

LOOKING BEYOND PRIVATISATION

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

Employees march in Thiruvananthapuram on March 15, 2021 against privatisation of public sector banks. | Photo Credit: [MAHINSHA S](#)

In the recent Budget session, the Union government announced its intent to privatise Public Sector Banks (PSBs). While improving efficiency has been cited as the reason for this move, it is not clear whether privatisation brings efficiency or reduces associated risks. Around the world, innumerable private banks have failed, thus challenging the notion that only private banks are efficient. Similarly, if private enterprises are the epitome of efficiency, why do private corporate entities have such large volumes of NPAs?

Bank nationalisation ushered in a revolution for India's banking sector. Before nationalisation, barring the State Bank of India, most banks were privately owned and they largely benefited the rich and the powerful. The nationalisation of 14 private banks in 1969, followed by six more in 1980, transformed the banking sector, created jobs, extended credit to the agriculture sector and benefited the poor. Areas that had so far been neglected, including agriculture, employment-generating productive activities, poverty alleviation plans, rural development, health, education, exports, infrastructure, women's empowerment, small scale and medium industry, and small and micro industries, became priority sectors for these banks.

The move also helped in promoting more equitable regional growth, and this is evident from RBI data. There were only 1,833 bank branches in rural areas in the country in 1969, which increased to 33,004 by 1995 and continued to grow over the next decades. Banking services also reduced the dependence on moneylenders in rural regions. Nationalised banking improved the working conditions of employees in the banking sector, as the state ensured higher wages, security of services, and other fringe benefits.

As an institution, PSBs are vehicles of the Indian economy's growth and development, and they have become the trustees of people's savings and confidence. The PSBs played a huge role in making the country self-sufficient by supporting the green, blue, and dairy revolutions. They have also contributed significantly to infrastructural development.

Public sector banks in India are currently earning considerable operating profits, to the tune of 1,74,390 crore in 2019-20 and 1,49,603 crore in 2018-19. Why is the government then, instead of strengthening PSBs, starving them of the required capital and human resources through disinvestment and the proposed privatisation? Placing such a huge network of bank branches and the infrastructure and assets in the hands of private enterprises or corporates may turn out to be an irrational move. It could lead to denial of convenient and economical banking services to the common man; the risks of monopoly and cartelisation may only complicate the issue.

Furthermore, in the context of privatisation and efficiency, it is unfair to blame PSBs alone for the alarming rise of NPAs. On the contrary, stringent measures are required to recover large corporate stressed assets, which is a key concern for the entire banking sector. This must include strong recovery laws and taking criminal action against wilful defaulters. So far, the government has not exhibited a firm willingness to implement these measures. Wilful default by large corporate borrowers and subsequent recovery haircuts, imposed through the ill-conceived Insolvency and Bankruptcy Code, has resulted in a heap of write-offs, putting a big dent on the balance sheets of PSBs. This has not only affected the profitability of the banks, but has also become an excuse to allege inefficiency.

There is an urgent and imperative need to bring in a suitable statutory framework to consider wilful defaults on bank loans a “criminal offence”. A system to examine top executives of PSBs across the country will also help in improving accountability. But privatisation of PSBs is not a definitive panacea for the problems of the banking sector in India.

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