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Market Watch

Banking sector eyes better days on reforms, bad loan resolution

BY PTI | UPDATED: DEC 30, 2019, 06:12 PM IST

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Battered by bad loan menace and fraud, the country's banking industry eyes better days with mega merger of public sector lenders as well as massive capital infusion into them and the government's assurance that bankers will not be harassed for genuine decisions that went haywire will provide succour.

"Every fundamentals indicate towards higher growth and better future next year," Finance Secretary Rajiv Kumar told PTI, reflecting strong optimism going into 2020.

Amid slowdown blues, the government has unveiled a raft of measures over the past few months aimed at improving liquidity in the system, moderating interest rates as well as credit growth apart from addressing stress in the NBFC sector.

Better efficiency and transparency at the public sector banks are also in the priority list.

Resolution of **bad loans** has helped 13 public sector banks to post profit during the current fiscal against only six last year. Five such banks still remain in red.

Public sector banks made a recovery of about Rs 52,000 crore till September 2019. It is estimated that resolution of some of the large cases like Alok Industries and Bhushan Power & Steel Ltd (BPSL) would help aggregate recoveries cross over Rs 1 lakh crore during the current fiscal.

Besides, a number of measures, including capital infusion and transparent One Time Settlement (OTS) policy were implemented during the year to improve the health of banking sector and bring down bad loans.

Primarily on the back of various reform measures, the gross **NPAs** of public sector banks declined from Rs 8.96 lakh crore in March 2018 to Rs 7.27 lakh crore in September 2019. Their Provision Coverage Ratio (PCR) rose to their highest level in seven years at 76.6 per cent at the end of September.

In the biggest consolidation exercise in banking space, the government, in August, announced major mergers of public sector banks, that will bring down their total number to 12 from 18 at present.

The move is aimed at making state-owned lenders into global sized banks. The process of merger has been initiated with approval of respective boards.

United Bank of India and Oriental Bank of Commerce are to be merged with **Punjab National Bank**, making the proposed entity the second largest PSB among others.

To improve the financial health of PSBs and enhance their lending capacity by additional Rs 5 lakh crore, the government decided to infuse over Rs 55,000 crore upfront.

As a result of capital infusion and improved parameters, RBI removed five banks -- Bank of India, Bank of Maharashtra, Oriental Bank of Commerce, **Allahabad Bank** and Corporation Bank -- from the Prompt Corrective Action framework in two phases during the year.

Currently, Indian Overseas Bank (IOB), Central Bank of India, UCO Bank and United Bank of India are under this framework which puts several restrictions on them, including on lending, management compensation and directors' fees. All these banks are expected to be out of the framework next year.

With nudge from the government, banks also decided to link interest rates with repo rate.

Public sector banks have sanctioned over 11.68 lakh repo-linked loans to retail borrowers for home, vehicle, education, personal loans

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and to micro and small enterprises, amounting to Rs 1.32 lakh crore post Finance Minister's announcements in August on measures to boost the economy.

Continuing efforts to deal with liquidity woes in the NBFC sector, a Partial Credit Guarantee scheme for purchase of pooled assets of NBFCs/HFCs up to Rs 1 lakh crore was unveiled. There is also additional liquidity support by National Housing Bank raised to Rs 30,000 crore for Housing Finance Companies (HFCs).

In order to support decision making and to prevent harassment for genuine commercial decisions by bankers, the [Central Vigilance Commission](#) (CVC) has issued directions that Internal Advisory Committee (IAC) in banks need to classify cases as vigilance and non-vigilance ones.

On Saturday, Finance Minister [Nirmala Sitharaman](#) assured that honest commercial decisions taken by bankers would be protected and that the government has decided to take measures to assuage concerns over harassment by investigative agencies.

In recent times, many bankers have come under the scanner of probe agencies and regulatory authorities.

According to Rajiv Kumar, Non-Performing Assets (NPAs) are on decline, PCR is at record high, more than dozen banks have posted profit, recovery on the rise and retail loan growth is in double digit.

"Banks have improved their recovery efforts and Scheduled Commercial Banks have recovered an amount of Rs 4,01,393 crore over the last four financial years, including record recovery of Rs 1,56,702 crore during 2018-19," Finance Minister Nirmala Sitharaman had said.

As bad loan recognition process nears completion, gross NPAs of banks improved to 9.3 per cent as of end-September 2019, compared to 11.2 per cent in FY18.

However, as per the latest Financial Stability Report (FSR), the gross NPA ratio of banks may increase to 9.9 per cent by September 2020 from 9.3 per cent in September 2019.

Although Rs 14,000 crore Nirav Modi-fraud case was dealt last year by Punjab National Bank with the government financial support, this year it was the turn of Punjab & Maharashtra Cooperative (PMC) Bank scam leaving thousands of depositors in the lurch.

The once big cooperative bank has been put under restrictions by the RBI since September, after an alleged Rs 4,355 crore scam came to light. At least eight depositors, who had high quantum of money stuck with the bank, died in the last couple of months, including one who committed suicide.

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