

NPAs – crack the whip on defaulters

Union Finance Minister Arun Jaitley during a Press conference on October 24, 2017 announced a massive recapitalization of public sector banks [PSBs] to the tune of Rs 211,000 crore in two years viz. 2017-18 and 2018-19. Of this, Rs 135,000 crore will come from so-called “recapitalization bonds”, Rs 58,000 crore via raising capital from the market and Rs 18,000 crore as budgetary support. ♦ **By Uttam Gupta**

Under the “Indradhanush” project launched in 2015, Finance Minister Jaitley had provided for Rs 70,000 crore over a four-year period viz. Rs 25,000 crore each during 2015-16 and 2016-17 and Rs 10,000 crore each during 2017-18 and 2018-19. As per that roadmap, the provision for the third and fourth years being Rs 20,000 crore- already factored in budget calculations- the budget support of Rs 18,000 crore may appear to be well within the prudential limit.

It may not appear to be causing any major slippage in the Modi Government’s fiscal consolidation drive which the proposed massive infusion of funds would seem to suggest at first sight. But on a closer scrutiny it turns out that the scenario may not be that rosy.

As per reports, “recapitalization bonds” will be issued by the Union Government and the interest on them will be adjusted against future dividend payments by banks. Most likely, the bonds will be subscribed to by State-run financial institutions such as the Life Insurance Corporation- the tactics which successive political establishments in India adopted in the past to bail out any issue made by the Government or its agencies or undertakings.

As regards garnering Rs 58,000 crore from the market, Jaitley alluded to the Government’s intent of reducing its equity holding in the PSBs to 52%. However, considering their weak balance sheets [*courtesy*, the high non-performing assets (NPAs)], there may not be interest among bond buyers. True, the very rationale of pumping capital is to combat the NPA problem but the “guaranteed” amount viz. Rs 153,000 crore [bonds plus budgetary support] is not enough.

According to Fitch Ratings, the PSBs would require 90% of the \$65 billion additional capital needed by the banks in India to meet Basel III capital standards which will be fully implemented by the financial year ending

March 2019. This works out to Rs 380,000 crore and is necessary to raise loan growth, address the weak provision cover and aid in effective NPAs resolution. Against this, the proposed capital infusion of Rs 153,000 crore will still leave a gap of Rs 227,000 crore.

BANKS CANNOT BE LEFT IN THE LURCH

With such a huge gap, the balance sheets of the banks will continue to be vulnerable. The Government will be left with no other option but to pick up the tab as the PSBs cannot be left in the lurch. This will cause huge slippage in fiscal deficit resulting in the debt level much higher than the prudential limit set by the NK Singh Committee on a review of the Fiscal Responsibility and Budget Management [FRBM] Act.

The Modi Government deserves full credit for bringing the problem to centre stage by recognizing the NPAs [which increased from Rs 275,000 crore in April 2015 to Rs 733,000 crore as of June, 2017] as a legacy from the past caused by indiscriminate lending without conducting due diligence mostly during 2008-2014. It has followed it by action on fast track and got the Insolvency and Bankruptcy Code [IBC] enacted and the Banking Regulation Act [BRA] amended.

While the IBC gives powers to the banks to initiate bankruptcy proceedings against loan defaulters, the BRA amendment empowers the Reserve Bank of India to give necessary instructions to the banks in this regard. Already 12 cases accounting for about Rs 200,000 crore worth NPAs have been referred to the National Company Law Tribunal [NCLT]. But the problem with this mechanism is that on mere reference, the bank has to provide for 50% of the amount and in case the Tribunal orders liquidation [a real possibility in majority of the cases] this would be 100%.

These mechanisms help in ensuring that things do not linger on and the exercise gets consummated within a fixed time-frame [proceedings under the IBC have to be completed within six months]. In future, it



will also be helpful in nipping the problem in the bud by enabling the banks to initiate timely action for recovery. In fact, the creditor bank can initiate action even before a loan actually turns into NPA. But it does nothing to recover the past bad debts.

Giving money from the taxpayers' kitty or the premium collected from millions of policy holders is an easy option. The Government should avoid it. Instead, it needs to deal with defaulters with an "iron hand". While contemplating action against them, it should proceed with a conviction that money never gets extinguished. If Mallya has not returned the loan, it does not mean he lost the money. The reality is that he diverted Rs 6,000 crore bank loans taken for Kingfisher!

LEGAL AGENCIES SHOULD BE STRENGTHENED

The Government should chase the personal assets of hundreds of such Mallyas and shell companies floated by them - besides a host of other assets they acquired with loans taken from the banks. All concerned agencies viz. the Income-Tax Department, the Enforcement Directorate [ED], the Central Bureau of Investigation [CBI] and the Financial Intelligence Unit [FIU] in the Finance Ministry must coordinate their actions to nab loan defaulters and realize all outstanding dues.

These agencies must be strengthened, especially by putting in place adequate manpower [recently, there were reports of the CBI facing huge manpower

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shortage at all levels, including the Additional Director and Joint Directors] to pursue cases in the fast track mode. The Government should also take steps to equip courts to effectively deal with cases [which defaulters file with the sole intent of delaying loan recovery] and expeditiously dispose them of.

Prime Minister Narendra Modi has time and again vowed to recover from looters the resources which belong to the poor and use them for the latter's welfare. In line with this overarching philosophy, he should get his Team crack the whip on the defaulters. ■

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