Government’s Plan on Loan Write-off

Why in news?

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Union government had written-off the NPA’s from books of public sector banks.

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What is the status of NPA’s recovery in India?

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- India ranks 103rd in the world in bankruptcy resolution, with the average time taken to resolve a case of bankruptcy extending well over four years.
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- Banks in India are able to recover on an average only about 25% of their money from defaulters and also been lenient in collecting their dues from defaulting borrower.
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What is the idea of write-off about?

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- A write-off is technically different from a loan waiver in which the borrower is exempted from repayment.
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- This does not mean banks will manage to collect the dues from defaulting borrowers.
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- Banks prefer to never have to write off bad debt since their loan portfolios are their primary assets and source of future revenue.
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- However, loans that cannot be collected or are unreasonably difficult to collect reflect very poorly on a bank's financial statements and can divert resources from more productive activity.
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- Banks use write-offs, which are sometimes called "charge-offs," to remove

loans from their balance sheets and reduce their overall tax liability.
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What is the decision of government on write-off?

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- Non-performing assets (NPAs) worth Rs.2.41 lakh crore have been written off from the books of public sector banks between April 2014 and September 2017.
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- Since the banks were able to recover only 11% of the distressed loans worth Rs.2.7 lakh crore within the stipulated time, the rest had to be written off as per regulations.
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- The government, however, clarified that the defaulters will have to pay back the loans, though they were written off.
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What is the need behind this move?

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- Instead of classifying sour loans as troubled assets and taking action to recover them, banks have often chosen to hide such assets using unethical accounting techniques.
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- Reserve Bank of India has been stepping up efforts to force both private and public sector banks to truthfully recognise the size of bad loans on their books.
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- This caused the reported size of stressed assets to increase manifold in the last few years.
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- Many large corporations, as well as smaller enterprises, have been admitted to undergo liquidation under the IBC so that the proceeds can be used to pay back banks.
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- As of now the quick resolution of bad loans will free resources from struggling firms and hand them to the more efficient ones.
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Source: The Hindu

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