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RBI and finance ministry working on solution to NPAs held by banks: Jayant Sinha

By [Deepshikha Sikarwar](#) & [Vinay Pandey](#), ET Bureau | Jan 20, 2016, 04:00 AM IST

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NEW DELHI: The [finance ministry](#) and the Reserve Bank of India are working in tandem on a comprehensive solution to the stressed assets held by banks through asset-quality reviews followed by specific solutions.

The stressed assets fund being set up under National Infrastructure Investment Fund (NIIF) is expected to play a key role in the process, making available equity to troubled companies, minister of state for finance [Jayant Sinha](#) told ET, acknowledging that bad loans posed a major economic risk for India. Under governor Raghuram Rajan, the central bank has been seeking to determine the extent of stress in the

A Comprehensive Plan For NPAs

“Getting transparency and visibility of NPAs was first priority. We have done that. Now we have to work out the right way to provision for them”

First Step

- Recognition of the problem
- Finance ministry and RBI doing a system wide analysis
- Larger focus beyond NPAs to all stressed assets

12.6% OF ADVANCES ARE STRESSED ASSETS

4 Pronged Plan

- ✓ Stressed asset fund of NIIF to provide equity support to stressed assets
- ✓ Banks empowered through JLF, CDR and SDR mechanisms to put pressure on borrowers
- ✓ Bankruptcy code to help faster resolution
- ✓ Multi-pronged attempt to address stressed sectors

system and working with the [finance ministry](#) on a potential solution.

"We have been spending a lot of time on public sector banks," Sinha said, outlining key pillars of intervention that will address the bigger universe of stressed assets and not just bad loans. "We have assembled over the last year, through the assetquality reviews that RBI has undertaken, a very deep and thorough system-wide understanding of stressed assets... Getting transparency and visibility of NPAs (non-performing assets) was first priority. We have done that now." At end of September, the impaired assets of banks stood at Rs 7 lakh crore, nearly 12.6% of advances and up from Rs 6.01lakh crore a year earlier.

"Now we have to work out the right way to provision for them," said Sinha, adding that the solution would avoid targeting banks. "After extensive discussion with experts, RBI and banks, our conclusion was that a badbank approach was not necessarily the best," he said, elaborating on the three-pronged solution. "One is to get NIIF started with a stressed-assets fund, which is what we are going to do," he said.

"That has long-term equity fire power on the table so you can bring in real, long-term equity into some stressed assets. The second element is to strengthen the hands of banks through the joint lenders' forum (JLF), corporate debt structuring (CDR) and strategic debt structuring (SDR). The first refers to banks coming together to address bad loans to specific companies. The second pertains to companies getting extensions on payments and loan haircuts while the third calls for taking over assets and induction of new management to effect a turnaround when this is possible.

Third, and over a longer time frame, the government sees the bankruptcy code as crucial to speedy resolution of stressed assets. The code has been introduced in parliament and is expected to be passed during the budget session.

Sinha said many of the stressed assets stem from industry wide issues, such as the ones that afflict power distribution, steel and textiles. "There the intervention has to be at multiple levels. At the account level, it has to be with the banks, and it has to be at the industry level." The global experience has been that the faster such problems are dealt with the better, he said. A crucial element of the strategy is the capitalisation of banks.

"If indeed we thoroughly check asset quality and consider what the right level of NPAs are, then we obviously need to make sure banks are thoroughly capitalised and are very robust with respect to any provisioning that they have to do and are comfortably ahead of Basel III norms," Sinha said. "We are in the middle of that analysis," he said. Giving autonomy to banks is part of the process, he said.

The government has already proposed infusion of Rs 70,000 crore out of its budgetary resources for bank capitalisation over the next four years.

As part of the bigger plan, the government is setting up the Bank Board Bureau (BBB), which is expected to be functional by April 1.

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