

>

Title: Regarding clarificatory question asked by Shri Gurudas Dasgupta on the statement made by the Minister of Finance on 15.12.2004 regarding situation arising out of the move of the Government to change the Banking Policy (Minister of Finance replied).

14.14 hrs.

The Lok Sabha re-assembled after Lunch at Fourteen

Minutes past Fourteen of the Clock.

(Mr. Deputy-Speaker in the Chair)

CALLING ATTENTION TO MATTER OF URGENT

PUBLIC IMPORTANCE – contd.

Situation arising out of the move of the Government to Change the Banking Policy, dilute the Government stake in Public Sector Banks, merge the Public Sector Banks to form giant banks and enhance foreign direct investment limit

in private banks to the detriment of the interests of the common people.

MR. DEPUTY-SPEAKER: Now, the House shall take up Item No. 11 -- Calling Attention.

The hon. Minister had already made a statement. Now, Shri Gurudas Dasgupta to ask only clarifications.

SHRI GURUDAS DASGUPTA (PANSKURA): Sir, at the outset, I must make it clear that even becoming a Member of the Party which supports the Government, I am extremely sorry and I may apologise that I am not being able to support the contention of the hon. Finance Minister. It seems, there is a digression, deviation. There is an undeclared change of vital policy of the Government without taking the Parliament into consideration, without taking the partners or the supporters of the Government into consideration.

Sir, that is not my complaint against the Minister. He has every right to choose his own path but since it is a coalition Government, we have a right to be consulted. The Parties, who are there in support of the Government, have a right to be consulted but we have not been. The hon. learned Minister has built up his argument on five pillars. I am not speaking of *panchsheel*. I am speaking of the five disputed pillars of argument which the hon. Minister has tried to build up while defending his policy, the change of banking policy or rather reform of the banking policy in whose direction, only the Minister can say.

At the beginning he says, "changes are contemplated to bring Indian banks to global level". Nationalised Indian Banks are to be taken to the global level. What for? I agree, for effectiveness or for better functioning. But is it not true that the global banks in the world do have little social commitment for the progress, to fight unemployment or to fight poverty? If the global banks do not have any social commitment, then by implication the hon. Minister of Finance is saying that while making the Indian banks global or globalised, they are allowed to disown or abandon their commitment for the social progress.

May I know from the hon. Minister, whether the global standard banks, as he is asking the Indian banks to become, will have a commitment to open rural branches? Will they have any commitment to advance credit to the rural masses at a subsidised rate? Will they have any obligation for developing the priority sector of India? Will these banks be obliged to take steps to use people's money for people's welfare? That is the primary consideration before us. Rs.16 lakh crore are deposited in the banks. It is people's savings. It is the small savings of the people. We want people's money to be used for the people's welfare. By becoming a global bank, necessarily the social aspect of the banking policy is bound to suffer, is bound to get weakened. Therefore, may I know from the hon. Minister the reason behind this?

We do not need global banks. We need banks to promote our development, to bring about increased investment rate. We want strong banks, sound banks but nationalised banks that are committed to the nation. That is what we believe should be the part of the banking policy. It seems, by pleading for having global banks, hon. Minister is giving a good-bye to the basic principles that led to nationalisation by Shrimati Indira Gandhi, whom Shri Chidambaram may not have forgotten till today.

Sir, his second argument is that it would lead to consolidation. Now, the basic principle of economic reforms was to instil a spirit of competitiveness. 'Competition' was the buzz word of economic reforms. But the hon. Finance Minister is pleading for consolidation, which means, monopolistic growth. Now, the proposal is to bring down the number of 27 nationalised banks to five -- five monopolistic banks. Therefore, what was the principle of economic reforms? Was it competition or monopolistic growth? I am sorry to say that if banks are merged, if the number of banks are reduced, if banks are consolidated, then it would lead to monopolistic growth in the banking sector which, in my opinion, will impair upon the social obligation of banks. I can definitely say that consolidation will lead to weakening of the policy which the country need for promoting growth.

