

AN IDEA OF A BAD BANK IN INDIA

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Abstract

Indian banking system was always helping big projects by financing them through loans. But the number of defaulters in repayment of the loans is increasing to the heights. There was no less effort made by the banks and the regulators to come out of this loan problem. They tried many ideas like permitting banks to lend to buyout to buy distressed assets, the formation of joint lenders' forum to prevent defaults, sharing of data on huge credit, etc. Despite all the efforts the result was disappointing as India's stressed assets are the highest among the big markets 12.3% of the total outstanding loans. Indian banks are no more able to fight with this problem. A new idea needs to be tested. The name 'bad bank' itself suggests that it deals with something bad in the financial sector. The idea of starting a bad bank by the government was recently proposed in the Economic Survey presented in January under the name 'Centralized Public Sector Asset Rehabilitation Agency' (PARA) that could take charge of the largest, most difficult cases, of non-performing assets (NPAs) in the banking system. The need for a government-owned bad bank has been felt for some time as the commercial banks are finding it difficult to deal with NPAs or bad loans .

Mr. Rajan, head of the central bank had said "It is not clear (if) India needs a so-called "bad bank" to deal with non-performing loans, adding that it would be preferable to push banks to clean up balance sheets themselves". As, Mr. Rajan was more in favour of capitalizing the banking system. However, economists in the country are divided in their opinion whether a bad bank can help solve the bad loan problem. A lack of co-ordination between banks, or borrowers playing one bank against another has been a major source of irritant for big lenders. There is also no incentive for anyone to take the lead and initiate quick recovery. It could solve the coordination problem, since debts would be centralized in one agency; it could be set up with proper incentives by giving it an explicit mandate to maximize recoveries within a defined time period; and it would separate the loan resolution process from concerns about bank capital.

Keywords: Bad Bank, Non Performing Assets (Npas), Stressed Assets, Banking System, Bad Loan, Interest, Idea.

Introduction

An Idea of a Bad Bank in India

Indian banking sector is back in news: banks and financial institutions all over the nation undergoing a huge financial stress due to defaults by various borrowers, especially the big ones. RBI revealed the names of 57 big defaulters whose debt amounted a total of Rs, 85000 crore before the supreme court on its order. The most affected ones are the public sector banks as they have sanctioned hundreds of projects to various industries under different schemes worth billion of rupees , but many of these projects became non viable or stuck at various stages, hence have stopped paying back the interest to the banks. Due to this the entire banking system is facing a huge financial crisis. Due to rising NPAs the industrial growth is also suffering as banks are not showing keen interest to sanction loan to big

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