

How in First Eight Years of Modi Government, Nearly Rs 12 Lakh Crore ‘Disappeared

Jawhar Sircar
The Wire, 16th January 2023

There are reasons to believe that some 12 lakh crore rupees have been systematically siphoned off from banks in the first 8 years of Narendra Modi’s rule — mainly by big corporate borrowers,. This was/is done quite ‘legitimately’ by taking loans for units and then getting them written off as unrecoverable non-performing assets (NPAs) The scale of that is 4 to 6 times higher than the internationally accepted norm. Obviously such a massive but smooth operation is simply not possible without complete political backing. Every GM, ED or CMD of a bank knows that when he is told by someone representing the core of political power “to lend to X”, he jolly well does it. Down the line, “technical feasibility and economic viability” appraisals are made ‘positive’ and ‘due diligence’ is damned. The few people from this racket that we see in jail now are those who were not protected by political bosses or have run foul of them.

Before we proceed, let us clarify to those who are not familiar with these term that ‘NPA’ refers to bank over-dues for more than 90 days. Though this appears rather harsh, lenders do not swing their axe immediately. Banks go through various painful stages when dealing with NPAs — categorising them under different criteria as ‘sub-standard’, ‘doubtful level 1, ‘doubtful level 2’ and so on, until they putrefy enough to reach the status of ‘loss assets’. Enterprises whose loan and interest reach the final write-off stage in 4 years are those that have crossed all stages of consideration and loan-restructuring, and the money lent to them have disappeared into thin air. We are well aware that all NPAs are not caused intentionally, and that is why it is internationally accepted that 1 to 2 percent of the total lending may turn into NPAs. A certain

percentage of this, maybe half a percent is 'written off' due to factors beyond control.

The International Monetary Fund's 2021 report indicates that the NPA ratio vis-à-vis gross lending is around 1.1 to 1.2 percent in the USA, the UK and most European Community countries. This is because strict probity is enforced by regulators and regimes have to go if financial irregularities come out. Canada does even better, at 0.4 percent. In the same range are South Korea with just 0.5 percent and Switzerland at 0.6 percent. China, which is quite harsh with financial criminals, maintains an NPA ratio of 1.8 percent and even Malaysia manages to keep it at 1.6 percent, while Indonesia is not too bad at 2.6 percent. Lax Italy has a gross NPA ratio of above 3 percent, but it is Russia with its stupendous 8.3 percent NPA ratio that appears shocking. Everyone knows that the regime there is in cahoots with crony oligarchs and public assets are looted at will. Through most of Modi's years, India gross NPA ratio has been above Russia's and the mainstream media has not ever screamed.

The Finance Minister (FM) replied to my question in the Rajya Sabha on 13th December 2022 that the "gross NPAs of SCBs (scheduled commercial banks, which means all banks put together) rose from a ratio of 4.1 percent on 31.3.2014 and peaked at 11.46 percent as on 31.3.2018". Her MoS mentioned in another reply that the peak was actually "12.17% in the last seven years". Though this gross NPA ratio declined to 5.9 percent on 31st March '22, it went up again to 6.5 percent in September '22. FM congratulates herself and the government for "its strategy of recognition, resolution, recapitalisation and reforms", but much of this is just hyperbole to cover up a hyper-crater. The RBI's Financial Stability Report of 29 December 2022 says we are not yet out of the woods. and predicts that the gross NPA ratios of PSBs (public sector banks) may swell to 9.4 percent in September 2023. The gross NPA ratio may also "go up to 5.8 percent for private banks and to 4.1 percent for foreign banks".

To balance their books, gross profit-making PSBs were made to show consistent losses by this regime, as all their surpluses were devoured by NPAs. We may recall that during the second phase of UPA rule, public sector banks earned profits between 35 thousand crore rupees and 50 thousand crore rupees per year. Yet, in just four years ('15-'16 to '19-'20) of NDA rule, the same banks made a total loss of ₹20.73 lakh crore, because they had to provide for NPAs. FM's reply of 13 December '22 is that the gross non-performing assets of SCBs (ie, all banks) have risen from ₹2.51 lakh crore on 31st March 2014 to ₹9.63 lakh crores in March 2018 means that NPAs went up by 4 time in 4 years. This excruciating bleeding provoked bank unions and activists to get on to the warpath — to find out where this money was going. India has never witnessed such colossal NPAs and the scale of write-offs is just unimaginable. A debater as the Finance Minister at this juncture is quite counter-productive, because the more she bats hyper-aggressively — unlike any other FM we have seen in several decades — and declares everything as a “great achievement”, the more everyone sees through the hot air.

The rot may well have started during the second UPA rule (2009-'14) when Manmohan Singh, ex-RBI Governor and economist PM, set aside ₹ 1.93 lakh crore to provide for NPAs, but the NPA ratio was between 3 and 4 percent. But a non-economist PM who can scale up everything must be given credit here too — as his banks had to provide 5 times more for loss-burdened NPAs in 5 years — from 2015-'16 to 2019-'20. NPA provisioning then rose to a mammoth total of ₹10.16 lakh crore. Upscaling is an art some can master — as is also evident from the fact that the very same Enforcement Directorate that had carried out 112 searches during Manmohan Singh's entire tenure of 10 years, ramped up its operations by 27 times in Modi's first 8 years. That's quite some upscaling, and no one can miss the “my way or the highway” message to industry and finance and, of course, to opposition parties.

