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EDITORIAL ANALYSIS → 13 JULY 2022 → THE HINDU:

PRIVATISATION OF BANKS:

- **About Privatization:**

- Privatization is the process of transferring ownership, assets, or businesses from the public to the private sector. The corporation or business is no longer owned by the government.
- In contrast to government-run businesses, privatisation is thought to increase a company's efficiency and objectivity.
- In the landmark reforms budget of 1991, commonly referred to as the "New Economic Policy" or "LPG policy," India opted for privatisation.

- **What Motivates Privatization, and why?**

- Deteriorating Financial Status of Public Sector Banks: Despite years of capital infusions and governance changes, Public Sector Banks' financial position has not appreciably improved.
- In addition to being behind private banks in terms of profitability, market capitalization, and dividend payment history, several of them have higher percentages of stressed assets than those later institutions.

- **Long-Term Project Component:**

- The start of a long-term scheme that calls for just a small number of state-owned banks, with the others either integrated with strong banks or privatised, will come from the privatisation of two public sector banks.
- The government's initial proposal called for privatising four. The government may divest in another two or three banks over the upcoming fiscal year, depending on the success of the first two.
- As the main owner, this will release the government from having to keep giving the banks annual equity support.
- From 28 state-owned banks before, the government now only has 12 after a series of actions over the past few years.
- Bank Strengthening: In order to reduce the number of weak banks it must support, the government is working to privatise weak banks and strengthen the strong ones.
- Recommendations from various committees: The Narasimham Committee suggested a reduction of the government holding in public banks from 51 percent to 33 percent.
- The P J Nayak Committee recommended less than 50%.
- A recent recommendation from an RBI Working Group was for corporate organisations to enter the banking industry.
- Big Bank Creation: The creation of big banks is another goal of privatisation. In the end, privatised PSBs cannot achieve the scale and size necessary to increase their risk appetite and lending capacity without merging with pre-existing major private banks.
- Therefore, privatisation is a complex undertaking that must be approached from all directions in order to address several issues and explore new ideas, but it can open the door to the creation of a more robust and sustainable financial system that benefits all stakeholders.

- **What Problems Are Related?**

- **Crony capitalism's rewards:**

- The privatisation of the PSBs will only reward crony capitalism and amounts to selling the banks to private corporations, many of whom have not paid back loans from the PSBs.
- Employment Losses: The privatisation will also lead to employment losses, branch closures, and financial isolation.
- Since the private sector does not adhere to quota regulations for the weaker groups, privatisation will reduce the number of employment prospects for Scheduled Castes, Scheduled Tribes, and Other Backward Classes (OBC).

- **Financial Exclusion of Poorer Sections:**
- Because private sector banks focus on more affluent populations and metropolitan/urban areas, they financially exclude society's weaker groups, notably those in rural areas.
- Public sector banks ensured financial inclusion by bringing banking to rural areas.
- The privatisation process has been referred to be a "bailout operation" for corporate defaulters by bank unions.
- Large-scale bad loans are the result of the private sector. They ought to be penalised for this offence, in reality. But by turning over the banks to the private sector, the government is rewarding them.

- **Way ahead:**

- The management and governance of PSBs must be improved. The PJ Nayak committee advocated separating the government from high-level public sector appointments as a way to accomplish this (everything the Banks Board Bureau was supposed to do but could not).
- PSBs can be transformed into a business like Life Insurance Corporation rather than undergoing blind privatisation (LIC). This will grant PSBs more independence while yet keeping government ownership.

- **Mains Questions:**

- **Discuss the pros and cons of Privatisation of PSBs in India?**