

A Fraud on the Nation

The public sector banks are often under attack for mounting bad loans euphemistically called Non-Performing Assets (NPA's). But the remarks of the Comptroller and Auditor General (CAG) of India revealed the true face.

The CAG of India, Sashi Kant Sharma said "There is a significant part of NPA's that amount to fraudulently obtained advances. There is also the belief that a large part of these advances may have been transferred abroad and may never be recovered.

The governments which enact laws, making the illiterates ineligible for contesting in the elections, do not wish to do so in the case of wilful defaulters. Instead, those who are indebted to banks to the tune of thousands of crores decorate the corridors of power, making the bad loans much more irretrievable.

All the NPA's may not be a fraud. Certainly, recession in economy contributes to bad debts. But, the politician-businessman-bank men nexus is behind most of the bad debts.

The NPA's are playing havoc with the finances of the public sector banks which are supposed to be the guardians of the household savings. According to the CAG, 10 State-run banks suffered losses of over Rs.15,000 crore in the fourth quarter of 2015-16 due to provisioning to cover for the bad debts.

There is a saying in the economics. If you take a lakh of rupee loan, it is your problem. But if you take hundreds of crores of loan, it is the bank's headache. The I' affaire Vijay Mallya is a classic illustration of this.

The stressed assets are not really the stressed, but largely created to indiscriminately favour the crony capitalists.

Instead of bringing a strong regulatory regime to deal with the problem, the government is floating fallacious theories. The government claims that it is infusing capital to revamp the PSB's plagued by stressed assets. But in reality, besides the NPA's the government is also bleeding the PSBs.

According to Soumya Kanti Ghosh, chief economic adviser to State Bank of India, the cumulative capital infusion into PSB's for the fiscal decade ended 2014 was Rs.60,000 crore, but the dividend payout was nearly Rs.64,000 crore, while the cumulative income tax paid was around Rs.1.3 lakh crore. Thus, the dividend and the tax paid to the government together amounted to more than 300 percent of the capital infusion.

The major chunk of the NPAs is caused by targeted lending mainly due to political and bureaucratic influences.

An analysis of the data clearly reveals that the NPAs are not the sin of the small borrowers though the bank's resources are mainly contributed by small depositors. As on March 31, 2015, the NPA's amounted to Rs.3 lak crore. Over 40 percent of the (1.21 lakh crore) is due from 30 corporates while over 30 percent is due from about 6000 individuals and institutions. The preferred corporates account for the most of the NPA's. The political clout they enjoy makes it impossible for the banks to retrieve the money. The NPAs are a criminal fraud on the economy.

The Hans India, 2 July 2016
