

## Test Case Privatization of PSU Banks

### What is the issue?

\n\n

\n

- In recent times Indian PSU banks poses major problem for policy makers, for which privatization is a logical way forward.

\n

- But the idea of Privatization of banks has many practical difficulties for implementation.

\n

\n\n

### What are the problems with PSU banks in India?

\n\n

\n

- PSU banks faces a slow credit growth delaying the revival in private sector investment, which is crucial for the economy's return to a higher growth trajectory.

\n

- There has been only little improvement in functioning of PSU banks despite the introduction of various mechanisms aimed at improving governance in these banks.

\n

- Many PSUs are underperforming even after measures which has taken to reduce their tendency towards poorly judged or outright fraudulent lending.

\n

- Banks Board Bureau which was created to oversee banks has been noticeably absent at this time of crisis, partly due to less emphasis of the government.

\n

\n\n

### What are few issues with Privatization?

\n\n

\n

- There are many barriers to a programme of privatisation the primer one is that political risks are considerable for any government.

\n

- In addition, the banks themselves will be unpalatable acquisition targets for any private sector entity as many of them have books burdened with bad loans.

\n

- The government will naturally not receive a good price for them, opening itself up to attacks from the political opposition in some cases, it could be fortunate if it received any price at all.

\n

- It is also worth noting that many of the banks are vastly over-staffed or staffed by employees with low productivity, this excess employment cannot be easily shed by any acquirer.

\n

- Any programme of wholesale privatisation will have to deal with an aggressive campaign of obstruction by bank employee unions with political influence.

\n

\n\n

### **How test case privatization can be used as a solution?**

\n\n

\n

- The government could select one of its weakest banks as a test case for privatisation.

\n

- This could be sold as a special case of privatising a public sector bank that has conspicuously failed to perform.

\n

- Since it will be a special case, political opposition to the move could be muted.

\n

- If this bank performs well, the positive example could open the door to further privatisation in future.

\n

- Demand for erstwhile public sector banks might build up among possible acquirers, leading to the discovery of more remunerative prices.

\n

- Each additional privatised bank will support the argument, reducing opposition and increasing demand further.

\n

\n\n

\n\n

**Source: Business Standard**

\n

