

## RBI is comfortable with bad loans clean-up by banks: Rajan

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*No backtracking on steps for NPA recognition, says RBI Governor*



Raghuram Rajan, RBI Governor

Mumbai, August 9:

Governor Raghuram Rajan on Tuesday said the Reserve Bank of India is comfortable with the bad loans recognition process by banks and there would be no backtracking on the same.

“Banks have certainly taken a lot of steps (to clean-up their balance sheets)....And so the culture of cleaning up seems to be well embedded as well as the culture of recovery on some of the loans,” said Rajan in a media interaction after announcing the third bi-monthly monetary policy review.

In a speech in June, the Governor had observed that since October 2015, when the RBI completed the bank-wide Asset Quality Review (AQR), banks have classified existing distressed loans appropriately, and since March 2016 are looking at their weak-but-not-yet-distressed portfolio for necessary actions.

“There is a change in culture, and banks have been quite willing to get into the spirit of the AQR. Many have gone significantly beyond our indications in what they have cleaned up by the quarter ending March 2016.

“Of course, once the banks have properly classified a non-performing loan and provisioned against it, their incentive to evergreen or avoid writing down the debt to appropriate levels is diminished,” he then said.

### Long-term health

On Tuesday, Rajan said when it comes to large stressed projects there is a need to figure out a way to restructure them in a way that makes sense for the longer-term health of the system and the health of the project.

“Now, there are a number of RBI schemes that are available (for resolution of stressed assets) — the latest being the S4A (Scheme for Sustainable Structuring of Stressed Assets). And, well, early days. The attitude towards these schemes is also changing. The earlier attitude was this is a way to postpone recognition. That is no longer there.

“Now the question is — is this the way to effect resolution? And so, these schemes are now being looked at with new eyes.”

Rajan hoped that as the recovery in the economy starts taking place, some of the stressed assets will be put back on track. There will also be more buying interest in some of the other assets, which have the possibility of new ownership.

“So, at this point, I think, banks have enough tools. The real issue is to use them. We are working with them to make sure that any impediments are rectified.

“Again and again we emphasise, we don’t want to go back to the old days of forbearance. So, they have to use these tools in an effective way and the schemes have been structured such that there is no implication of forbearance,” said the Governor.

To a question on whether there be some backtracking (on asset recognition) after his term at the helm of RBI ends next month, Rajan emphatically said he didn’t see why there should be any backtracking.

“I think the path is clear. There has been substantial co-operation all along the way between the government and the RBI on this. The banks as well as the (company) promoters know what needs to be done. And therefore, I would think, that it is a process of doing it as opposed to backtracking,” explained Rajan.

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