

Government's Plan on Loan Write-off

Why in news?

\n\n

Union government had written-off the NPA's from books of public sector banks.

\n\n

What is the status of NPA's recovery in India?

\n\n

∖n

- India ranks 103rd in the world in bankruptcy resolution, with the average time taken to resolve a case of bankruptcy extending well over four years. \n
- Banks in India are able to recover on an average only about 25% of their money from defaulters and also been lenient in collecting their dues from defaulting borrower.

\n

\n\n

What is the idea of write-off about?

\n\n

∖n

• A write-off is technically different from a loan waiver in which the borrower is exempted from repayment.

\n

• This does not mean banks will manage to collect the dues from defaulting borrowers.

\n

- Banks prefer to never have to write off bad debt since their loan portfolios are their primary assets and source of future revenue. \n
- However, loans that cannot be collected or are unreasonably difficult to collect reflect very poorly on a bank's financial statements and can divert resources from more productive activity.

\n

• Banks use write-offs, which are sometimes called "charge-offs," to remove

loans from their balance sheets and reduce their overall tax liability. \nphi

\n\n

What is the decision of government on write-off?

\n\n

∖n

• Non-performing assets (NPAs) worth Rs.2.41 lakh crore have been written off from the books of public sector banks between April 2014 and September 2017.

\n

 \bullet Since the banks were able to recover only 11% of the distressed loans worth Rs.2.7 lakh crore within the stipulated time, the rest had to be written off as per regulations.

\n

- The government, however, clarified that the defaulters will have to pay back the loans, though they were written off. \n

\n\n

What is the need behind this move?

\n\n

∖n

• Instead of classifying sour loans as troubled assets and taking action to recover them, banks have often chosen to hide such assets using unethical accounting techniques.

∖n

 Reserve Bank of India has been stepping up efforts to force both private and public sector banks to truthfully recognise the size of bad loans on their books.

\n

• This caused the reported size of stressed assets to increase manifold in the last few years.

∖n

• Many large corporations, as well as smaller enterprises, have been admitted to undergo liquidation under the IBC so that the proceeds can be used to pay back banks.

\n

 \bullet As of now the quick resolution of bad loans will free resources from struggling firms and hand them to the more efficient ones. \n

\n\n

\n\n

Source: The Hindu

∖n

