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TWIN BALANCE SHEET PROBLEM IN INDIAN ECONOMY: A STUDY

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ABSTRACT

Twin balance sheet problem is very important issue to be studied for the growth of the country, Twin balance sheet problem is a problem that occurs when there is a Problem in the balance sheet of one sector due to the other sector like if there is Problem in the balance sheet of industrial sector then definitely there will be Problem in the balance sheet of banking sector also and vice-versa and for the development of any economy these two sectors i.e. banking and industrial sector have to be studied broadly, this is possible only when proper stress will be given on the sustainable development of industrial sector and very well organized banking sector so we have to look after proper functioning of these two sectors, by studying their balance sheet problems, so that non- performing assets(NPAs) and bad loans can be reduced, although government has introduced various schemes to solve twin balance sheet problem but results were not up to the expected level, In 2015-16, economic survey report also it has been mentioned that twin balance sheet problem is the biggest problem for the indian economy, Financial stability report, 2018 of RBI also states that gross non- performing asset ratio(GNPAs) have not reduced instead its keep on rising. In this article twin balance sheet problem, its origin, various government schemes will be explained and why these schemes have failed.

KEYWORDS: *Banking Sector, Gross NPA, TBS, Public Sector Banks, Financial Stability.*

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Introduction

Twin Balance Sheet (TBS) problem

The Twin balance sheet problem originated in 2000s when GDP growth rate has increased to 9%, and investment-GDP ratio had increased by 11% and reached to 38% so the companies thought this is the golden opportunity for them to invest and they have taken large amount of loan from banks, but in 2007-08 due to economic recession GDP has declined to just half and as a result companies were not able to pay even interest on loan as a result led to increase in NPAs in banks. The term Twin Balance sheet problem was first highlighted in The Economic Survey report 2015-16 and it was specified that balance sheets of public sector banks are weakening and some of the large industries have become most critical short-term challenges for the Indian economy. So it is clear that Twin Balance sheet Problem has become a major challenge for Indian economy. The twin balance sheet problem refers to the Problem where balance sheet of industrial sector affects the balance sheet of Banks and vice-versa, here it means if there is problem in the balance sheet of industrial sector then there will be problem in the balance sheet of banks also. Thus, TBS is two-fold problem for Indian economy which deals with:

- **Overleveraged Companies:** Companies that are not able to pay even interest amount so the debt of such companies becomes very high. Note: 40% of loan is taken by the companies who are not able to pay their interest;this means that they have an interest coverage ratio less than 1.
- **Bad-Loan-Encumbered-Banks:** Non-Performing Assets (NPA) of the banks have reached to 9% for the total banking system of India and the NPA's are 12.1% in Public Sector Banks of the total NPAs. So we can say banks are in difficult situation due to companies as the companies are not in a position to pay even their interest.

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Objectives of the study

- To study the twin balance sheet problem and its impact on Indian economy
- To understand the various schemes of government.

Review of Literature

Pawaskar, (2017) has finded that Banks financial position depends on its ability to recover loans or its level of Non- Performing Assets. Banks plays an important role in the country's growth. But according to the reports the Indian banking sector is in difficult situation as gross NPAs are continued to increase. In public sector banks the NPAs are higher as that in private sector banks. To improve the situations of banks their efficiency and profitability needs to increase so that NPAs can be reduced.

JagdeepKumari, (2017) has stated in his paper that Indian banking industry has recently witnessed the roll out of innovative banking models like payments and small finance banks. The central bank granted in-principle approval to 11 payments banks and 10 small finance banks in FY 2015-16. RBIs new measures may go a long way in helping the restructuring of the domestic banking industry.

Reasons that Twin balance sheet problem remains unsolved

There are various reasons due to which this problem remains unsolved.

- The companies take loans from multiple banks. So an individual finds it difficult to go to the market and find buyers of these assets. This problem requires coordination of all the parties.
- While restructuring the debt, banks shown unwillingness to take significant losses.
- Banks fear to restructure the stressed and non-performing loans due to audit and investigations.
- Government cannot finance the loan amount from their budget as the loan taken is of large amount. Also, there is potential political fallout of this.

