‘Reforms in public sector banks have taken a back seat’

Viral Acharya

The Centre’s initiative to reform public sector banks, begun in 2015 with the Indradhanush programme, appears to have lost steam, Reserve Bank of India’s (RBI) deputy governor Viral Acharya said. In his foreword to the Financial Stability Report, Mr. Acharya said while the Centre’s decision to frontload capital infusion in public sector banks should impart robustness, “governance reforms and market capital-raising appear to have again taken the backseat at the PSBs.”

According to the RBI, if governance reforms are undertaken promptly it would not only improve the financial performance of the banking sector but also help reduce operational risks.

Mr. Acharya said the central bank’s decision to put 11 under-capitalised banks under prompt corrective action (PCA) was aimed at preventing further deterioration and nursing them back to health.

Monitoring needed

However, the resulting shift of flows of finance to non-bank sources needs to be monitored carefully.

According to the Report, six state-run banks that are under the PCA framework may see their capital adequacy ratio drop below the minimum regulatory level of 9% by March 2019 if there is no further recapitalisation by the Centre. The gross NPA ratio of all commercial banks is likely to rise to 12.2% by March 2019 as compared with 11.6% in March 2018, under the baseline scenario of a macro stress test.

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