

FREEDOM FROM 3CS

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

IT is a reflection of the state of the Indian banking industry today, specially state-owned banks which dominate the landscape and are marked by a virtual freeze in lending, that the country's finance minister had to reach out to bankers to assure them that they need not fear the three dreaded Cs — Central Bureau of Investigation, Central Vigilance Commission and Comptroller and Auditor General. At a meeting with bankers over the weekend, [Nirmala Sitharaman](#) while conceding that decision-making in banks was getting impacted because of the fear of the 3Cs attempted to assuage the apprehensions, saying that the government and its investigative agencies have put in place measures to address their concerns. Notably, Sitharaman's predecessor, [Arun Jaitley](#), in early 2019, had cautioned against the overzealousness of state agencies, warning of the dangers of the banking system grinding to a halt.

The Indian Banks Association, too, had protested a while ago after senior officials of the Bank of Maharashtra were arrested by the state police and following several cases dating back a decade or more being filed by agencies. Former Prime Minister [Manmohan Singh](#) has blamed what he termed as the “malafide unless proven otherwise” doctrine of governance of the NDA Government for the breakdown of trust between institutions and the government. Bankers may tend to agree, especially when basic questions such as the definition of a bonafide decision and who should sit in judgement on loan approvals granted by banks years ago remain unclear even now. Little will be achieved through incremental moves. An enduring solution requires a significant lowering of state holding by the government in scores of banks — well below the threshold of 51 per cent — to free bankers from the purview of the three Cs, or privatisation.

A government with a strong mandate like the Modi-led NDA 2 hasn't signalled so far that it has the desire or the appetite to go down that road. The second best but sub-optimal solution would be to empower bankers and professional bank boards to decide on whether a decision to approve a loan was bonafide or malafide. It is a fact that the seeds of the current mess in Indian banking were sown during UPA 2 but that doesn't absolve the Modi government which was late in addressing the crisis during its first term. The perceived morality play reflected in punishing so-called rogue bankers and businessmen — a political response to Rahul Gandhi's suit boot sarkar jibe — has already hurt banking and industry. With India set to end the fiscal with a multi-decade low in bank credit, the longer the government takes to unveil a roadmap and walk the talk to boost the confidence of bankers, the more elusive will be the economic recovery.

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