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Burden of bad loans: Don't overreact to bank woes, says FM Arun Jaitley

By ET Bureau | Feb 13, 2016, 01.08 AM IST

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NEW DELHI: Finance Minister [Arun Jaitley](#) sought to draw a line under the bad-loan problem afflicting state-run banks, saying there had been an over-reaction and that the matter would be under control soon. He also urged investors to appreciate the strengths of the Indian economy and not get swayed by international developments.

A spate of poor third-quarter results posted by state-run banks, which are being forced by the central bank to set aside funds against bad assets, has added to the sense of doom in the markets. On Thursday, State Bank of India announced a 61 per cent drop in profit and warned of worse to come in the next quarter.

But in his video post, Jaitley promised more measures to empower banks to recover bad loans and assured them of capital support while backing the clean-up of balance sheets ordered by the [RBI](#).

"There is obviously a problem as far as banks are concerned... and as part of a prudent policy it has been considered that the balance sheet should be as transparent (as possible)," Jaitley said.

"The banks are also taking all steps possible to recover these loans... In any case, the volume and extent of this problem should not be exaggerated so as to lead to a panic."

The RBI has empowered banks to be more active when it comes to pursuing defaulters. Meanwhile, a bankruptcy law is under the consideration of Parliament, Jaitley pointed out. This will allow the speedy liquidation of failed business, thus helping banks claw back some of their funds.

"The government is also considering further steps to empower the banks to be in a position to recover these monies," Jaitley said. "And I think it's a problem which will soon come under control... The government is fully committed to support public sector banks by providing them whatever capital requirements." RBI Governor [Raghuram Rajan](#) has also cautioned against over-reactions to the clean-up exercise, which has been necessitated by decades of systematic abuse by the powerful and the politically well-connected.

The governor said on Thursday that the process was key to restoring their financial health and safeguarding the country's economic wellbeing.

"Stressed balance sheets of public sector banks are occupying management attention and holding them back, and the only way for them to supply the economy's need for credit, which is essential for higher economic growth, is to clean up," he had said. RBI wants to complete the exercise by March 2017.

"There need not be any exaggerated panic in India for the reason that India as an economy... has stood out to maintain a 7.5 per cent plus growth rate at a stage of global slowdown," he said. "Our services and manufacturing sectors are both recovering and hopefully this year with a slightly better monsoon, agricultural sector will also recover and generate further demand."

The finance minister said he will maintain the tenor of reforms in his budget, which will be presented on February 29. "I think it would be a part of a prudent investment reactions that the inherent strength of the Indian economy is kept in mind by investors rather than react disproportionality to what the global developments are," he said.

Jaitley said the government will support areas that need such backing.

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