SHANKAR IAS PARLIAMENT
Information is Empowering

Handling Bad loans

What is the share of bad loans?

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- Bad loans — or non-performing assets (NPAs) — were 9% of total loans of all Indian banks in September 2016.
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- At public sector banks (PSBs), bad loans were 12% of all advances. Another 3% of loans in the aggregate (and 4% at PSBs) have been restructured.
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- The Economic Survey (2016-17) quotes market analysts as saying that 4-5% of loans are bad loans that have not been recognised as such.
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- Thus, total stressed assets — NPAs, restructured loans and unrecognised bad loans — would amount to a staggering 16% of all loans and nearly 20% of loans at PSBs.
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Where is the genesis?

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- Today's bad loan problem has arisen from the lending boom that India's banks embarked on in the period 2004-08, a period that saw economic growth reach the 9-10% range.
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- However, that by itself did not create a problem of the current magnitude.
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- It is the failure to resolve the bad loan problem over the past several years that has exacerbated the problem.
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Why has the bad loan problem remained unresolved?

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- One, banks keep financing projects that are not making repayments in full and would qualify as NPAs.
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- They do so in the hope that, once growth revives, cash flows in the projects will improve.
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- Two, banks grow their loan portfolio at a brisk rate. As the denominator in the ratio of bad loans to total loans grows, the bad loan problem automatically diminishes in significance.
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What can be done?

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- There is clarity now that banks must be empowered to resolve the relatively small number of bad loans that account for a big chunk of the total in terms of value.
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- In many cases, this would mean that banks write off a portion of the loans owed to them.
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- Managements at PSBs have been reluctant to do so for fear of inviting action from the Chief Vigilance Commissioner, the Comptroller and Auditor General, the Central Bureau of Investigation and other bodies.
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- To stiffen their spine, we need to put in place an authority that will vet loan settlement proposals put up to it.
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- The BBB has constituted a two-person oversight committee but reports suggest that the committee will not take a view on write-offs.
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- We need a larger oversight committee or, as the Finance Ministry has proposed, multiple oversight committees to speedily vet loan write-offs.
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- It makes sense to constitute a **Loan Resolution Authority by an Act of Parliament.**

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- This must be complemented with other measures. Banks must develop the discipline of keeping thorough minutes of the proceedings related to resolution of bad loans.
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- **The government must provide adequate capital to the banks to cover write-offs and also facilitate fresh loan growth**.
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- It must end the delays in appointing Chairmen and Managing Directors of various PSBs. It must also revamp the boards of PSBs by bringing in independent directors of high quality.
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- The way forward is to empower management and strengthen governance at PSBs.
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Source: The Hindu

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