

Risk-averse banks are the cause of slowdown, says CEA Subramanian

OUR BUREAU

Kolkata, August 23

The slowdown in the Indian economy in terms of both investments and consumption growth is primarily due to problems in the banking sector, said Krishnamurthy V. Subramanian, Chief Economic Advisor, on Sunday while delivering Bandhan Bank's anniversary lecture.

The rise in non-performing assets in the banking sector made banks "risk averse" and this in turn impacted corporate lending. While the NBFCs

tried to fill the gap by lending to the small and medium sector enterprises, it was not sufficient to boost growth.

"Investment-based lending in India is mainly done by banks and the increase in risk aversion affected corporate lending.

"In a large economy like India these effects are seen with a lag. So when economic growth slowed down it impacted the disposable income and there was a decline in consumption.

"We are now in this cycle

where investment is not picking up and growth has been affected. The crisis has its origin in the banking sector," said Subramanian.

Adoption of technology

Indian banks should take a relook at their models of corporate lending to ensure that credit is extended to the best projects, with best governance and where there is a good demand.

Banks should increasingly adopt technology to reduce frauds and NPAs.



Chief Economic Advisor
Krishnamurthy Subramanian

"Fintech has been shown to reduce NPAs even while enhancing lending volumes," he said.

The banks with low IT adoption have witnessed a spike in

NPAs during the crisis and their growth has also been affected. Banks should also use data analytics in a big way for early detection of frauds or malpractices, if any, he added.

According to Subramanian, Indian banks can be compared to the Indian cricket team in the 1990s, "which were like tigers in home front, but turned into lambs when they went abroad".

Despite being the fifth largest economy in the world, India has only one bank that features in the list of global

top 100 in comparison to China which has 18 banks and the US which has 12 banks on the list.

"Even countries which are just a fraction of the size of the Indian economy have one bank in the global top 100 list. For the size of its economy, India should have at least six banks in the global top 100 list by 2025.

"There needs to be a change in mindset and Indian banks should evaluate themselves in global perspective," he pointed out.