Sir, secondly, why does the hon. Finance Minister want consolidation? He has been very categorical in his assertion. We cannot accuse Shri Chidambaram of holding his cards close to his chest. In that respect he has been very transparent. What he says is the reason for consolidation? The reason for consolidation is to reap the economies of scale in terms of manpower and other resources, which means that he would like to reduce manpower. In order to reap the benefit of economies of scale, the hon. Finance Minister is pleading for reduction in manpower. Unfortunately, this is not the mandate. Shri Chidambaram today is a Member of the Lok Sabha and so are many of us because we pleaded for a change in the economic policies. We pleaded for an alternate policy. By speaking of

consolidation, Shri Chidambaram has given an impression that he believes that there has to be VRS; there has to be retrenchment and there has to be more unemployment. It will lead to a situation where this country would have less job opportunities. Can we afford this? In order to reap the benefit of scale of economies in manpower, he is indirectly pleading for a reduction of manpower

and is talking about redundancy of manpower. This will lead to less job opportunities and will contribute to the worsening of the unemployment scenario in this country. Can we afford that?

Sir, this is not all. It also means contractualisation. We find contractualisation in foreign banks. Shri Chidambaram is very fond of foreign banks. He would like the Indian banks to follow the footsteps of the global banks. What are the foreign banks doing in India? The foreign banks are found to be the conduits of finances to terrorists in the country. In the 80's, there was a Committee set up by the Reserve Bank of India under the Chairmanship of the former Governor of RBI, Shri Amitava Ghosh to look into this aspect. It categorically listed the criminality of the foreign banks. Now, Shri Chidambaram wants the Indian banks to follow the footsteps of the global banks, which means the foreign banks and, if it is done, it will lead to contractualisation, outsourcing and reduction of labour cost and in the process lead to benefit of scales of economies. Therefore, we are opposed to it lock, stock and barrel.

Sir, his third argument is that the banks should have a Capital Adequacy of the international standards. That is why, he has mentioned two things – Capital Adequacy and NPA – as a reason for consolidation and also as a reason for the changes that he would like to bring about in the banking sector. Most of the banks in the country, let me inform the House, if not all, are having Capital Adequacy – nine per cent of the capital should be the risk advance – of the international standard. Then, why should there be any further improvement? Why does the hon. Finance Minister want more? He would like to use the improvement in Capital Adequacy norm as a stick to beat down the nationalised banks and to drive these banks in the direction of the global banks. It is too weak an argument to plead for consolidation which will lead to monopolistic growth.

Sir, the Government has to right to talk about NPAs. Who are the defaulters? Shri Chidambaram can find a list of the defaulters from the RBI. Many of the defaulters are in the corridors of power. Government is too soft on them. The Government has not initiated any criminal proceedings against the defaulters to realise the sum locked because of NPA. There are not enough teeth in the law to punish the defaulting persons. Despite the previous NDA Government taking steps to realise the NPA, despite Shri Chidambaram having taken over the reigns of the Finance Ministry for over six months, what is the amount locked up because of NPA? In just one year, the total volume of NPA is about Rs. 18,000 crore. Would the Finance Minister kindly let us know the names of the defaulters? The Finance Minister never wants us to know the names of the defaulters. Why is it so? Why is this softness towards the defaulters? I would not like to use the word 'collusion' here because that is too bad a word to be used. But, why is this indulgence? The hon. Finance Minister the other day used the word 'forbearance' and I would like to use that word here. Why is he so indulgent? Only the names of the defaulters against whom suits have been filed have been made known. So, the increase in NPA is because of the collusion between the bank management and the defaulters, the indulgence of the RBI and forbearance and softness of the Minister of Finance. In order to kill a dog, give it a bad name. That is the kind of an argument he is making in order to plead for a qualitative change in the banking system.

Sir, what has been the fourth argument of the hon. Finance Minister? That is his real argument. He does not have a hidden agenda but this is his real agenda and this is where he is playing his cards close to his chest and that is the issue of FDI. He has an undiluted love for FDI and he also believes that FDI can be the most desirable tool to foster economic growth and that is why he is bringing about these changes. It is because of FDI that he is doing all these things. He is

absolutely candid in his admission. I wish to read from his statement. He says:

"FDI flow will create an enabling environment for higher FDI flow along with infusion of new technology and management technology."

Sir, we are a country of 110 crores people. We need technology from FDI. We need improved technology through FDI and we cannot do it ourselves. We can hire technology; we can buy technology. For better technology we should not touch the feet of FDI. I am sorry to say that. But he has reasons for it. There is another reason for FDI.

