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Urjit Patel blames ex-governors, governments for NPA mess

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MUMBAI: In his first speech since resigning as RBI governor last December, Urjit Patel has blamed his predecessors at the central bank for not taking away the “punch-bowl” from the “credit binge party”. He has also accused various governments of using public sector banks (PSBs) to pump-prime the economy and shunning reforms.

In a presentation, Patel highlighted how the bad loans figure in India is among the highest in major economies and much-needed reform still evades PSBs, which account for most of the mess.

'8 RS' HIGHLIGHTED BY FORMER RBI GUV

The reform of PSBs was the missing bit as highlighted by Urjit Patel

1) Respond to the crisis | 2) Recognise bad loans | 3) Record them

4) Report them

5) Recover businesses under restructuring schemes

6) Resolution proceedings should

be initiated under IBC

7) Recapitalised banks

8) Reform was AWOL (absent without leave)



The presentation, made as a keynote address at a conference on Indian economic policy at Stanford on June 4, was uploaded recently. Patel has blamed the then government for encouraging PSBs to help boost the economy for higher growth under the guise of 'capital deepening' and 'sensitive sectors'.

Dual regulation of PSU banks by RBI, govt wasn't addressed, says Urjit

He said that reforms were virtually missing as, routinely, senior positions in government banks were left vacant and board seats remained unfilled.

"Dual regulation of PSU banks by the RBI and the government was not addressed," said Patel. Incidentally, this was an area where he had clashed with the government, highlighting how the RBI did not have full power over PSBs.

Blaming banks for not maintaining balanced credit lending growth, Patel pointed out that non-food credit growth between FY07 and FY12 was around 20%, while the real GDP growth rate was around 7%. He said that the supervisor failed to acknowledge and rectify the inability of government banks to identify poor performing assets. “Instead (the regulator) allowed greater flexibility, for example company/group/NBFC exposure norms as a percent of banks net-owned funds were adjusted upwards,” said Patel.

According to Patel, the regulator failed to understand that the assumptions made by banks on revival of stressed businesses were going awry. These assumptions needed to have been challenged by doing stress tests on banks and sensitivity analysis on demand assumption and on policy risks to sectors.

In 39 damning slides, Patel has used data to show how bad loans have hollowed out the capital of PSBs—which have not provided enough for potential losses—and the government response has been to throw more capital at the banks. Pointing out that over half of funding in India comes from banks, the former governor highlighted gross NPA (non-performing assets) numbers that were worse than most major economies, barring Italy and Russia. In India, gross NPAs are at 10.3% compared to 1.9% in China or 3.2% in Brazil and 1% in the US.

Patel pointed out that since 2010, government holding in public sector banks has actually increased, driven mostly by the need to push social objectives such as Mudra schemes, 59-minute loans for SMEs and universal bank accounts. SBI is the only lender where government stake has declined from 59% to 58%, and in most others the government has increased its stake. In some cases, the government holding has gone up by as much as 25%.

Raising the issue of governance in PSU banks, Patel highlighted how 90% of all frauds have occurred in PSBs. In terms of capital adequacy, nationalised banks are at the border with a ratio of 13% as compared to 16% for private banks and 13% for SBI.

Besides high NPAs, Indian banks lag their global peers in making provisions towards these bad debts. The buffer for bad loans, which includes the provision coverage ratio and recovery rates, adds up to 77% in India, which is the lowest among all major economies.

