Abstract:

Even if Indian banks including the state-owned banks (or PSBs) have fared quite well in terms of growth, profitability and asset quality during the last fifteen years, the cost of intermediation remains very high and the banking penetration is quite skewed (confined only to a few customer segments and geographies). The periodic instances of failures of weak banks (like GTB or UWB) have often threatened the stability of the system. With the second phase of opening up of Indian banking sector in April 2009, foreign banks will have the opportunity to own up to 74% of Indian private sector banks, which will create a major competitive challenge for Indian banks. At present, the structural hurdles have impaired the ability of Indian PSBs to intermediate efficiently. While it is recognised that current time is the most appropriate time to facilitate consolidation amongst banks, earnest efforts in this direction have not so far begun. A few of the PSBs will be under tremendous strain if required to raise further capital as the government holding in them is already closer to 51% and their CRAR is marginally above the required minimum. It is a must for our banks to consolidate, raise more capital, find ways to inject new capital otherwise they will lose their position to large-sized global banks post-2009.