Government schemes for solving Twin Balance sheet problem

- **5/25 Refinancing of Infrastructure Scheme**

This scheme addresses the problem of cash flow in the long term infrastructure projects and will make them viable. By this scheme banks can extend long-term loans of 20-25 years to match the cash flow of projects, while refinancing them every 5 or 7 years. Until now, banks were typically not lending beyond 10-12 years.This scheme allowed infrastructure sector and other industrial sectors to revive their stressed assets at greater level. This scheme thus improved the liquidity position and credit profile of companies, and allowed banks to treat these loans as standard in their balance sheets, reducing provisioning costs.

Issues faced: However, In this scheme higher interest burden was faced by the companies as the amortization spread out over a longer period, as a result companies found it difficult to repay their loans and this forced banks to extend additional loans.

- **Private Asset Reconstruction Companies (ARCs)-Under SARFAESI Act. ARCs purchase the stressed loans of banks and by their expertise they try to resolve them.**

The issue faced: ARCs were not able to recover much from the debtors and as a result they were not able to offer required prices to banks and this prices were difficult for banks to accept.

- **The Strategic Debt Restructuring (SDR) scheme: Under SDR, banks have the right to convert the full or part of their loans given to the companies into equity shares.**

The issue faced: only two sales have been materialized by December 2016, due to unviability of many firms.

- **Asset Quality Review (AQR)**

Under AQR scheme, RBI emphasised, loans which are given by the banks must be classified according to the RBI loan classification rules. There must be rectification of any deviation from rules.

- **The Scheme for Sustainable Structuring of Stressed Assets (S4A)**

Under this scheme, banks have to hire an independent agency which will decide the sustainabile and unsustainable stressed debtsof a company and the unsustainable debt will be liquidated by converted them into equity and preference share.

The issue faced: So far there is very limited success with regard to this scheme.

Reasons for Failure of Government Schemes

The reasons for the failure of above schemes:

- The Asset Quality Review scheme wasto verify that banks were giving loans according to the RBI loan classification rulesbut banks kept on ever greening loans.
- Coordination Issues: By coming together through Joint lenders Forums The RBI has encouraged creditors, where decisions can be taken by 75 percent of creditors by value and 60 percent by number. But reaching to these standards become very difficult, because credits, capital and incentives very from bank to bank
- Lack of Proper incentives: To restore Viability large debt reductions has to be needed. But as there are no appraisal for grant write-downs, public sector bankers became reluctant. To solve this problem, the Bank Board Bureau (BBB) has created an Committee which can certify and sortall the proposals.
- Massive Capital Constraints: under the Indradhanush scheme the government has promised to give public sector banks Rs 70,000 crores of capital by 2018-19. But this amount was insufficient.
- IBC in nascent stage: The new bankruptcy system has not been developed fully.
- Failure of private Asset Reconstruction Companies (ARCs): The ARCs failed to recover amount from the debtors although many ARCs have been established. These companies have solved only small portion of the problem. So these companies were unable to offer the banks the required prices and these prices were not acceptable by banks.
- Strategic Debt Restructuring (SDR) scheme: under this scheme the firms that are not able to pay loans the banks can take over those firms and can also sell them to new vendors. But advantage was taken by only those projects that have started commercial production.

Way Forward

- First, the losses that have already been occurred in the banking system needs to be faced andpolitical effectto deal the problem have to be accepted.
- Second, the PARA needs to be an independent agency which should be staffed by banking professionals and has to follow commercial rather than political principles and there is also a need that loans should recovered within a specified, reasonably short time period.
- The third issue is pricing. Banks can transfer losses to Rehabilitation Agency If loans are transferred at inflated prices.
- Diligent implementation of Bankruptcy Code and A rekindled optimism on structural reforms in the Indian economy, along with implementation of GST and will play supporting pillars.

Conclusion

The twin balance sheet problem is a serious Very serious problem for any economy, and till now all the applied measures to solve this problem have failed but time has come to think on this problem it should be emphasised, that banks give loans according to classification rules made by the RBI. The problem can be solved if Public Sector Asset Rehabilitation Agency (PARA) a centralized agency will be this agency will help in taking difficult decisions which the public sector banks are unable to take. This agency will help in solving debt problems quickly.

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