AIR Spotlight: Government Efforts to Bring Down NPAs Bearing Fruits

AIR Spotlight is an insightful program featured daily on the All India Radio Newsonair. In this program, many eminent panellists discuss issues of importance which can be quite helpful in IAS exam preparation.

This article is about the discussion on "**Government efforts to bring down NPAs bearing fruits- huge jump in profits for Public Sector Banks**".

Participants:

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Context: Public Sector Banks registered profits in the second quarter of the Financial year.

Introduction:

- Finance Minister Mrs. Nirmala Sitaraman tweeted that in the second quarter (July to September) of the current Financial year, the profits of Public Sector Bank soared from 25,685 Crore Rupees and if we consider H1 (that is April to September 2022) the total profits have soared to almost 41,000 crore rupees.
- In Financial Year 2018 (FY-18) only two Public Sector Banks (PSB) reported profits and if we see FY-21 only 2 reported a loss. And in FY-22 all 12 banks reported profits.

Measures taken by the Government to bring down bad loans:

- The government adopted a 4R policy to bring down Non-Performing Assets(NPAs). These are:
  - Transparent recognition of stressed assets and taking immediate action on it.
  - To find an immediate resolution either one time or through the Insolvency and Bankruptcy code that changes the relationship between the creditor and debtor where the control of owners, promoters, and wilful defaulters are taken away during the resolution process. Moreover, they are not allowed to raise funds from the market.
  - Recapitalizing the PSB: As per an estimate, 3.16 lakh crores have been recapitalized in PSB of which 2.46 lakh crores were given by the government and 0.66 lakh crores have been mobilized by the bank.

    - There was a complete change in the administrative functioning of the banks. For instance, in terms of loan sanctioning board approvals have become mandatory for loans that require certain clearances and approvals.
- The government has also clearly divided the functions between sanctioning and monitoring authorities. The monitoring unit consists of experts from the finance domain having special financial and technical knowledge. They continuously monitor the loans from becoming stressed assets and provide requisite technical support as and when required.
- There is also a strong focus on Third-party data resources. This means that there is a credit repository for information about large credits that have been created by the Reserve Bank of India. The information about these large creditors is stored and transmitted between the financial institutions for knowledge about the status of the loan amount of the creditors and the analysis of the risk.
- Moreover, all banks have been asked to become part of credit institutions and rate their risk factor.
- Asset Quality Review was also initiated in 2015 to address the issue of Non-Performing Assets (NPAs).
- The government also initiated mergers and acquisitions of various banks. Ten PSB have been merged into four banks. This provided them with a necessary cushion of capital as well as administrative support.
- Moreover, when the impact of COVID-19 on the economy of the country was at its peak, banks were barred from recognizing NPAs and the moratorium was extended to the public primarily to help the bank, businesses, and the economy.
- Interest rates were lowered. In the pre-pandemic phase, the interest rates were high but when the pandemic struck it was lowered in comparison to the lending rate. This added to the profits of the bank.
- The vaccination programme of the government with regard to COVID-19 helped in reviving the economy and recovery of businesses to the pre-pandemic levels. This resulted in re-investment increasing the credits of the banking sector.
- Another major step is taken in terms of the Bad bank. This scheme provided a guarantee of 30,000 crores and had the provision of surrendering big ticket loans to the bad bank in lieu of 15% cash and remaining amount will be converted into securities. This raised the confidence of the public in the entire banking system along with ensuring the capital infusion.

Recent Trends and associated concerns:

- In FY21-22, twelve PSBs doubled their net profits. The collective profits of the 12 state owned banks during that fiscal year was 66,539 crores which was almost double of 31,000 crore in the previous fiscal.

- Only two banks were profitable in FY18. In FY21 this changed to ten banks turning profitable and two banks facing losses.
- However, it should be noted that two of the ten lender (Punjab National Bank and the Bank of India) saw a decline in profits.
    - It is important to realize that though the reforms of the banking sectors have been of great help in strengthening the financial situations of the banks but it also depends on a number of other factors like the COVID-19 pandemic and the bleak economic situation worldwide.
- Credit growth in the last few years has become worrisome.

Public Sector Bank vis-a-vis Private Sector Banks:

- Public Sector Banks have a greater reach as they enjoy more confidence of the public in terms of deposits and trust. Their credit policies are made to be inclusive thus resulting in larger acceptance by the poorer and middle segments of the population.
- Private Sector Banks adopt a more commercial approach in terms of their action and the general public don't feel convenient to reach out to them.
- Another observation is that Public sector banks get large-scale projects from the government. This makes a lot of difference in the profits and efficiency of the banks.
- The physical presence of Public sector banks in terms of regions is more in comparison to private banks. PSB often establishes branches in unserved or underserved areas.
- PSB also provides loans to social projects which are less profitable. They also have a crucial role in the mobilization of small unit funds like Pradhan Mantri Jan Dhan Yojana.
- The significance of private sector banks cannot be undermined in the economy.

Way Ahead:

- To increase and sustain the profitability of the bank it is important that loans are given on the provision of requisite documents by the lender. However, the provisions should not be very strict to restrain the needful from availing the credit facilities.
- Bank employees should also be made accountable for their actions in case if the returns of loans are not achieved.