It is likely that a portion of dubious loans sanctioned in the previous regime spilled over to NDA's early years,

but since we now are now nine years under Modi, the lion's share of loss-making lending must have happened during his regime. The mess is due largely to 'inspired' lending to friendly corporates, especially big houses. Most of the loot-and-scoot fraudsters like Nirav Modi or Mehul Choksi are people who knew the PM rather well and how much this helped in overawing banks to lend to them will never be known. There is an eerie silence on the several lakh-crores allegedly owed by Anil Ambani. Modi has never hidden his pro-corporate bias and V Ranganathan has calculated that while corporate tax collection came to 3.34 percent of the GDP during Manmohan Singh's second term, it came sharply down to only 2.3 percent of the GDP during Modi's second term. Consequently, the burden of taxation is borne by hapless common citizens through cruel rates of GST, central taxes, duties and personal income tax. To understand what Modi's relief of one percent of GDP that he gifted corporates means, well, it is the maximum Modi spends for the entire education sector. This massive lowering of taxes on corporates is thus an enormous favour and may not have gone unreciprocated. One party is so flush with funds now that it appears unbeatable.

Besides, making PSBs go through book losses suited the pro-privatisation lobby that is invariably anti-public sector. It forgets that the losses of private banks, are almost as high — thanks to Chandna Kochars, Rana Kapoors and PMC Bank heads. When DHFL has caused a loss of Rs 34,615 crore, it hit 17 banks, including private and public. ABG Shipyard, a shipbuilding firm based in Gujarat (one cannot miss the irony) defrauded a consortium of 28 banks, both public and private, of Rs 22,800 crore. Wilful defaulters simply cannot get away scot free or fly away to cushy foreign shores without the direct and indirect assistance of the regime. Even if we are not allowed to get to the bottom of the truth now, transaction records will be there in multiple offices, for later forensic analysis.

Incidentally, the All India Bank Employees' Association studied the 'salvage' process of 13 big NPAs involved in insolvency proceedings and found that banks "took a 'hair-

cut' of", ie, lost 64 percent of the NPAs amounting to ₹4.47 lakh crore. Interestingly, these units were then gift-wrapped and handed over to regime-friendly corporates like Reliance, Vedanta, Arcelor Mittal, Tata and Piramal. Old promoters must have surely taken out more than their investment, through the age old techniques of under-invoicing and over-invoicing. Thus while the personal wealth and pomp of corporate defaulters increase, borrowers in retail, agriculture and MSME segments are hounded by banks for small amounts.

The total NPAs of all scheduled commercial banks, ie, PSBs plus private and foreign banks, for the first 8 years of Modi's rule (2014-'15 to 2021-'22) to ₹66.5 lakh crore. This is based on FM's replies in parliament which covers 7 years 9 months and we have made a projection for the last quarter. More important is to know how much has actually been written off from these NPAs in 8 years. As this is not readily available, we extrapolated data from FM's statement of the 18th of December '22 that "over ₹10.09 lakh crore have been written off by scheduled commercial banks in the past five financial years". Since the total NPAs of all banks for these 5 years came to ₹48.21 lakh crore, the percentage of write-off to NPA is 22.34. Thus, when the total NPAs for Modi's first 8 years' amounts to ₹66.5 lakh crore, the written off quantum appears to be ₹14.5 lakh crore.

But even after write-off, some amounts can still be obtained from borrowers or sale proceeds and, in all fairness, this has to be calculated to arrive at total-total loss. We find from ministry's replies in parliament, that some 13 percent of the 5 years' loss of ₹10.09 lakh crore could be retrieved. In other words, more than ₹8.8 lakh crore of gross NPA has vanished, irretrievably. Let us give more allowance to banks and assume that not 13 but some 20 percent of the the written-off amount of ₹14.5 lakh crore is later retrieved. This still means that the nation has lost at least ₹11.6 lakh crore or closer to ₹12 lakh crore, gone for ever, during Modi's first 8 years. This amount is more than the annual revenues and bud-

gets of half a dozen big states put together. It is as large as the average annual GST collected in '17-'18 or '18-19 or '19-20.

For accounting purposes, of course, banks take out two of the three constituent categories of 'gross NPA' and then declare the rest to be 'net NPA'. This may halve the amount but is largely a window dressing exercise. The real picture is what we have postulated. It is up to Finance ministry to respond to these numbers. The 'lost-for-ever' money actually belonged to common depositors and small investors like us, and was also cannibalised from the earnings of banks. Bofors was a ₹64 crore scandal and here the amount is ₹12 lakh crore. Finance Ministry's latest reply indicates that while CBI could succeed in prosecuting 486 persons with bank frauds in the five years of UPA 2 rule, its prosecution fell to just 59 persons during Modi's first term. Fines also fell from nearly ₹15 crore to just ₹1 crore.

Something is gravely wrong, and when criminal action can be taken for petty financial offences, we must hold government responsible for not seriously prosecuting those who fleece lakhs of crores from unwary common citizens and public institutions.