

Monitoring banks' progress in tackling bad loans: Rajan

Our Bureau

Framework soon to restore health of bank assets

Kolkata, December 11:

The Reserve Bank of India is monitoring the manner in which banks are implementing the provisions laid down to help tackle the issue of bad loans, Governor Raghuram Rajan said here on Friday.

Most banks have resorted to strategic debt restructuring (SDR), which helps them convert part of the debt into equity and allows the debt to be categorised as "standard", thus extending the asset classification by 18 months.

"We have spent much of the last few quarters creating a variety of bank powers to deal with stressed assets. SDR is just one of them. Having given those powers, we are now looking at how those powers are (being) implemented," Rajan told media persons. According to Rajan, the idea is to have a framework to restore the health of the banking system's assets over a period of time, preferably March 2017.

Impede action

"Large promoters" have often "used the system" to "impede action" against them by banks. He emphasised on the need to quicken the pace of recovering assets.

Calculation of base rate

Pointing out that the proposed marginal cost of funds method for calculating the base rate will "not be onerous on banks", the RBI Governor maintained that he had tried to address all "legitimate" concerns of lenders. The final guidelines are expected to be announced soon. "The concerns of each bank, including State Bank of India, have been heard and wherever they are legitimate we have made adjustments. The final structure that will come out will not be onerous on banks," he said.

The new method (using marginal costs) is expected to hasten monetary policy transmission.

(This article was published in the Business Line print edition dated December 12, 2015)