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Mains Practice Questions

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Q. A better solution than privatization may well be giving Public Sector Banks autonomy to reform themselves and function free of political interference. Justify.

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Approach

- Start the answer by mentioning the context of the need for privatization of banks.
- Mention the rationale of Privatisation of Banks followed by the arguments against it.
- Conclude Suitably.

Introduction

In the recent years, the Indian banking sector has witnessed multiple Public Sector Banks (PSBs) getting scammed and faced huge losses due to high Non-Performing Assets (NPAs). This has prompted the debate for privatization of Public Sector Banks. However, there are many pros and cons related to it.

Body

Rationale of Privatisation of Banks

- **Bulk of NPAs:** The banking system is overburdened with the non-performing assets (NPAs) and the majority of which lies in the public sector banks.
- **Problem of Dual Control:** PSBs are dually controlled by RBI and Finance Ministry. Due to this, RBI does not have all the powers over PSBs that it has over private sector banks.
- **Political Interference:** The government still has a major say in board appointments, this creates an issue of politicization and interference in the normal functioning of Banks.
- **Draining of Profits:** Private banks are profit-driven whereas the business of PSBs is disrupted by government schemes like farm loan waivers etc.

Arguments Against Privatisation of Banks

- **Democratization of Banking:** Banks in India were nationalized for the first time in 1969. Before which they had been lending 67% of their funds to industry and virtually nothing to agriculture.
Thus, nationalizing banks helped in the democratization of banking services of the masses.
- **Undermining Social Welfare:** Public banks open branches, ATMs, banking facilities, etc even in the non-profitable rural areas of India or the poorer sides where the possibility of getting big deposits or making money is less.
However, Private banks are not inclined to do so and they may prefer opening such facilities mostly in megacities or urban areas.

- **International Precedent:** Most East Asian success stories have been underpinned by financial systems effectively controlled by governments. On the other hand, where banking is largely in the hands of the private sector, have had to rescue private banks from bankruptcy.

Conclusion

Even though private sector banks have better balance sheets than PSBs, it is very important to consider that Privatization alone would not solve all of the problems faced by the sector. A better solution than privatization may well be giving PSBs autonomy to reform themselves and function free of political interference.