

There is little to fault in the RBI's new proposals to resolve stressed assets. But will they be implemented?

With bad loans in the banking system threatenin to cross the Rs. 7-lakh crore mark, RBI Deputy Governor Viral Acharya's call to resolve stressed assets could not have come at a more opportune time. Since the Asset Quality Review by the RBI, over Rs. 3.5 lakh crore of bad loans have been added to the system. While this has forced banks to recognise the problem, it has only scratched the surface of a much larger issue facing the sector — of freeing up banks' balance sheet through a quick resolution of the bad debt problem. Insofar as recognising and addressing the weak links in the existing process goes, Acharya's proposals to restructure debt have hit the nail on the head. For instance, recognising the need to deal differently with stressed assets, depending on their ability to generate cash flows, is a welcome step. Assets which have economic value in the short run are proposed to be transferred to a private asset management company, with turnaround specialists and private investors called upon to assess the cases. A portfolio approach can help draw investors, thereby addressing the challenge faced by capital-starved asset reconstruction companies (ARCs). Also, a lack of concurrence of the sustainable portion of debt has come in the way of finding ready takers. Suggesting that a sustainable portion of bank debt does not have to meet a minimum threshold is indeed welcome. Stressed assets that require a long time to start generating cash flows, as in the case of power projects, have been proposed to be transferred to a national asset management company, with the Centre stepping in to make these projects viable.

However, implementation challenges remain. Assessing the 'right' price at which banks should offload bad loans to ARCs is a key issue. PSBs have been reluctant to take huge haircuts for fear of coming under the scanner of the vigilance authorities. While the RBI has suggested that the Centre prevail upon vigilance agencies to accept the decision taken under the restructuring plan, it does not rule out the possibility of backlash in later years. Drawing lessons from the dismal track record of recovery, under the Stressed Asset Stabilisation Fund (SASF) that took over Rs. 9,000 crore worth of bad loans from IDBI in 2004, is also imperative. According to a 2014 CAG audit report, SASF was able to recover just aroundRs. 4,071 crore as of March 2013.

Before creating new entities, the Centre will have to resolve the structural issues within PSBs. Empowering boards of PSBs and drawing up a roadmap for consolidation and diluting its stake is the first step. The sharp deterioration in PSBs' finances has eroded wealth for investors, though depositors have so far been unscathed. It's time the Centre let weak banks fend for themselves, or show "tough love" as Acharya puts it, to ensure that deposits flow into stronger banks. Unless these reforms are pushed through, any new proposals to tackle NPAs will remain cosmetic.

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