He says: "Higher growth rates cannot be achieved and maintained unless the level of investment in the economy increases." He does not believe that domestic resources can be mobilised. For that, he says that there is a need to increasingly involve the private sector and also attract foreign investment. Therefore, the whole efficacy of the new Policy is his love for FDI. I plead that FDI cannot play a crucial role for the development of India. We have to believe that we have our own resources. Government has no political will to mobilise the domestic resources. Please tax the rich. Regarding bringing the green field area under the tax net, Government has no commitment because they are afraid to touch the rich people. Therefore, he has an illegitimate argument for having FDI. In order to win the hearts of FDIs, the banks are sought to be privatised, the banks are sought to be globalised and consolidated.

MR. DEPUTY-SPEAKER: You have taken more than 20 minutes. Please conclude now.

...(Interruptions)

SHRI GURUDAS DASGUPTA : The hon. Minister should not grudge.

THE MINISTER OF FINANCE (SHRI P. CHIDAMBARAM): After this discussion, there is another discussion on the Supplementary Demands for Grants.....(Interruptions)

SHRI GURUDAS DASGUPTA : That is the responsibility of the hon. Speaker and not that of the hon. Finance Minister. You are as much a Member as I am.

SHRI P. CHIDAMBARAM: My business must be completed.

SHRI GURUDAS DASGUPTA : I know it. We will sit late to get your business done.

MR. DEPUTY-SPEAKER: Please address the Chair and conclude.

SHRI GURUDAS DASGUPTA : My last point is this. He concludes saying about strengthening the banking sector for the benefit of the customers and preserve their trust. Who is the customer? Borrowers are the customers. Sir, he has no concern for the depositors. He has no concern for the leading role that the banks should play in the development of India. He has concern only for the borrowers. This is where we disagree. Mr. Chidambaram is drifting away from the fundamental principles of nationalisation. For FDI inflow, he is ready to surrender even the basic principles of the role of nationalised sector.

I would only give you two examples. Mr. Chidambaram asked for 74 per cent control of the private banks. There are 29 private banks. Their capital is Rs. 3250 crore and deposit is Rs. 2,62,000 crore. If they are to purchase 74 per cent of shares, then what will they invest? They will invest only Rs. 2,000 crore. By investing Rs. 2,000 crore, the foreign corporates can control Rs. 2,62,000 crore of India's hard-earned savings.

Lastly, we have 27 banks. Total capital is Rs. 14,000 crore and deposit is Rs. 12,27,000 crore. He would like to reduce it. Most of the banks are having 70 per cent shares. He would like to reduce it to 49 per cent shares which means if the private sector spends nearly Rs. 3000 crore, they will have 49 per cent representation on the Board, and they will have reasonable control in the banking policy. I am only saying this because I feel that India's hard-earned national savings deposited in the banks are sought to be privatised and are sought to be handed over to the foreign corporates and private corporates.

I would just give you one more example. A person in a private bank has taken a loan of Rs. 100 crore. He did not pay back the loan. But with Rs. 50 crore of that loan, he purchased the shares of the bank and became a member of the Board of Directors who are stealing the money of the banks. We will purchase the shares of the banks and will sit on the Board. And Mr. Chidambaram would have the satisfaction of handing over our Rs. 16 lakh crore either to the foreign corporates or to the private corporates.

Sir, let Mr. Chidambaram know that we shall oppose it. We shall oppose it tooth and nail. There is going to be a strike on 21st in General Insurance Corporation. There is going to be a strike in Dena Bank on 22nd of December. There is going to be a strike on the day on which the shares are listed for sale. I request Mr. Chidambaram not to incur the displeasure of the people who have voted them to power. Please think of the people who have voted for you. Do not incur the displeasure of the people. You know what would be the effect if you incur their displeasure. I hope Mr. Chidambaram will kindly re-consider this policy.

