Concerns with RBI’s Measures to Tackle Bad Debts

What is the issue?

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- RBI has recently announced various measures for tackling the bad loans.
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- Such measures fails to concentrate on resolving the issue from its root.
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What are the steps taken by the RBI to resolve the crisis?

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- Initially, the central bank in its revised framework on resolving stressed accounts had scrapped the old restructuring schemes such as SDR, S4A or 5/25.
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- This led to the increase in the provisioning for bad loans by the banks with respect to the existing norms for provisioning.
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- Recently, the RBI identified 12 non-performing assets (NPAs), totalling 25 percent of India's gross NPAs, which would be taken up under the Insolvency and Bankruptcy Code (IBC).
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- And it relaxed the norms for provisioning from 50 per cent to 40 per cent for those 12 accounts under IBC.
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- Provisioning is an expense where banks set aside a portion of their capital to make up for the unpaid loans which are 'doubtful' or can potentially default.
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- The provisions such as scrapping of restructuring schemes and tightening of banking regulations have brought in more transparency in the bad loans.
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What are the concerns with RBI’s measures?

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- The accelerated NPA recognition would imply over Rs.25, 000 crore of additional provisioning for banks.
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- Brief measures such as these, do little to re-build the eroded confidence of investors and depositors in the banking system.
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- As an outcome of these measures, in long run banks would witness steep rise in provisioning beyond the current level to handle the bad loans.
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- Apart from this, the recovery of accounts mentioned in IBC would also remain a challenge.
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Source: Business Line

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