

THE MESSAGE TO BANKS - EDITORIALS - HINDUSTAN TIMES

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Banking, NPAs and RBI

Dec 30, 2019-Monday

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Finance minister Nirmala Sitharaman has said that bankers need not fear the three Cs — the Comptroller and Auditor General (CAG), the Central Vigilance Commission (CVC) and the Central Bureau of Investigation (CBI). She asked them to take decisions, “without fear”, and assured them that no case will go up to CBI without the banks’ authorisation. Ms Sitharaman added that CBI shall be careful of the distinction between “genuine commercial failures and culpability”. The FM’s statement builds on Prime Minister Narendra Modi’s assurance at the Hindustan Times Leadership Summit earlier this month, when he exhorted bankers to take decisions without fear.

These remarks are significant because of developments in the banking sector over the past decade. Public sector banks engaged in reckless lending during the boom years of the last decade and earlier in this decade. This was either due to errors in decision-making or political pressure. Many of the projects for which lending was done, however, failed to move ahead. This created a twin balance-sheet crisis, where banks were stuck with bad loans and big companies were straddled in huge debts and unfinished projects. The Modi government, in its first term, to its credit, recognised the problem — although belatedly. It took steps to recapitalise banks and brought in the Insolvency and Bankruptcy Code to enable the exit of companies and recover capital, even if partially. Already low on capital, bank officials feared being hauled up for credit-related decisions. The mood in banking — and more generally, in economic decision-making among bureaucrats — was that it is more prudent to “play safe”, do little, rather than risk retribution.

This has, however, meant that the credit cycle has not picked up to the extent India’s economy needs. This is where the FM’s message comes in. Banks should respond positively to this. But the economy will also require a range of other immediate measures to tackle the persistent slowdown. Corporates must regain the confidence to borrow and invest. This confidence will only come from a boost in demand and consumption. This requires a set of different income-boosting measures. In the run up to the budget, Ms Sitharaman, while engaging with different stakeholders, is sending out the right messages. It now needs to translate into policy.

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