

## What was RBI doing, asks CAG Rajiv Mehrishi on NPA crisis in banks

**The major cause of current banking crisis is huge asset liability mismatch**

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Comptroller and Auditor General of India (CAG) Rajiv Mehrishi on Tuesday questioned the role the of Reserve Bank of India in the present banking crisis, asking what the regulator was doing when the banks were lending huge amounts that resulted in asset-liability mismatch and huge bad loans.

The banking sector had non-performing assets (NPAs) or bad loans worth over Rs 9.61 trillion by the end of 2017-18, according to government data.

"In the present banking crisis, we all have a narrative about how it can be sorted out, recapitalisation of course, which is a very strange word to be used for the subsidies, but nobody is asking the real question that what actually the regulator (Reserve Bank) was doing. What is its role, what is its responsibility?," he asked while speaking at the launch of Indian School of Public Policy (ISSP).

The major cause of current banking crisis is huge asset liability mismatch; but nobody is talking about this, there is a lack of public policy debate, Mehrishi said.

*Rajiv Mehrishi. CAG*

He said India lacks a flourished bond markets in absence of which the banks are forced to lend to long-gestation infrastructure projects. And when

these projects run into any hurdle, their difficulties percolate into the difficulties of the banks, he said.

The CAG also pointed out that there is a lack of public policy debate or a narrative on the root causes of the banking crisis; and also, nobody is talking or writing about the role of the regulator.

Despite from banks' own mismanagement as well as theft of public money which are amongst the reasons behind the banking sector mess, there is much more to this which is complex to understand, he said further.

"If the banks were going berserk with their lending, then what was the regulator doing? And if it (regulator RBI) is accountable for this crisis or not, that is also a narrative nobody is talking about," he said.

Of the over Rs 9.61 trillion banking sector NPAs as on March 31, 2018, Rs 853 billion emanated from agriculture and allied activities while the bulk of Rs 70.3 million originated from loans to the industrial sector.

Speaking on economic reforms and the centre-state relationships in enacting changes, the chairman of the 14th Finance Commission and former Revenue Secretary N K Singh said the centre alone cannot bring about the economic overhauling.

"The economic reforms cannot merely be taken by the central government.

For example labour reforms and the land reforms, it has been left to the skills of state government what they want to enact and believe the changes needed for economic reforms," Singh said.

He also talked about the pedagogy built around the centre-state relationships and the unfinished agenda of India's important economic reforms and said mere tinkering will not do and deep structural reforms are needed.

He said India dearly needs the structural reforms and a lot of these relate to what the state governments can do in this direction.

The Indian School of Public Policy will begin its first batch of one-year full-time programme in public policy, design and management to professionals with 2-3 years of relevant experience from 2019.

The school intends to develop a new class of policy leaders for India by equipping policy professionals with knowledge, skills, wisdom and ethics to understand, design and implement local solutions to India's enduring policy and governance challenges, ISPP said.