

Need to rethink public ownership of banks, says Aravind Subramanian

I think we are now coming around more to the view that if you want this problem not to recur in the future, we cannot just throw money into a black hole, he said

Arup Roychoudhury | New Delhi March 23, 2018 Last Updated at 00:29 IST

Chief Economic Advisor Arvind Subramanian on Thursday called for privatisation of state-owned banks, and said after bankruptcy code and recapitalisation, more steps were needed in the banking system to deal with the twin balance sheet challenge.

Subramanian's comments come after the Rs 129-billion letter of undertaking (LoU) scam, which has hit Punjab National Bank (PNB) and other public sector banks (PSBs). The scam has increased calls for privatisation among independent observers. Even Reserve Bank of India Governor Urjit Patel has stated that regulation of banks should be ownership-neutral, and that it is more difficult to supervise state-owned banks.

“My own view is that we need to better regulate banks. But my strong view is that we need to rethink public sector ownership because many of the governance problems that you see, while they do not go away in the private sector, considerably accentuate and get exacerbated because of the ownership,” Subramanian said, when asked a question on the PNB scam. He was speaking at an



Arvind Subramanian

have a more radical agenda for reform of the banking sector if these problems are not to recur in the future,” he said.

event in Delhi School of Economics.

“I think we are now coming around more to the view that if you want this problem not to recur in the future, we cannot just throw money into a black hole,” he said.

Before the LoU scam, the Centre had announced two major measures to deal with the burgeoning level of toxic assets in the banking system. It authorised taking non-performing assets to the National Company Law Tribunal under the insolvency and bankruptcy code (IBC), and is in the process of infusing Rs 2.11 trillion in PSBs in 2017-18 and 2018-19. Also, Rs 1.35 trillion of that will be through the issuance of bank recapitalisation bonds.

“To deal with the twin balance sheet challenge, the government took two very important steps: IBC process for cleaning up corporate balance sheets and recapitalisation of banks. But I think, to be very honest, all those efforts risk being set back by all the new stuff that has happened. I think we do need a fresh round of measures to overcome the twin balance sheet challenge,” Subramanian said on Thursday.

“And so, I think, going forward, we do need to