

Who is to blame for NPAs? Policy uncertainty, inaction by government also led to crisis

By: [Tejinder Narang](#) | Published: December 11, 2017 5:13 AM



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Many decrees of governments all over the world—though deemed to be issued in public interest—may not be innocent of causing public harm. Has there ever been a review of how government policies changed between the time a loan was under consideration and the time after disbursement, to the detriment of chances of repayment and

the debtor's ability to repay? It is, therefore, ironic to see governments castigate corporates and banks for NPAs or stressed loans. Every reason, from "liberal or lax" appraisal of credit-worthiness of projects/promoters to ever-greening of loans by banks, is cited to thump borrowers and lenders, but hardly any attention is given to government policies. This is not to imply that there are no black-sheep businessmen and bankers—but they number a few, and certainly do not make up the entire gamut of borrowers and assessment personnel in banks as is often made out to be.

To isolate themselves from blame and culpability, policy-makers devise new policies that boast of high moral and ethical consideration; for instance, promoters of failed projects cannot bid for their sick units in case these are brought under the insolvency resolution mechanism under the Insolvency and Bankruptcy Code. Thus, policy-makers become saviour-saints, and all others are painted as villains. The sad part is the new decree could breed a flock of both domestic and foreign (through offshore associates) who will bid discreetly for the projects, and many of these could eventually end up being controlled by the original promoter(s). Once the lid is blown off this, it will lead to a fresh round of investigations. Instead of insolvency and bankruptcy resolution, we would have a fresh load of muck.

Authorities need to also investigate how their own policy decisions—modified and changed from time to time—have led to NPAs, affecting industry, banks and other financial institutions.

Columnist Swaminathan S Anklesaria Aiyar, in an article in The Times of India (November 26), writes: “Railway minister Piyush Goyal said last week that the railways would be completely electrified by 2022, phasing out diesel locomotives. Earlier, transport minister Nitin Gadkari decreed that all car production would have to be electric after 2030, heralding the end of petrol and diesel cars. Yet, petroleum minister Dharmendra Pradhan wants to double India’s oil refinery capacity, and later take it to 600 million tonnes from today’s 230 million tonnes. Do these ministers talk to one another?”

Swami concludes, “If bankers are not very careful in financing refinery expansion, they will end up with massive bad debts ... Why invest in this sunset sector?” But who will question the Centre on whether refinery-expansion decision is a bona fide one against the backdrop of the electric vehicles and electric tracks push, especially when banks who lend to refinery expansion projects find that a great part of the credit they extended has turned toxic?

Has there been any quantification of the shock all enterprises—small, medium and corporate—suffered because of demonetisation? Are not the GST-bones still stuck in the throat of many businesses? Will that not create more stress for industry and banking?

On November 27, 2017, Sunil Mittal of Bharti Airtel said, “My estimate is about \$40-50 billion has been written off by various companies, many of whom are international investors. It (the write-offs) is largely due to Jio ... the pricing. Having such a long, free promotional period and in

some sense, decided by laws of the land in their favour, is unheard of. In my opinion, in Europe or the US, this would have been stopped. It would have been seen as predatory.”

Then there are instances where the government suddenly decides to induct or push new technology—these are, no doubt, progressive decisions—like in the case of electric vehicles. But where will all the investment in the oil sector go? Should new electric vehicle investments be made at a measured pace or in top gear?

In some cases, the government opposed the induction of new technology. Take the case of GM seeds—we have refrained from quick adoption. Had GM soy seeds been introduced, it may have led to soy and soy-oil prices coming down. This may not have been palatable to farmers and the mills, but the consumer could have benefited. Also, the import burden on the account of soy and soy-oil could have come down. In 2008, the UPA government banned the export of non-basmati rice as a knee-jerk reaction that had no justification or rationale. There was no scarcity of rice within the country. Many sortexed rice units had been set up in 2004-08 in AP-Kakinada, with state-of-the-art technology. More than Rs 1,000 crore had been lent by banks. Following the ban, the promoters and banks that had lent to them were in tears. That is, until the ban was lifted in September 2011. No one will point fingers at the government for its rank ad-hoc-ism. For the last seven years, rice has been the only viable export as far as agri-commodities are concerned.

One can go on with many instances of such shocks delivered by the government. Government agencies procured 2 million tonnes of pulses last year, the bulk of which remains unsold. The National Food Security Act (NFSA) was created and, again, vast reserves of grains were built up. But now there is a go-slow on NFSA, in action if not in principle or policy. No one is made accountable for decisions that were more political than based on economic rationale. With the money of taxpayers sunk into implementing such decisions, these decisions are just as toxic as NPAs.

If one visits a government office, she would find that the bureaucrats are all busy drafting Cabinet notes on new policies or are preparing replies to Parliament questions. Seen a certain way, the former is sometimes an exercise in creating problems and the latter is an exercise in finding cover for policy uncertainty as the problems from a new policy or the discontinuation of an old policy rise to the surface.