

Banking: Need a lot more to bank on

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Narendra Modi's manifesto two years back had been spot on, touching upon the key issues that faced the banking sector then — inflation, interest rates and bad loans. Inflation, which was hovering in the double-digit zone, has since crept to 5 per cent levels, thanks to the RBI's prudent monetary stance and sharp fall in crude and metal prices. To its credit, the Centre's commitment to stay the course on fiscal deficit did pave the way for more rate cuts by the RBI.

But while lending rates have fallen sharply by nearly 170 basis points since then, it has failed to revive credit growth and reduce loan delinquencies as was expected. Stretched corporate balance sheets have taken bank credit growth to decadal low levels of 8-9 per cent. While the Modi government has undertaken several policy reforms in core sectors, they are yet to yield results and kick-start investment activity.

But that's not to say that the Centre has not undertaken reforms in the banking sector. In its maiden Budget, it addressed the concern that banks faced when lending to the infrastructure sector, by offering flexibility in loan structuring and refinancing under the 5:25 scheme. Banks have been using this tool extensively to reduce stress.

Implementation is key

The Modi government's penchant for renaming and repackaging existing schemes led to the launch of schemes such as 'Indradhanush' and 'Pradhan Mantri Jan Dhan Yojana'. The former, a seven-pronged plan to revamp the functioning of PSBs, features appointments, board of bureau, capitalisation, de-stressing, empowerment, framework of accountability and governance reforms. While the proposed ₹70,000 crore capital infusion into PSBs between 2015-16 and 2018-19 is most likely insufficient, it is nonetheless welcome, given the sharp erosion in earnings and capital of most PSBs. Setting up a Banks Board Bureau (BBB) and the move to operationalise it in the current fiscal will bring in an independent selection process for top bank officials.

But it needs to be seen if the Centre is able to ring-fence it well from political interference. Most of the initiatives, including the Centre diluting its stake in PSBs and consolidation within the sector, are long-drawn.

Even with the recently passed bankruptcy code that will help hasten the insolvency resolution process, implementation will be key.

In the near term, banks still have to tackle bad loans and anaemic credit offtake. After managing to grow profits by a modest 7 per cent in 2014-15, banks' earnings have shrunk by a sharp 52 per cent in fiscal 2016.

Bad loans have worsened in the last two years, nearly doubling in 2015-16. Many PSBs additionally have to deal with very low capital ratios. Private banks such as HDFC Bank, IndusInd and YES Bank continue to fare better, keeping their bad loans under check. While ICICI Bank and Axis have witnessed asset quality woes, they still remain well-capitalised and continue to grow their loan book, thanks to their retail focus.

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