

What is PM Narendra Modi's plan for PSBs?

By: [The Financial Express](#) | Published: May 15, 2018 4:39 AM



In an election year, few expect Modi to privatise PSU banks, but he has to be alive to the fact that these banks are continuing to shrink in a big way.

With [RBI](#) stopping Dena Bank from lending operations and similar action expected against some other banks—that are also under RBI's Prompt and Corrective Action (PCA) regulations—declared poor Q4 results, prime minister [Narendra Modi](#) needs to reexamine his plans for PSU banks. Eleven of India's 21 PSU banks are already under the RBI's PCA discipline regulations and they account for around 30% of all deposits and advances by PSU banks. The way things stand right now, few if any of these banks actually have a credible chance of emerging from the PCA regime into normal operations.

With no credible plan to get out of trouble, most of these banks will, willy nilly, become 'payment banks in the sense that they can accept public deposits but all they can do with the money is to invest it in G-Secs—their main business, then, becomes allowing clients to transfer their money around and, if they can, earn commissions from, say, selling insurance policies and mutual fund products to their client base.

In an election year, few expect Modi to privatise PSU banks, but he has to be alive to the fact that these banks are continuing to shrink in a big way. The market capitalisation or value of PSU banks is, today, roughly the same as it was when Modi came to power four years ago—it has declined marginally from ₹453,442 crore on May 23, 2014 to ₹445,798 crore on May 11, 2018—except, during this period the market capitalization of the banking sector has gone up by over 70%.

As a result of this, the share of PSU banks in overall bank market capitalisation has collapsed from 42.9% to 24.7%. Put another way, as compared to a situation in which the relative market capitalisation of PSU banks had not changed, they have suffered a notional loss of ₹327,541 crore. And, as the Dena Bank example shows, these banks don't really have a credible plan to reverse this.

If the PSU banks are losing market share—that is the reason for the collapse in their market capitalisation share—then Modi may as well privatise some of the banks; that way, he will both get some money for them and also get credit for reforms. While that may still take some time, the prime minister needs to take an urgent call on the hike in bank wages since the unions have already given a call for a strike if their demands are not met.

At the very least, wages should be frozen for the banks under the PCA regime. Not doing this makes the revival of banks even tougher since as while their avenues for earning remain blocked, their wage bills will keep rising.