RBI’s Measure on Bad Loan Divergence

Why in news?

\n\n

RBI has passed orders to resolve the practice of bad loan divergence by banks.

\n\n

What is bad loan divergence?

\n\n

\n
- Bad loan divergence is depicting a false picture of the financial position of the banks.
\n
- The banks do this by altering the numbers in its asset classification and bad loan provisions made as per RBI norms.
\n
- By unfairly modifying the numbers, the banks seek to make good their bad loans, which in reality brings more complexity into the issue.
\n

\n\n

What are the concerns with bad loan divergences?

\n\n

\n
- The bad loan divergences by banks put off the crucial issues like bad loans crisis, financial stress of borrower as they present a false picture hoping all issues will solve with time.
\n
- Unfair representation of restructured accounts increase the complexity of the RBI as it does not have a correct scenario to formulate policies accordingly.
\n
- Such sharp divergences spell doom when banks carry insufficient capital to absorb sudden losses on account of increase in bad loan provisioning.
\n

\n\n

What are the steps taken by RBI to address this issue?

\n\n

\n
- The RBI has been taking a series of measures to completely clean up the banks' balance sheets and to resolve other issues sprouting from this bad debt crisis.
\n
- It set up a committee to study the divergences and how these divergences are affecting its monetary policies.
\n
- This committee identified the slippages occurring from restructured accounts wherein the original terms and conditions of loans are relaxed to provide a breather to borrowers facing financial stress.
\n
- It then sent a circular stating the instances of divergences both in material and in provisioning and mandated the banks to provide true statements.
\n
- The RBI also laid down specific conditions on when the disclosures have to be made and on what formulae the debts have to be calculated.
\n

\n\n

\n\n

Source: Business Line

\n\n

\n\n

\n

