The Crisis of Banking System

The scandal involving the Punjab National Bank, numerous other Indian banks and diamond merchant Nirav Modi has once again brought the issue of the crisis if Indian banking system to the fore. It is clear that the crisis is deep rooted than appears as a mere scandal. The government is arguing that it is the act of some bad elements and not a systemic failure. It is pushing privatization as a solution. Let us examine the issue from the beginning.

The commercial banking system was started with the establishment of Bank of Bengal in 1809, Bank of Bombay in 1840 and Bank of Madras in 1843. These three were merged to form Imperial Bank, which was later nationalised and renamed as State Bank of India in 1955. The Reserve Bank of India was established in 1935 as a central currency and banking regulator. Following this several private banks were established by private share holders.

Between 1947 and 1955, about 361 private banks failed. The savings deposited by the people in these banks has all gone. In 1960s, there was one SBI and several private banks owned by big bourgeoisie. Only a tiny share of household savings, primarily from metro cities, was being deposited in banks. Bank credit was provided almost entirely to the industrial houses. The bank credit to agricultural sector is a little over 2 per cent in 1967.

The Indian ruling classes felt the need to have commercial banks to garner household savings from urban and rural areas, so as to utilize those funds for their capital needs. The private banks at that time had neither interest nor capacity in expanding their operations to rural and urban areas. This is true even today as the private banks that were allowed to operate after new economic policies have very negligible rural operations. Moreover, the green revolution strategy that was ing implemented during 1960s necessitated the credit extension to agricultural sector to create market for chemical fertilizers and other inputs. Thus the government of India nationalized 14 banks in 1969 and another six more in 1980.

The then Prime Minister Indira Gandhi placated the nationalization of banks as a socialistic measure which would provide the cheaper bank credit to small industries and peasants, who were dependent upon usurious private money lenders.(Of course the situation did not change much even today). However the result was as predicted: The Indian big bourgeoisie gained control of the entire savings of the middle classes, who deposited their hard-earned money in the nationalized banks with hope that their money was in the safe custody of the government. These savings were deposited (still being deposited) in the industrial, commercial and even speculative (as was seen in the case of Deccan Chronicle's betting in IPL cricket matches) operations of big bourgeoisie. Until the government issued orders to the Public Sector Banks (PSB) to lend 18 per cent of their total advances to the priority sector, the PSBs had not looked toward the agricultural sector.

After the nationalization, the banking sector expanded phenomenally and consequently the drain of bank funds by the big bourgeoisie, in both legal and illegal way, also grew pheno-menally. The big bourgeoisie had vast finance capital at their disposal..

The big bourgeoisie have their representatives on the Board of 'directors of PSBs. They also take position in the Board of RBI. The so-called independent directors are agents of the big bourgeoisie. Senior bureaucrats who are supposed to supervise the functioning of PSBs are offered lucrative benefits by the big bourgeoisie. Thus a nexus was formed to drain the money of people. When the big bourgeoisie refuse to pay back their loans on one pretext or the other, they were named as Non Performing Assets (NPA) and were later written off or the government in the name of recapitalization of banks provides them funds through budgetary resources. During the middle of 1980s, the NPAs of PSBs soared to more the Rs.10 lakh crore, mainly due to non-payment by a score of big capitalists. The unions of bank employees released their names of these so-called defaulters. But the government took no action except providing budgetary funds to PSBs as "recapitalization"

The recent problem of NPA s of PSBs often came to be focused for the last five years. The Finance Minister of UPA government Chidambaram and then the Finance Minister of NDA government Arun Jaitley stated on record that the NPAs were due to the default by some 30 families. Nothing has happened to get back the money from the defaulter and the government even refused to disclose their names to the public.

