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You can either have the cake, or eat it

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IN THE Union Budget for 2000-01, the finance minister had announced the government's intention to reduce its equity holding in public sector banks (PSBs) to 33 per cent. After considerable dilly dalling, it has finally introduced a Bill in Parliament to give effect to this. At the same time, however, it has stated that the banks' "public character" will be maintained. The two objectives are in conflict with each other.

It is only by virtue of majority holding that the bank has a public character which in turn, enables the government to exercise controls, make them accountable to Parliament, bring them under audit by CAG and scrutiny of other statutory bodies such as the CVC, CBI etc. After divestment, majority equity will be in private hands. Consequently, their public character will automatically be lost and all controls will have to go.

But, the government is simply not interested in shedding controls for fear of antagonizing the bank employees/workers on the one hand and loosing a captive source for supporting its massive borrowings plan on the other. By implication, it will not reduce its holding to a minority.

This would also be clear from what Mr Devi Dayal, secretary (Banking), said at the time of a recent meeting of Mr Yashwant Sinha with the chief executives (CEs) of banks. He hinted at divestment only to the extent needed for re-capitalising the concerned banks to reach the capital adequacy norms prescribed by RBI.

The above gives a cue to the government's hidden agenda. Due to rising NPAs, increasing expenditure on wages and salaries, other overheads, heavy burden of uneconomic branches and overall poor performance, the capital base of several banks has shrunk. In some cases, despite several doses of recapitalisation by way of budgetary support, the situation has not improved. The government apprehends that any further infusion of capital by way of budgetary support could upset the overall fiscal balance.

Consequently, it is no longer interested in adopting this route to enable banks achieve RBI norms. Instead, it is now keen that the banks should raise capital from the general public. Consequent to this, its share in banks' equity will inevitably decline. This could be to the point of even reducing its holding to a minority.

Despite the end result being the same, this exercise cannot be termed as divestment, which occurs only when the government actually unloads shares held by it. But, ingenious politicians/bureaucrats are seeking to camouflage the former under the garb of the latter. They feel that the packaging will facilitate good response besides giving a boost to its reformist credentials. But, alas, nothing of this sort will happen!

This is because the government is equally vocal about its plans to exercise controls and maintain the so called public character. In support of this, mandarins in MoF have even cited provisions of the Banking Regulation Act. And, the FM has talked of issuing a Golden Share, which purportedly aims at ensuring that despite reduction of the government's share in bank's equity, it could veto any resolution/decision that might go against public interest. This does not augur well for attracting capital or improving its image.

In furtherance of its game plan to raise capital without relinquishing overriding controls, the government was contemplating restricting the holding of any single entity to no more than 1 per cent of the share capital of the bank. Though this condition has been dropped in the Bill placed in Parliament, there is no indication whether it will allow "strategic partnership" either. In other words, the possibility of any private party getting controlling interest in the Bank is ruled out. Consequently, it is unlikely that Bank's public issue will get the desired subscription.

The government should stop its double speak. Having announced that its holding in banks will be reduced to 33 per cent,it should also accept its logical consequences viz., transfer of ownership and management control. This will not only help banks raise the required capital and survive fierce competition from private banks, but also, fetch good value for the shares it unloads.

(The author is Chief Economist, Fertiliser Association of India. The views expressed are personal)