SHRI P. CHIDAMBARAM: Mr. Deputy-Speaker, Sir, I made my statement last week. I would have been happy if the hon. Member had once again paid attention to the facts stated in my statement and asked me questions to clarify anything which I may have left ambiguous in my statement. The thrust of his intervention is not to ask questions but to give expression to his own personal views on the subject, which I respect, although I may not agree with all of them, and convert this into a mini debate. If I may say so, there is nothing ambiguous in my statement. My statement is clear, categorical and states the Government's policy which is totally consistent with the National Common Minimum Programme.

The Narasimham Committee was appointed and gave its Report in 1991. The Congress Government, then the United Front Government, then the NDA Government in its own way, and now the UPA Government, have implemented many reforms, including banking reforms. The question which every hon. Member should ask himself is: Has our banking sector become stronger, thanks to the reforms or not? One can have an ideological view, which opposes the banking reforms. But it is universally acknowledged that our banks are stronger today. Both public sector banks as well as private sector banks are stronger today. Especially public sector banks are extremely stronger today.

I remember in 1997-98, several banks were floundering. Among them were two banks headquartered in my State of Tamil Nadu, in Chennai, and three banks headquartered in West Bengal, in Kolkata. Today, all five of them have turned around and are now stronger, thanks to reforms. If the hon. Member has any doubt about my commitment to make the banking sector stronger, all that he needs to do is to go to Kolkata and meet with the union of UCO Bank, meet with the trade union of United Bank of India, meet with the trade union of Allahabad Bank. ...*(Interruptions)* They will tell him how, thanks to the intervention of the Government, banks have become stronger, thanks to reforms, banks have become stronger.

These figures have been presented many times in this House. Even last week I presented these figures in an answer to a Question on banks. I do not feel tired of repeating them. Let me repeat them again. Hon. Member has said that NPAs have grown. Obviously, he relies on his own figures. I can only rely on official figures.

In 2002-03 and 2003-04, net NPA of public sector has declined from 4.53 per cent to 2.98 per cent. Is that growth or decline? Is that strength or weakness? The net NPA of nationalised banks has declined from 4.74 per cent to 3.13 per cent. The net NPA of the State Bank of India Group has declined from 4.12 per cent to 2.71 and even in the detested private sector banks, the net NPA has declined from 2.32 per cent to 1.32 per cent. This is with regard to net NPA. Gross NPAs have also declined. I could give you figures of profitability, I could give you figures of spread, I could give you figures of expansion and I could give you figures of interest rates. In every parameter, our banks have become stronger, thanks to reforms implemented since the Narasimham Committee Report of 1991. What we are doing is, take this reform process forward and when we do that, we will certainly consult our partners, we will certainly consult Opposition parties and we will certainly take Parliament into confidence. Obviously, I have no way of amending any law without parliamentary approval.

Let me quickly deal with the three points on which the hon. Member had pointed questions. The first point he said is, if a nationalised bank or a public sector bank becomes a global bank, it will lose its social objectives. I can hardly understand the logic. If a public sector bank remains a public sector bank and if the Government has the majority of ownership of a public sector bank, why would it lose its social objectives? On the contrary, there is enormous literature which talks about consolidation, competition and convergence as the three 'Cs' driving the banking sector all over the world and India cannot be immune to what is happening all over the world. Consolidation, competition and convergence are the three *mantras* which all banks have to follow, including Indian public sector banks. When that happens, our public sector banks will be stronger, not weaker. Their footprints will traverse to a larger part of India, not confined to cities and urban areas. They will serve more customers, not less. For example, we have four crore borrowers in the

farm sector from our banks and this year, we have announced in the 18th June Policy that we would add another 50 lakhs. In one year, we are going to add another 50 lakh institutional borrowers. This can only improve if our banks are stronger, and strength, to a large extent, comes from scale and size.

Sir, in the top 200 banks in the world, India has one bank and Indian banks are smaller than banks in Taiwan. Out of the top 200 banks in the world, India has one bank, namely, the State Bank of India and its rank is 82. The next Indian bank, ICICI Bank is somewhere between 400 to 450 in terms of size. As a great nation aspiring to be an economic powerhouse, do we not aspire that among the top 200 banks in the world we should have at least half-a-dozen banks? That is precisely what consolidation is about. The banking sector has realised it, bank managements have realised it, the Standing Committee on Finance, which I will quote presently, has realised it, the UPA Government realises it, the Coordination Committee realises it and, contrary to what the hon. Member said, we have discussed this subject in the Coordination Committee and we are fully keeping the leaders of the parties represented in the Coordination Committee involved.

