Stage set for banks to take effective action on NPAs: Arun Jaitley

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NEW DELHI: Finance Minister Arun Jaitley sent a strong message to the managements of banks laden with bad debt, telling them to get cracking on a cleanup of their books without being held back by fear of anticorruption investigations, especially given changes in the legislative and policy framework. He also said the Prevention of Corruption Act was outmoded and needed to be updated toward this end.

"Banks will have to enforce their rights to push recovery," Jaitley said. "I think the stage is now set for banks to take effective action in some cases so that people realise that you cannot hold onto public money indefinitely because bank money is also at the end of day public money."

Non-performing assets (NPAs) were the next big challenge for the economy, the finance minister said at the 28th Accountants General Conference organised by the Comptroller and Auditor General of India. While private sector lenders are freer to take decisions on bad loan resolution, their state-owned counterparts are constrained due to the Prevention of Corruption Act, Jaitley said.

The government had taken steps empowering banks to recover funds "by virtue of legislation and RBI guidelines", he said. "A long rope has been given to people to improve and sort matters out."

The oversight mechanism to aid banks in deciding on settling NPAs has begun to function, he said, adding that some cases had been presented before it.

Gross NPAs of scheduled commercial banks rose to 8.7% of total credit at the end of June compared with 4.6% in March 2015 and 7.8% in March 2016. According to the RBI's June Financial Stability Report, that last figure marked a 12-year high. RBI projects the gross NPA ratio at 8.5% by March 2017.

Jaitley said a distinction should be drawn between corrupt decisions and genuine mistakes, and added that the existing corruption act legislated in the pre-liberalisation era does not address current requirements. "The corrupt decision must be punishable, the erroneous decision only can give you a post facto analysis so that system is wiser by that experience but may not attract crimial consequences," he said.

Civil servants have to be empowered to allow good decision making, he said, adding that deferring decisions for fear of being hauled up later should be avoided.

"In my view, the Prevention of Corruption Act, 1988, has to be re-legislated," he said. "A time has come in the liberalised regime where you find the government… and civil servants taking important commercial decisions, public sector companies and banks taking important corporate and commercial decisions."

A government official said Parliament may take up the amendment Bill to the Act in the upcoming winter session once the parliamentary panel gives its report.

Jaitley said credibility is very important for any government. "If a government does not have credibility, then its decisions cannot be effective," the minister said.

Later, speaking at an arbitration conference organised by Niti Aayog, the finance minister said the right to exit and the right to expeditious disposal of assets is critical. For India to develop as an arbitration centre, it needs a credible set of arbitrators and ensure that arbitration is speedy, he said.