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Can Un-merged Public Sector Banks in India be Privatized? A Scrutiny

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Abstract

During the period 2017-2020, GOI has merged the subsidiaries of SBI and BMB in SBI besides amalgamation of thirteen PSBs to make five big banks. PSBs besides other commercial banks had resorted to evergreening of their credit portfolio under the guise of Corporate Debt Restructuring. But for huge recapitalization inducted by Government of India due to the erosion of capital, many of the PSBs faced insolvency like situation. To avoid using public money through budgetary allocations for capitalization of banks, the Government took a bold step to amalgamate many banks. The stated objective of GOI for merger is clear which is to make internationally competitive. The present study attempts to analyze impact of Gross Non-Performing Assets (GNPA) on financial performance of PSBs through statistical tools and suggest which banks can be further restructured based on their mean financial position for the period of study.

JEL Code : G20; G21;
Keywords : PSBs; NPA; Merger; Restructuring; Privatization; GOI; Recapitalization; Bank; SBI; BMB; India

I. Introduction

THE INDIAN BANKING scene has undergone a steady evolution since independence. From a few private sector banks managed by big business houses to nationalised banks in late sixties and opening of new generation of private sector banks, the sector has been on a consistent transformation. There was a need of the government to take over major banks by nationalization in late sixties and eighties for development of hitherto neglected sectors of economy. Having achieved its social objective largely through Lead Bank Scheme and 20 Point Programme, the government diluted the equity stake in nationalised banks by listing them on stock exchanges thereby introducing transparency and accountability of these banks now called

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banks are privatized. It can be assumed that many large and small private banks, Small Finance Banks, Cooperative Banks and Fintech companies which exist in the banking arena alongwith the big banks amalgamated earlier can continue to serve customers across all corners of the country and implement the social schemes. Government has a substantial business to offer to all banks by way of Divestment and Spectrum (Telecom) auctions, Tax and Duty Collections besides Direct Benefit Transfers (DBT). Therefore it should have no difficulty in implementing its social agenda through the beneficiary banks .Accordingly Government of India will find it convenient to manage only a few Public Sector Banks for credit dispensation, allocation of resources for economic development and other banking activities without any budgetary support for the capitalization needs of restructured banks in future. However it will be interesting to see over a period of 2-3 years as to how the amalgamated and restructured PSBs meet the government objective of bringing improvement in their financial and operational efficiency at par with their bigger private sector competitors.

The efficiency of Public Sector Banks recommended in the study to be privatized may come by proper human resource management, faster recovery of NPAs, enlargement of credit with proper due diligence (especially in view of past errors of judgement to appraise projects and promoters), increasing deposit base in low cost Savings and Current accounts and new Fintech solutions (digital initiatives) to bring banking to the door steps of the customer. A robust banking system having only a few Public Sector Banks having majority ownership of Government of India and more new Private Sector Banks is in the interest of all stakeholders.

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