SHRI GURUDAS DASGUPTA : Mr. Deputy-Speaker, Sir, I record my disapproval of the statement that the Coordination Committee has approved. ...(*Interruptions*) It is far from truth.

MR. DEPUTY-SPEAKER: Please do not disturb him.

SHRI P. CHIDAMBARAM: Sir, I am not yielding. It is not for him to deny it here. ...(*Interruptions*) He is not in the Coordination Committee. He cannot deny it.

SHRI GURUDAS DASGUPTA : We have never given you the green signal.

SHRI P. CHIDAMBARAM: I am speaking from my personal knowledge.

SHRI GURUDAS DASGUPTA : I am also speaking from my personal knowledge.

SHRI P. CHIDAMBARAM: He cannot speak from personal knowledge because he was not on the Committee.

SHRI GURUDAS DASGUPTA : It is not the question of being on the Committee, it is the question of knowledge of the past...(*Interruptions*)

MR. DEPUTY-SPEAKER: No disturbance please.

SHRI P. CHIDAMBARAM: He has asked certain clarifications and I have answered them.

The next point that the hon. Member says is that consolidation is opposed to competition. Again, I am puzzled. Why is consolidation opposed to competition? As I said, consolidation will make my banks more competitive. It gives them a more competitive edge. It is consolidation which will make our banks not only competitive in the Indian context, it will make them globally competitive.

Finally, he says, 'a statement reaping the benefits of scale means reducing manpower'. Again, I am puzzled. Why should reaping the benefits of scale mean reducing the manpower? Reaping the benefits of scale will mean increasing the number of bank branches, increasing the banking business, increasing turnover, increasing your deposits, increasing your lending and, to the extent the manpower is required, banks will recruit manpower. For examples, after the 18th June Policy, after a long break, after a break of about five or six years, for the first time, under the direction of this government, under my direction, banks are recruiting agriculture graduates in order to lend more to agriculture. Many banks are recruiting as many as a hundred agriculture graduates in order to ensure that farm credit is given.

I do not understand any of these criticisms because they do not seem logical to me. They do not follow from my statements. In fact, hon. Member and Members of the House should know that banking reforms and the steps that we are taking are a continuation of the steps that have been announced from time to time. For example, Section 12, sub-section (2) of the Banking Regulation Act was sought to be amended by introducing a Bill in this House. The Bill was referred to the Standing Committee. The Standing Committee consisted of Members of all parties, including three from the CPI(M) and one from the CPI also, and every

other party. This is what the Committee said in its unanimous report and I quote:

"The Committee after having examined the provisions of the Bill and after having considered the material placed and evidence tendered before them by the Government, public sector and private sector banks are convinced of the Objects and Reasons of the Bill. They are of the view that this Bill will not only provide for setting up of subsidiaries of foreign banks, but it will also pave the way for consolidation process in Indian private banks. They feel that as far as sub-section 2 of Section 12 of the Banking Regulation Act goes, the opportunities will be available to all investors and the investment will not remain confined to foreign banks only. They are constrained to observe that this vital information should have been mentioned in the Statement of Objects and Reasons. They want the Government to make suitable amendments in this regard."

Consolidation, competition, convergence are the three forces driving banking reforms all over the world. Consolidation was suggested by the Narasimham Committee way back in 1991. We are encouraging banks to consolidate among themselves. We are not giving any directions. The process of consolidation starts from the bank themselves. If a bank wants to consolidate with another banks, Government certainly will view that with favour.

As regards legislative changes, I will certainly come to this House if any legislative changes have to be made. I cannot make any changes to any banking law without the approval of this House. When I come to this House with legislative changes, surely this House will have an opportunity to debate.

Let me conclude by saying that banking reforms implemented by successive Governments since 1991 have made our banks stronger,

more competitive and more beneficial to all sections of borrowers and depositors. I think, we should continue on the path of reforms, including banking sector reforms.

14.49 hrs.

MATTERS UNDER RULE 377*

MR. DEPUTY-SPEAKER: I think, the hon. Members will agree with me that Matters under Rule 377 be treated as laid on the Table of the House just to save time because today we have so much other work to do.