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Market Watch

Bad loans of public sector banks fall to Rs 7.27 lakh crore at end of Sept 2019: Nirmala Sitharaman

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NEW DELHI: Finance Minister [Nirmala Sitharaman](#) on Monday said public sector banks' (PSBs) bad loans came down to Rs 7.27 lakh crore at the end of September 2019, on host of measures taken by the government to improve financial health of the banks in the country.

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"The government has instituted comprehensive reforms in PSBs to improve, governance, underwriting, monitoring and recovery, and has leveraged technology in all aspects of [banking](#), resulting in reduction in their NPAs," Sitharaman said in written reply to a question in the Lok Sabha.

She said bad loans of PSBs stood at Rs 7.27 lakh crore at the end of September 2019, down from Rs 8.96 lakh crore at the end of March 2018.

"Record recovery of Rs 2.03 lakh crore over the one-and-half year period ending September 2019, 12 out of 18 PSBs reporting profit in the first half of the current financial year, and the highest provision coverage ratio in seven-and-half years," she said.

She said the Banking Trend Report published by the [Reserve Bank of India](#) (RBI) in December observed that the health of the banking sector hinges on a turnaround in macroeconomic conditions.

"The government has taken significant steps towards speeding up the insolvency resolution process under the [Insolvency and](#)

Bankruptcy Code (IBC) and easing of credit, particularly for the stressed real estate and non-banking financial companies (NBFCs) sectors, and that the impact of critical measures taken to boost investment present green shoots for growth in the second half of 2019-20 and 2020-21."

Further, the RBI's Financial Stability Report stated that the capital adequacy ratio of scheduled commercial banks has improved significantly from 14.3 per cent in March 2019 to 15.1 per cent in September 2019 following recapitalisation of state-owned banks.

PSBs' provision coverage ratio has risen to 61.5 per cent from 60.5 per cent over the same period implying increased resilience of the banking sector, and their net non-performing assets ratio has declined reflecting increased provisioning, she said.

When asked about the bank's confidence in extending loans, she said sporadic credit default events and incidents of frauds have contributed to reluctance in lending by banks. She, however, added that a number of steps have been taken to address these and other matters concerning lending by banks.

She said the measures initiated include maintenance of overall positive liquidity through open market operations by the RBI, liquidity support through various means to the NBFC sector in which there have been instances of credit defaults, and enabling of financial support for stalled housing and real estate projects.

"Mechanism for resolution of stress in NBFCs has been created by empowering RBI to take action in this regard through amendments...and bringing NBFCs with an asset size of Rs 500 crore and above within the ambit of resolution under IBC," Sitharaman said.

To address concerns due to frauds contributing to reluctance in lending, she said the Prevention of Corruption Act has been amended to prohibit conduct of inquiry or investigation of offences relating to decision taken by public servant in discharge of functions, without previous approval of the authority competent to remove him.

The Advisory Board for Banking and Financial Frauds has been set up for distinguishing between commercial failure and criminal action cases of suspected frauds over Rs 50 crore, before initiation of investigation by the Central Bureau of Investigation.

Besides, the government has taken steps to facilitate and incentivise lending through successive cuts in lending rates, linking of loans for micro, small and medium enterprises (MSMEs) to an external benchmark rate, and relief to banks' cash reserve ratio requirement,

among others.

"With regard to governance norms for banks, it is stated that the government has recently introduced comprehensive reforms in PSBs, taking into account global best practices, for empowering bank boards, strengthening the board committee system, improving the effectiveness of non-official directors and building a leadership pipeline," the minister said.

She also said that specific reforms include empowerment of boards to recruit chief risk officers from the market at market-linked compensation, mandate to boards to provide non-official directors necessary training, and to undertake annual peer evaluation of their performance.

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