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Unshackling banks: key to their bailout

By Uttam Gupta

IN his Budget speech for 2000-01, the finance minister announced that government's equity holding in public sector banks (PSBs) will be reduced to 33 per cent. In a post-Budget briefing, however, the finance secretary clarified that all existing statutory conditions for being a public sector entity will continue to apply to them. In other words, despite majority equity resting in private hands, GOI will continue to call the shots.

The government perhaps, has in mind the special provisions of Banking Regulation Act to claim that despite divestment, the public character of banks will remain unaffected. Whatever may be the technical/legal position, the crux of the matter is that GOI does not want to loosen its grip over the banks. If, that be the cae, then, why all this bravado about reducing its holding to 33 per cent which gives a contrary impression?

The above points towards a hidden agenda. One can have a clear idea of this from Mr Mankad's post-budget briefing. He noted that teh government cannot keep on funding frequent re-capitalisatioin of banks wheih is necessary for achieving capital adequacy ratio (CAR) as prescribed by RBI. Therefore, they have no other option but, to raise capital from the market. This would automatically result in lowering of its share!

It would appear that the government wants to have the cake and eat it too. It needs capital from public - this would naturally include corporates in private sector - and, at the same time, does not want to relinquish controls. However, this is an impracticable proposition. It is most unlikely that the latter would contribute meaningfully to bank's capital if, they are not allowed to ahve a decisive say in the management.

The government has promised that management will have necessary autonomy in running the show. This does not instil confidence. If, intentions are clear i.e., GOI has no plans to interfere then, there is no need for brandishing the stick. In this context, FM's reference to issue of a 'golden share' purportedly aimed at vetoing any decision that may be at variance with public interest - is unwarranted.

The inability of several banks to maintain CAR at the desired level is largely due to inefficiencies, high overhead costs, BPAs etc, which, to a considerable extent, is caused by excessive controls. The situation can improve if, drastic steps like shedding of ecessive manpower, closure of uneconomic branches, computerisation/technological upgradation and so on are implemented. It is but natural for new management to act swiftly in all these areas.

This is where, the government's problems begin at the political level. The compulsions of avoiding any precipitate action ae perhaps as pressing as need for improving health of banks. That is why it is harping on maintaining so called public character of banks or sissue of a "golden share" in its favour. if, prospective stake holders cannot act freely, it is most unlikely that they would put in money. The proposal will simply not take off.

There cannot be two opinions on the paramount need for rejuvenating weak banks. However, infusion of capital whether by way of budgetary support or raising it from public alone will not make a dent.

This is almost like putting the patient on artificial respiration. The emphasis has to be on tackling various ailments that afflict these banks viz., high NPAs, inefficiences, high overhead costs etc.

Can this be achieved under existing dispensation of controls? The experience so far, does not instil much of a confidence. In fact, despite several doses of recapitalisation in the past, the woes of concerned banks continue. And yet, the government seems to be in favour of continuing the status quo as demanded by opposition parties.

There is an urgent need for getting into the pro-active mode. The Government should go ahead with divestment of majority equity - as promised in FM's speech - but, without any conditionalities. In other words, it should gear up for relinquishing all controls and allow banks to be run like any other private sector banks.

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