

04:05 PM | 14 DEC **CLOSED**
MARKET STATS ▼

சென்செக்ஸ் 35,962 ▲ 33.29	நிஃப்டி 50 10,805 ▲ 13.90	கோல்டு (எம்சிஎக்... 31,538.00 ▲ 11.00	யுஎஸ்டி/ஐஎ... 71.89 ▲ 0.21
-------------------------------------	-------------------------------------	-------------------------------------------------	--------------------------------------

CREATE
PORTFOLIO

ETMONEY
THE DIRECT MUTUAL
FUNDS APP

CHOOSE
LANGUAGE
TAM

Privatisation of PSBs not panacea; need to cut govt mandates for PSBs: Raghuram Rajan

BY PTI | UPDATED: DEC 14, 2018, 05.11 PM IST

Post a Comment

Pointing out that privatisation of [public sector banks](#) is not panacea for all ills, former RBI Governor [Raghuram Rajan](#) Friday made a case for reduction of uncompensated mandates like lending targets and pushing government schemes through branches of state-owned lenders.

Big Change:
The end of Five-Year Plans: All you need to know

He also said there is a need to reduce the Statutory Liquidity Ratio and substituting this with the liquidity coverage ratios and net stable funding ratios set by Basel.

Last week, the RBI decided to reduce SLR, the portion of deposits required to be mandatorily invested in government bonds, by 0.25 per cent every quarter beginning January 2018. The calibrated reduction in SLR will continue till it reaches 18 per cent from the existing 19.5 per cent.

The banking system is overburdened with non-performing loans and there is a need to adequately professionalise boards of [PSBs](#), Rajan said adding the government should do away with board appointments to avoid unnecessary politicisation.

"Much of the problem lies in PSBs but private sector banks like ICICI and Axis Bank, as well as some of the old private banks, have not been immune. Some of the malaise comes from a general need to improve governance, transparency and incentives in the system. However, the difficulties in even some private banks suggest that 'simple' solutions like privatising all public sector banks may be no panacea," he said.

The former RBI governor also expressed concerns over uncompensated government mandates being imposed on PSBs for a long time.

"This is lazy government – if an action is worth doing, it should be paid for out of budgetary resources. It also is against the interests of minority shareholders in PSBs. Finally, it does not draw the private sector in to compete for such activities," he said.

The government should incentivise all banks to take up activities it thinks desirable, not impose it on a few, especially as the privileges associated with a banking license diminish, Rajan added.

Noting that among the more dangerous mandates are lending targets and compulsory loan waivers, he said government-imposed credit targets are often achieved by abandoning appropriate due diligence and creating the environment for future NPAs.

He also emphasised that the government should keep its banks well capitalised.

"This is simply good accounting practice, for it prevents the government from building up contingent liabilities on bank balance sheets that a future government will have to pay for," he said.

Rajan, who was 23rd Governor of the RBI, also observed that too many risks devolve onto banks, including those of interest rate volatility that banks elsewhere typically lay off in markets.

"Too much project risk stays with banks because other financial instruments such as equity and subordinate debt cannot be issued cheaply. Risk also returns through the backdoor; Banks do not make loans to housing developers because of their intrinsic risks. Nevertheless, they make loans to NBFCs, who make loans to developers," he said.

To prevent risk from returning to bank balance sheets, NBFCs must be able to raise money directly from markets, he added.

Stay on top of business news with The Economic Times App. [Download it Now!](#)

Powered by	Live Market	Industry	About Us
	News	Newsletters	Subscribe to ET Prime
	Portfolio	Commodities	Book your Newspaper Subscription
	Mobile	Speed	Create Your Own Ad
	Live TV	Blogs	Advertise with Us
	Biz Listings	RSS	Terms of Use & Grievance Redressal
			Privacy policy

FOLLOW US

Download it from
APP STORE

Download it from
GOOGLE PLAY

Download it from
Windows Store

Other Times Group news sites

[इकनॉमिक टाइम्स](#) | [ईकीनोमिक्स टाइम्स](#) | [Pune Mirror](#) | [Bangalore Mirror](#) | [Ahmedabad Mirror](#) | [ItsMyAscent](#) | [Education Times](#) | [Brand Capital](#) | [Mumbai Mirror](#) | [Times Now](#) | [Indiatimes](#) | [नवभारत टाइम्स](#) | [महाराष्ट्र टाइम्स](#) | [ವಿಜಯ ಕರ್ನಾಟಕ](#) | [Go Green](#) | [AdAge India](#) | [Eisamay](#) | [IGN India](#) | [NavGujarat Samay](#) | [Times of India](#) | [Samayam Tamil](#) | [Samayam Telugu](#) | [Miss Kyra](#) | [Bombay Times](#) | [Filmipop](#) | [Games App](#) | [MX Player](#)

Living and Entertainment

[Timescity](#) | [iDiva](#) | [Entertainment](#) | [Zoom](#) | [Healthmeup](#) | [Luxpresso](#) | [Gadget Reviews](#) | [Titanium & Platinum Credit Card](#) | [Online Songs](#) | [MensXP](#) | [Hotels](#) | [Travel Destinations](#) | [Cricbuzz](#) | [Recipes](#) | [Gaana](#) | [Happytrips](#) | [Getsmartapp](#)

Interest Network

[itimes](#)

Hot on the Web

[Stock market crash](#) | [GST](#) | [Rupee](#) | [Aadhaar Card](#) | [Delhi News](#) | [RBI](#) | [Mumbai News](#) | [How to save Income Tax](#) | [Sensex Today](#) | [Nifty Bank](#) | [Telangana Elections](#) | [Income Tax Calculator](#)

Services

[Book print ads](#) | [Online shopping](#) | [Matrimonial](#) | [Astrology](#) | [Jobs](#) | [Tech Community](#) | [Property](#) | [Buy car](#) | [Bikes in India](#) | [Free Classifieds](#) | [Send money to India](#) | [Used Cars](#) | [Restaurants in Delhi](#) | [Remit to India](#) | [Buy Mobiles](#) | [Listen Songs](#) | [News](#) | [TimesMobile](#) | [Real Estate Developers](#) | [Restaurant Deals in Delhi](#) | [Car Insurance](#) | [Gadgets Now](#) | [Free Business Listings](#) | [CouponDunia](#) | [Remit2India](#) | [Techradar](#) | [AliveAR](#) | [Getsmartapp App](#) | [ETMoney Finance App](#) | [Feedback](#) | [Auto](#)

In Case You Missed It

[All about PNB Fraud](#)

[Home Loan Calculator](#)

[Tata Steel](#)

[Income Tax](#)

[Oil Import](#)

[HUL GSK deal](#)

[Income Tax Calculator](#)

[RCom](#)

[Education Loan Calculator](#)

[IL&FS crisis](#)

[IFSC Code](#)

[Sachin Bansal](#)

Copyright © 2018 Bennett, Coleman & Co. Ltd. All rights reserved. For reprint rights: [Times Syndication Service](#)