

# Careful with the CBI, expect to hit lending

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Bank lending to industry grew just 0.7% in FY18, after contracting 1.9% in FY17 – will get worse with spooked bankers.

On the face of things, the government has done the right thing by taking action against former Punjab National Bank managing director Usha Ananthasubramanian, and two executive directors of the bank in the Nirav Modi scam. If corrupt bankers are not nailed, after all, it is never going to be possible to clean up the system of loans-for-bribes that has

plagued the country for over 70 years. Apart from naming Ananthasubramanian in its FIR, the government had also asked her current bank, Allahabad Bank, to strip her of her powers, which the bank's board did on Tuesday.

But, things get a bit more complicated when you keep in mind that Ananthasubramanian was one of several heads of PNB when the scam was being perpetuated over the years, but action has only been taken against her—the investigating authorities surely need to explain why she was guilty while others were not. The fact that the CBI has a poor track record in getting convictions and that it has, in the past, swung to the demands of the political dispensation, is also worrying.

Ideally, as this newspaper has pointed out in the past, the government would have done well to first get a panel of experts, including top bankers, to vet charges instead of simply giving the CBI the freedom to file charges on its own. If something is industry practice—lending to power projects that have, for instance, not got a coal linkage—even if irregular, a panel of experts will be able to make allowances for it, something the CBI cannot possibly do.

This is why, for instance, the government diktat that PSU banks examine all NPAs of over Rs 50 crore for fraud, and involve the enforcement directorate, or revenue intelligence, if there were any violations was a bad idea, designed to send all bankers into a tizzy. With so many top bankers

under investigation by the CBI, the government has to keep in mind, such actions will have serious consequences when it comes to lending to industry or infrastructure, sectors where there is a greater degree of uncertainty in being able to recover loans as compared to, say, lending for housing or durables.

While bank loans have begun to recover a bit, keep in mind that the fastest growth is in the personal loans segment, and probably the slowest is industry. In FY18, while non-food credit grew by 8.4%, credit for personal loans grew by a whopping 17.8% as compared to a mere 0.7% for industry—while outstanding personal loans were just around 50% of those given to industry in March 2016, this rose to over 70% by March 2018, a sign of where bank lending is going.

Part of this, undoubtedly, is the fact that NBFCs are gaining market share and also the fact that, despite what the official numbers show, industry is growing very slowly. But from the point of view of a PSU banker who is already grappling with the problem of NPAs, the onslaught from the CBI is certain to make bankers gravitate towards safer lending. The flipside of the government's campaign to clean up banks, as has to be recognised, is likely to be a much slower growth in bank credit to sectors like industry and infrastructure.

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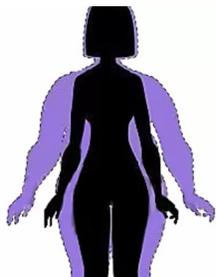
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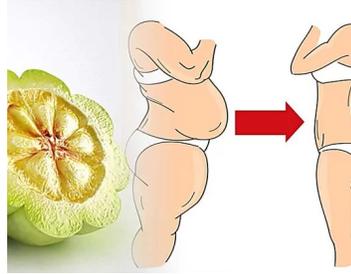
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