Now the NPAs of PSBs are soaring with every passing year. They grew from Rs. 2.67 trillion on March 31, 2015 to Rs. 6.89 trillion on June 30, 2017, according to the reply to Lok Sabha by Shiv

Prasad Shukla, the Minister of State for Finance on April 6, 2018. Of the 21 PSBs 11 have NPAs greater than 15 per cent of total assets. The NPAs has further soared to Rs. 7.89 trillion by the end of December 2017. The private banks' NPAs stand at Rs. 241.11 billion on June 2014 which grew to that this figure is the balance after the government waived nearly Rs. 4 trillion accumulated NPAs during the last decade.

According to a report appea-red in the Business Standard (1-6-2018) 19 of 21 PSBs reported losses in 2017-18 which wiped out almost all the government's capital injection of Rs 13 billion. The report accounts these losses to the acceleration of NPAs.

The first NPA list of RBI has 12 cases which would be dealt under Insolvency and Bankruptcy Code (IBC) consists of: Monnet Ispat and Energy; Electrosteel Steels; Aloke Industries; Jyothi Structures; Bhushan Steel; Bhushan Power & steel; Essar Steel; Jaypee Infratech; Lanco Infratech; ABG shipyard; amtek Auto; and Ev infrastructure.

Take the case of Lanco. It built Lanco Kondapalli Power first plant on duel fuel technology (Mapth and Natural gas). The Gas Authority of India (GAIL) refused to supply natural gas to Lanco kondapalli power first unit and even declined to commit for supplies in future as it had no surplus gas and the first unit run all these years on naphtha. Knowing this well, the banks financed three more units at the same site and after the completion of their construction they remained idle without producing power for more than 5 years. It is a well documented fact as was in the case of Enron project that the private power generating companies show double the cost of actual of construction in order to claim more price for the power they supply to state power utilities. The additional funds were siphoned off as the lending banks look the other way.

In the RBI list there are four steel industries. Tata competed to takeover Bhushan Steels offering highest bid. If approved, which is certain, it involves a "haircut" - meaning part of written-off loan by the lending bank – to the tune of Rs. 23,000 crore. This means that Tata is getting Bhushan steel cheaper at the expense of PSBs. This crisis leads further monopolisation in the industry. Already JSW is in the process of taking over Essar Steels.

This is how the Indian big bourgeoisie loots the PSBs and thrives on plundering the exchequer. For this reason, the CPI (ML) characterise the Indian big bourgeoisie as bureaucratic capitalist in nature apart from being a comprador one.

Privatisation is being placated as a panacea for the ills of banking sector. As noted earlier private banks accumulated NPAs and several of them failed,. The failure of the Global Trust Bank some years back amply illustrates this. In 2008 most of the private banks are mired in NPAs. The latest example is Axis Bank, Which reported Rs. 2188 crore loss in the latest quarter. One of the oldest and largest private bank, ICICI Bank faced allegation of fraud and its CEO was removed from the post.

It is well known that term privatisation is an euphemism for handing over the Indian banks to foreign monopoly finance capital. A series of administrative and legal measures were taken during the last decade to pave the way for the takeover by the foreign finance capital. The Insolvency and Bankruptcy Code, Financial Reconstruction and Deposit Insurance Act, National Company Law Tribunal are some of these measures. These so-called reforms make it easy for the foreign finance capital to take over Indian banks and other financial institutions.

On the other side, these measures benefits Indian big bourgeoisie who caused the burden of NPAs. Under the IBC the banks were forced to forego 75 per cent of what is owed to them.

Mean while the peasants and small business and industries are harassed in the name of NPAs. The burden of the writing off and recapitalisation are placed on the backs of the masses who are already finding it difficult to meet the both ends meet. There is hope in the horizon as the economy has not yet recovered from the blows met by the devastating demonetisation and GST. Bank recapitalisation will further deteriorate the situation.

Top 5 Banks' Gross NPAs

PSB	Gross NPAs(Rs. Billion)	
	June 2014	June 2017
IDBI Bank	107.64	332.67
UCO Bank	63.46	253.32
United Bank	70.97	137.21
Dena Bank	31.69	141.69

***