In fact, they may pull down banks that were performing well.
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- Also, most PSBs have exposure to the same set of stressed assets and a merged entity might end up with a larger exposure to stressed sectors.
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What is one possible way ahead?

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- The government and PSB boards should consider selling off or divesting stakes in subsidiaries and non-core businesses.
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- The money so raised can be ploughed into their core operations.
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- There is much to learn from PSBs that have reduced their stakes in their insurance ventures.
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Source: Business Standard

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