Who is paying for Jan Dhan? Govt has to pay for NPAs in this, and priority sector

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The Pradhan Mantri Jan Dhan Yojana (PMJDY) scheme has, no doubt, allowed millions of households to access banking facilities, and it helped that it provided for an overdraft (OD) facility of Rs 5,000. (Image: Reuters)

The Pradhan Mantri Jan Dhan Yojana (PMJDY) scheme has, no doubt, allowed millions of households to access banking facilities, and it helped that it provided for an overdraft

(OD) facility of Rs 5,000. However, it is very likely that banks have had to take a hit on these loan facilities, and this could be a substantial amount even if a fourth of the depositors—around 310 million in total—were beneficiaries. Under the circumstances, going by a news report in The Economic Times, it won't be surprising if the government plans to double the OD facility, especially since we are around a year away from the general elections. But asking the state-owned banks to pick up the tab is patently unfair. If the government wants to give financial inclusion a push, and encourage micro businesses, it must be willing to pay for it. As such, it must make an explicit provision in the Union budget for potential losses from the scheme. Else, it will amount to nothing less than distributing cash never to be recovered. Already, the banks have been under a tremendous amount of strain and spend an enormous amount of management time and effort on these no-frill accounts, the cost for which may be bigger than the amount they earn from the deposits. In fact, while it is true that a handful of large corporate customers account for the biggest chunk of non-performing assets (NPAs), priority sector loans can be equally hard to recover.

Agriculture NPAs now account for a fairly large share of the total bad loans—at State Bank of India for instance, at Rs 7,455 crore in FY17, agriculture NPAs were 5.53% of total agriculture loans. As a share of total NPAs for the lender, they amount to around 7.4%. But, again, not surprisingly in a pre-election year, there is talk of an increase in the directed lending to agriculture. The government is attempting to resuscitate state-owned lenders with a fairly large Rs 2.3 lakh crore worth of recapitalisation bonds. The funds may be sourced off balance sheet but are nonetheless taxpayer money; it would be a pity if this was not to be accompanied with some discipline on the government's part. This time around, banks' funds need to be deployed far more prudently than they were in the past. And the caution would need to extend to small loans as much as it would to large corporate loans. The government must not increase OD limits for small borrowers unless it is willing to bankroll them.