

After posting record losses, is there a glimmer of hope for PSBs?

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MUMBAI, JUNE 4

It's a sea of red with some islands of black. That, in a nutshell, captures the performance of public sector banks in the fourth quarter of fiscal 2018. Barring two banks – Indian Bank and Vijaya Bank – which posted profits, the remaining nineteen banks have posted record losses.

The combined losses of all public sector banks (PSBs) in the fourth quarter of the last fiscal are nearly ₹63,000 crore. That figure sounds like the gross domestic product of some of the smaller States in the country. Or, to put it in another context, the amount is nearly what the government had promised to infuse as capital into these banks in the budget for this year.

Old-timers in the banking industry will recall a time when the RBI, the regulator, was intolerant of 'losses' by PSBs, going to great lengths to ensure that they did not besmirch their reputations. These days, such concerns are now history.

A bad quarter

Looking at these large losses in one quarter, it might look as though something has suddenly turned bad for all PSBs. Banks have had to make massive provisions for bad debt.

The news headlines grabbed by a Nirav Modi case or a Vijay Mallya fighting to stave off an extradition may give the impression that the large amounts involved in these cases are new.

In truth, this is not a new problem. Banks have been grappling with non-performing loans for quite a while now. A Nirav Modi or Mallya is only an extreme manifestation of the problem, simply not being able to get their money back.

As with many problems, the genesis of the present troubles began when the times were good. Large companies borrowed from banks to set up big infrastructure projects or for expansion. They were encouraged to 'support' these projects and asked to be cheerleaders for ambitious businessmen wanting to expand both domestically and abroad. As long as the economy was growing, even helped to some degree by high inflation, bank credit, too, kept pace and grew in high double digits. It was only when the growth in the economy started to stutter, and many projects got mired in legal, environmental and political battles, that the credit environment turned hostile.

Suddenly, the capacity built in the earlier decades in some infrastructure industries (power, steel, cement, real estate and construction) on the rather shallow sands of high debt were seen as more than sufficient while the expected demand failed to materialise. Bank credit growth, which once grew at above 20 per cent per annum, started dropping.

More recently came two other major blows. One was the scam in PNB which saw the bank post a record loss of nearly ₹13,417 crore. And the second was a tightening by the RBI of its various debt relief schemes and compelling banks to stop 'ever-greening' (lending new loans to defaulters to help them repay older loans) and start disclosing the bad news upfront. This has finally forced many banks to swallow the bitter pill and start revealing the real state of affairs.

Laymen affected

The scale of losses has raised concerns among laymen about the safety of their deposits and savings. Queries about the viability of these banks routinely come in from many panic-stricken depositors. Some are haunted by the fears over the ill-advised FRDI Bill (which has since been buried) that they will lose their savings for no fault of theirs. One has to remind depositors that these troubled banks are still government banks.

The government is duty-bound to keep them afloat – even if it costs a considerable dent to their budget finances and deficit targets. On earlier occasions, when banks were confronted with large losses, two things came to their rescue.

One, interest rates would drop and help boost their gains from treasury sales and provide enough money to absorb losses in lending.

Two, economic growth took care of non-performing asset (NPA) ratios and soon helped dwarf earlier concerns. But the fundamentals remained as weak as ever because banks had no foolproof method of recovering the money lent. This time, they have a new law – the Insolvency and Bankruptcy Code (IBC), admittedly still evolving – but with a fairer chance than before of recovering at least a part of the money lent. Two, the economy is once again on the cusp of a turnaround, going by the recently-released numbers.

By no means does this mean that the losses will come to an end immediately. The pain from the ongoing clean-up is likely to continue for another two years at the minimum. That timeframe should help PSBs make a clean break from the earlier era of denial and postponing the day of reckoning.

The huge losses, staggering though they may be, are in reality a belated acknowledgement of the true state of affairs at these banks. Recognition of the troubles they are in is necessary, but not a sufficient first step.

Resolution will follow, with plenty of time and pain, one may add. But the first step should provide confidence to depositors so that they don't need to keep the money under their pillow.

Published on June 04, 2018

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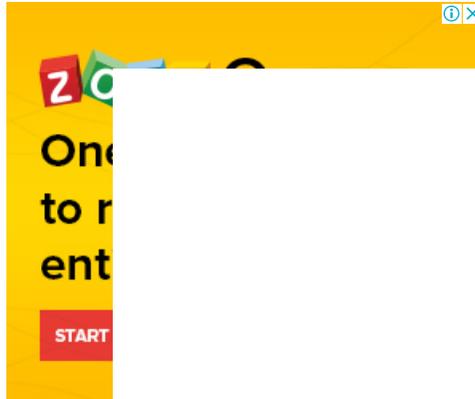


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Krishna 7.8K points

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The glimmer of hope is the hope of privatization of these banks whose employees have destroyed tax payer moneys in the thousands of crores without any repercussion.

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Drraiendran T 1.5K points

DI

9 hours ago

The government the sole architect of the woes of these banks must come to the rescue of the banks, with additional infusion of capital without thinking of going for 'bail-in' which will cause untold sufferings to the deposit holders who are either pensioners or pension-less senior citizens. This government does not take any effort to reduce NPA and the corporats are trying to escape from the clutches of the law for the loans that they have taken. The entire banking system is under stress and creating a situation of incredibility over the activities of the banks. The bank branches and the banks have to be merged to bring in economy over the operating cost by making use IT to a higher extent. The officers of the banks must shed all luxurious expenditure and economy has to be imposed in all the areas of running cost. Any pay hike to the employees has to be stopped by the concerned bank till that bank comes out of red.

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G

Gopal 6.3K points

21 hours ago

The author has taken a very narrow view of an alarming situation. The current situation is due to sweeping many NPAs under the carpet and providing a rosy picture. Large companies that borrowed did not setup anything, they simply round tripped the money, so now e have no infrastructure for money borrowed nor the money. Bankers should not be made a puppet infront of political wishes. The famous ex Andhra Bank CMD was a puppy of the Harvard Educated former Finance Minister. These kind of political interference is the root cause exaggerated by an equally bad way of dealing with the situation by the banks. The PVT sector banks also did not come clean either in this game. Pathetic.

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K

K.Bala. 970 points

a day ago

The Analysis on the causes for the PSBs losing credibility on account of ever-mounting NPAs , is misleading . The real truth is , (1) No Accountability at any level in Banks . (2) Political interference in the Functioning of Banks in Credit-sanctions . (3) Loans & LoUs issued without sufficient Credit-Analysis on Applicants & without Collateral Security for even 25 % of the Loan applied for .(4) No insistence on Quarterly Loan Utilisation Report , signed by CMD & by Auditors of the Company .(5) Abysmal Corruption at high levels in Banks .(6) Greening loans to the defaulters to show a smaller figure of NPAs .(7) No demand of Collateral Security from the Personal Property of CMD, atleast to the extent of 10% of Loan . (8) No judicial action within a Time-frame , allowing Loot & Scoot by the CMD. (9) . Lavish expenses of Bank-funds . Reasons are not Business- failure in all cases.

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M

M.Pethusamy 155 points

a day ago

Do not blame Banks and Bank staff. NPA SITUATION IS ONLY DUE TO policies of the GOVT., Corporates and Politicians.

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R

RHS 2.5K points → M.Pethusamy

a day ago

That is where you are wrong. Government employees are spineless bureaucrats living comfortably on government guaranteed jobs and pension. If it is due to the "policies" of the government, which I am sure the bank staff haven't read, has a mechanism for whistleblowing. Staff is also accountable.

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