RBI has a memo that could permanently silence doubters of its NPA move

By Sugata Ghosh, ET Bureau | Updated: Jan 28, 2019, 11.07 AM IST

The message sent out by the February 12 circular is that the outcome of default should be automatic, immediate, and transparent.

MUMBAI: The **Reserve Bank of India** (**RBI**) is weighing a plan to release data that would demonstrate that the number of corporates defaulting on bank loans have dipped following the central bank's stern directive on February 12 last year that had rattled large, influential borrowers and irked many within the government.

The regulator is understood to have sounded out the government on the proposed move that could counter arguments of industry lobbies and defend the directive at a time it has been challenged in the court of law.

IndiGo looks overseas

"There is a proposal to come out with a 'Mint Street Memo' that will show improvement in default data since the new rule came into effect. The idea is to place the facts before everyone at a time when the industry associations are putting forward their views against the February 12 circular before the new governor," a person familiar with the matter told ET.

Mint Street memos, released by RBI from time to time, are brief reports and analyses on contemporary topics. The documents are prepared by the staff of RBI and Centre for Advanced Financial Research & Learning (**CAFRAL**), an independent body set up by the central bank.

ET's email to RBI on January 2, seeking its view on the proposed memo, went unanswered till the time of going to press.

Among other things, RBI's February 12 notification directed banks to classify loans as 'special mention accounts' immediately on default, and file insolvency application (in case of borrowers having outstanding debt of Rs 2,000 crore or more) if the debt resolution plan to revive the company is not implemented within 180 days from the date of default.

The notification has been legally challenged with several borrowers taking a stand that the decision to invoke the 'Insolvency and Bankruptcy Code 2016' should be left to lenders and not directed by the banking regulator.

"Even though the subject is sub judice (with the petitions against the circular lying before the Supreme Court), the regulator can always come out with reports based on facts which are not classified..," said a banker.

Rating Agency Backs RBI Claims

Indeed, according to data compiled by India's largest credit rating agency Crisil, the number of defaults is the lowest in the first half of 2018-19 compared with the corresponding period of FY14, FY15, FY16, FY17 and FY18.

"It is a common knowledge that there was a time when some of the senior government functionaries were against the February 12 circular and former governor **Urjit Patel** had faced the pressure…," said the person.

The message sent out by the February 12 circular is that the outcome of default should be automatic, immediate, and transparent. The directive, say people in banking circles, comes across as harsh because it marks a shift to an inflexible, rulebased system in dealing with NPAs and recovery, say bankers.

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