

BAD BANK

The idea of Bad Bank was proposed by Economic Survey 2016-17 in the form of PARA, which seems highly relevant in rising stressed asset due to pandemic.

Bad Bank is a asset reconstruction company which buy bad or stressed assets from financial institutions like Banks, NBFC to clear their balance sheets.

Recently Indian Bank Association (IBA) has requested the government to consider Bad Bank for the following reasons :-

- (i) Rising NPA - As NPA pandemic has stalled all projects and economic activities, there are assumptions that NPA will rise from 11% to 18%.
- (ii) Immediate Relief - Bad Bank will transfer all bad assets immediately after getting established, which is very much required to save bankruptcy.
- (iii) Credit Rating - Already Moody's and S&P have downgraded credit of Banks & Indian economy which will deteriorate further if Balance sheet distort further → which will create a vicious cycle.

(iv) credit crunch - The risk aversion of banks has created a liquidity shortage, hurting economy. The clear sheet of bank will motivate them to lend further

However neither government nor RBI seems interested in Bad Bank for following reasons :-

- (i) No solution - transfer of burden from one agency to another, is not a solution.
- (ii) Require huge money - to reconstruct this amount of NPA, and government is already struggling.
- (iii) Other measures - Government has already infused ₹.5 lakh crore and is confident through its traditional UD and UR approach to achieve solution.
- (iv) Bad Bank does not address issues like, - why NPA is rising? why projects are stalled? etc
- (v) confidence - If private sector initiate to form Bad Bank which government is expecting, the private financial institutions will hesitate to transfer NPA to them.

measures to overcome the flaws in Bad Bank :-

- (i) Data collection of decentralised financial institutions and making it as much transparent as possible.
- (ii) All risks - like misappropriation, corruption etc of money should be taken care of.
- (iii) professionals from top bureaucrats & financial sectors should be approached for efficient reconstruction of assets through IBC and SARFAESI.
- (iv) napahzaed and irresponsible lending after Balance sheet clearance should be avoided.
- (v) Root cause of NPA - i.e. project delay, policy uncertainty should be addressed.
- (vi) private participation with Government regulation in creation of Bad Bank is the best way forward.