

Finance: Crony capitalism looms large on the Indian banking horizon

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The \$1.77 billion Punjab National Bank (PNB) scam, possibly the biggest financial chicanery to have hit the Indian banking sector, is rocking the nation. Perpetrated by a diamond tycoon in collusion with bank officials, defrauding India's second largest bank in such a manner seems astonishing. Especially after repeated claims by regulatory and governmental agencies of a heightened scrutiny of public sector banks' operations to safeguard public assets.

Billionaires and public funds

It is a lame excuse by the PNB management that a handful of junior officers have orchestrated such a massive swindling. The prime accused, Nirav Modi, was named among Forbes' list of India's Richest in 2016, with a net worth of \$ 1.74 billion. The billionaire diamantaire was part of the Indian business and corporate delegation at the World Economic Forum at Davos in January 2018 and was seen posing for photographs with the Indian prime minister, Narendra Modi. This Modi square bonhomie is symptomatic of a deeper malaise afflicting the Indian banking sector since long. That of a crony capitalism which systematically passes on public wealth to private capitalists, creating oligarchies.

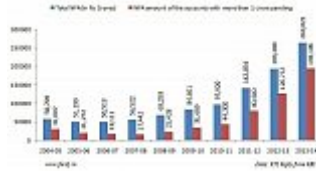
In February 2016, another maverick billionaire, Vijay Mallya, who was also a member of the Indian parliament, siphoned off money from the Indian public sector, leaving them with unpaid dues of about \$ 1.4 billion. He succeeded in fleeing to the UK before Indian law enforcement agencies could nab him. This precedent was also followed by Nirav Modi and his family, all of whom were able to run away from the country weeks before the scam could be investigated. Or, were they systematically let off the hook?

Ever-increasing non-performing assets (NPAs)

In October 2017, the total stressed loans - including NPAs and restructured or rolled over loans stood at \$145.6 billion and figured 12.6% of the total loans of the public banking sector. Between July-December 2016 NPAs increased by 5.8% and 4.5% in the following semester, attaining the highest level in 15 years. These loans were largely due from large business conglomerates - mostly in steel and infrastructure sector - and the major part of the non-recoverable loans were reflected in the books of the public sector banks (PSU banks, which are the backbone of the Indian banking industry), with the largest PSU bank, the State Bank of India and its associates bearing the biggest

brunt.

A dozen of the biggest such cases account for nearly \$27.64 billion, or a quarter of total NPAs. More than 20 other large companies defaulted to such a level that they are at risk of being taken to bankruptcy court. This growing level of bad loans has ablated bank profits; and the apprehension of new debts has further discouraged new lending, particularly to smaller enterprises.



The above figure shows the growth of NPAs for a decade between the financial years 2004-05 & 2013-14, in crores (1 crore = 100 millions) of rupees. A report by the Financial Express quoting the World Bank says that Indian PSU Banks' NPAs are worse than the Republic of Korea's ones during the 1997 Asian financial crisis. [1] It can be undoubtedly concluded that even if the Indian banking sector is not on the brink of a disaster, something is rotten in its state of affairs.

Cronies hold the banks in ransom

Crony capitalism with loans to kith and kin of politicians and business conglomerates backed by those in power rules the roost. In the last three years, the Narendra Modi-led BJP government has written off corporate loans to the tune of \$ 31 billion. This grotesque magnanimity to the corporates is being attempted to be compensated by recapitalization of banks through public funding, which in other words means that the ordinary Indian people would be bailing out the banks that are still being plundered by the corporates. What could be a better example of a socialisation of the losses and the privatization of the booty? While millions of farmers are lamenting in want of debt relief with severe agrarian distress forcing them to commit suicides, the industry and the capitalists are provided systematic leeway to run away with the money of the PSU banks, loaned to them from the monies deposited by millions of ordinary people in the banks.

The banker-borrower nexus has plagued the Indian banking system for years. Rather, privatisation of public sector banks is falsely touted as the panacea of all evils leading to such huge NPAs. The latest PNB episode unveils a nexus deeper than imagined. This is not simply the handiwork of a few junior officers, but individuals are scapegoated to let off a systemic fraud. The Reserve Bank of India and other investigating agencies should act speedily to restore trust in the banking system.

Public sector banks fulfil an indispensable social necessity and large numbers of poor people need access to finance in a country like India. The government must not be allowed to abdicate its responsibility to the common people. It has to end this unholy nexus between the State and big capital to revive the Indian banking system to the needs of the majority of the population.



P.S.

* CADTM, 18 April 2018:

<http://www.cadtm.org/Crony-capitalism-looms-large-on>

Footnotes

[1] PSU Banks' NPA worse than Republic of Korea during 1997 Asian financial crisis: World Bank