

For banks, it's clean-up first, growth next: Rajan

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Says slower credit growth indicates banks have not been lending indiscriminately

Mumbai, February 11:

RBI Governor Raghuram Rajan has reiterated the intent of the central bank to purge the banking system of all its bad loans by March 2017.

“Our intent is to have clean and fully provisioned bank balance sheets by March 2017,” said Rajan at the CII Banking Summit here on Thursday.

Outlining the importance of the asset quality review (AQR) that was started by the RBI in April 2015, Rajan said that loan classification reflected the true value of a loan and accompanied by provisioning (which ensured the bank sets aside a buffer to absorb likely losses) would ensure that a true and fair picture of the bank's health is represented.

Explaining the rationale for doing this over a six-quarter period, Rajan observed that a number of these loans could be regularised or stabilised through right collective actions.

“Sometimes, an NPA classification, even while permitting deeper surgery, prompts risk aversion on the part of bank boards and they stop lending even when the project is viable. We need to overcome this view — we have issued circulars stating that a loan to a project whose other loans are NPA does not automatically become an NPA — but it will take time.

“Pending the change in attitude, which I think will come as banks turn to unlocking the value in NPAs, we are working with them to sequence the most obvious actions upfront. However, the end game is clear to everyone and bounded. We do not envisage a sequence of AQRs,” Rajan said

On the question why the asset quality review was being done now, Rajan said that the process began last April when the RBI at that time knew that the global economy would continue to be weak but not that markets would be in turmoil today, though the latter simply reinforced the belief that the RBI needed to act when it did.

He observed that private banks had been able to show superior growth in percentage terms with respect to their PSU counterparts, be it non-food credit, agri credit, industrial credit or personal loans, and that too by a significant margin.

Averse to lending

This, the Governor observed, was due to the fact the PSU banks had turned averse to lending.

“The silver lining message in the slower credit growth is that banks have not been lending indiscriminately in an attempt to reduce the size of stressed assets in an expanded overall balance sheet, and this bodes well for future slippages.

“In sum, to the question of what comes first, clean up or growth, I think the answer is unambiguously ‘clean up!’ Indeed, this is the lesson from every other country that has faced financial stress,” Rajan said.

Rajan added that the system once cleaned will be able to support economic growth in a sustainable and profitable way and only then the economic assets of PSU banks, such as the trust they are held in by the population, their knowledgeable employees, their location and reach, and the low-cost funding they have access to, could be fully realised.

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