

Transparency Needed in NPA write-offs

What is the issue?

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- While resolving the 'Non-Performing Assets' (NPA) problem through write-offs is indeed important, arbitrary write-offs should be checked.

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- It would be ideal for RBI to make it mandatory for banks to give information on every such loan account beyond a particular limit (say 100 crores).

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How are NPAs dealt with presently?

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- An asset is declared as non-performing if the borrower hasn't paid interests (or principle) even after 90 days from the due date.

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- Presently, gross NPAs of Indian banks were estimated at Rs 10.25 lakh crore.

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- From a technical accounting standpoint, declaration of certain assets as NPAs helps in assessing the real asset potential of banks at any point in time.

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- Assets that are declared as Non-performing are then taken off the bank's balance sheets, although some of it might eventually be recovered.

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- But significantly, the amount written-off (waivered) totalled to Rs 1.5 lakh crores during 2017-18 and aggregated Rs 4.8 lakh crores over the last 10 years.

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- Not surprisingly, 83% of all write-offs were by public sector banks (PSB).

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What is trouble with NPA write-offs?

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- The problem with write-offs is when they are done in an arbitrary and non-transparent manner, which might involve illegal pecuniary benefits for some.
- In the past, RBI has been wary about disclosing the names of big defaulters, as there is a confidentiality clause between lenders and borrowers.
- Also, the argument that “maligning a promoter’s reputation will only hamper the company’s finances further and affect repayment” is mooted.
- But if loans become unrecoverable, and public money is to be foregone due to the borrower’s inability to repay, then transactions need to become public.
- In such cases of write-off, neither the commercial argument nor the moral clause holds ground.
- The RBI is presently doing a commendable job in forcing banks to recognise the true extent of their NPAs and then supporting their resolution.
- Now, it should also make it mandatory for banks to disclose the names of those behind large loan write-offs (say above 100 crores) to usher in transparency.

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Source: Indian Express

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