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Cleaning banks' balance sheets to pave way for mergers: Raghuram Rajan

By PTI | Updated: Jan 29, 2016, 10.46 PM IST

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NEW DELHI: Asserting that some stressed [loans](#) have to be written down to improve the health of PSU [banks](#), RBI Governor [Raghuram Rajan](#) today said it will pave the way for [mergers](#) and help optimise their resources.

"One very important contributor to macroeconomic stability is healthy banks. Banks in India have a number of stressed loans on their balance sheet," he said while delivering C D Deshmukh Lecture here.

"In some cases, the reality is that existing loans will have to be written down significantly because of the changed circumstances since they were sanctioned (which includes extensive project delays, cost overruns, global overcapacity, and overoptimistic demand projections)," he said.

The gross [NPAs](#) of the public sector banks rose to 6.03 per cent as of June 2015, from 5.20 per cent in March 2015.

If loans are written down, the promoter brings in more equity, and other stakeholders like the tariff authorities or the local government chip in, the project may have a strong chance of revival, and the promoter will be incentivized to try his utmost to put it back on track, he said.

Cleaning of the balance sheet of the public sector banks (PSBs) will improve their financial health.

"Finally, as bank health recovers, the issue of PSB mergers can be addressed. Almost surely, some banks will have to merge to optimise their use of resources," he said.

"But talking of bank mergers, which take a lot of management attention, especially when each bank management is preoccupied with dealing with stressed assets, is probably premature," he said.

At the same time, he said, some banks could benefit from governance help to deal with their current problems.

Posing a question if it is an opportune time to induct skilled financial firms as strategic investors into public sector bank boards, perhaps with a 10 or 15 per cent stake, he said, "certainly, the experience of countries like China who inducted such investors is worth studying".

Highlighting that a number of good banks have taken the necessary action to resolve stressed loans in a timely fashion, Rajan said, remaining banks need to take more proactive action in this regard.

"Over the last few quarters, the RBI has expanded the tools banks have to recognise and deal with stressed loans. It is now working with the government and banks to ensure that the stressed assets are dealt with on a proactive basis, and that bank [balance sheets](#) both reflect a true and fair picture, and are adequately provisioned," he said.

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