Failures of RBI

What is the issue?

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RBI has failed in effectively regulating the banking system.

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What are the burdens of Indian banking?

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- Sub-Prime Infrastructure that led to potential loss of Rs 6 lakh crore for the banks.
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- **Limited recourse lending -** These are the loans of several lakh crores of rupees that were given for power and highway projects.
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- Banks do not have recourse to any collateral security and rely primarily on anticipated project revenues.
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- **Discom issues -** PSBs have been continuously lending to near-bankrupt Discoms in order to fund their ballooning losses
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- UDAY scheme transferred the unrecoverable loans of discoms to the respective state governments who will use taxpayers' money for repayment over the next decade.
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What are problems with RBI?

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- RBI failed to detect the financial backlogs in time, and failed to contain the internal crisis of gigantic proportions.
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- It is one single institution, which is held responsible for the despicable state of India's banking sector, its statutory capabilities are failed in dealing the

large sector.
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- RBI failed to adopt the prudent practices associated with limited recourse lending.
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- The regulatory inspections of RBI failed to flag large-scale malfeasance that was certain to result in bad debts.
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What are the outcomes the failures?

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- The taxpayer will pay over Rs 3 lakh crore in the form of government bailouts or other indirect support to meet the losses of banks on account of such irresponsible lending to projects.
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- An equal amount would also be borne by taxpayers to cover the bank loans to Discoms across the country.
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- The resultant losses cannot be recovered from consumers for political and economic reasons.
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- In the absence of a vigilant regulator, banks went wayward and lost heavily.
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- Banks have moved away from investment lending, which in turn has stunted the growth of incomes and employment.
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Source: Business Standard

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