

# If private sector chips in, PSBs can be fixed: CEA Subramanian

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Chief Economic Advisor Arvind Subramanian speaks as (from L-R) Madras Management Association (MMA) Senior Vice-President L Ramkumar, McKinsey & Company Senior Partner Jaidit Brar, and MMA President Kavitha D Chitturi look on, at the MMA Annual Convention, in Chennai on Saturday - Bijoy Ghosh

# Arvind Subramanian suggests five 'R's to straighten the course of state-run banks

**CHENNAI, FEBRUARY 18**

The private sector's participation in public sector banking and better external regulations are key to reforming the industry, said Arvind Subramanian, Chief Economic Advisor, Government of India.

The banking sector is now troubled, Subramanian said, citing the fraud at Punjab National Bank, and the closure of Bank of Baroda's South Africa branch. He was addressing the Madras Management Association's annual convention on the topic 'Learning to Grow', in Chennai on Saturday.

"What we are facing are the twin balance-sheet challenges," he said. On the one hand, banks are saddled with non-performing assets, and on the other, corporates have borrowed too much and accumulated debt and are unable to repay. This has led to low private investment since banks are unable to extend credit.

Subramanian proposed that the banking sector follow five 'R's to straighten itself out: recognition, resolution, recapitalisation, reform and regulation.

The first step would be to recognise there is an issue, and quantify the magnitude of the problem, the CEA said. There ought to be an assessment of how many assets are stressed, and pass a resolution.

"We are making progress in this aspect with the Insolvency and Bankruptcy Code," Subramanian added. The Centre has allocated ₹2.1-lakh crore to recapitalise public sector banks.

## Mere reforms not enough

However, reforming and regulation of the banking sector is difficult. There is a need to ensure that tax payer money is protected from risks and is used efficiently. While reform in PSB governance is one way, there is no guarantee that it would lead to improvement.

Subramanian said allowing the participation of the private sector, exercising better internal controls and appointing external controls to complement them is a better solution.

Currently, public sector ownership handicaps PSBs, restricting them on recruitments and in the decision-making process. "We need to relieve them of that," he added.

The need of the hour, Subramanian said, is a better regulatory system, external and internal, to safeguard banks against another PNB-type fraud.

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