

## BAD BANK? BAD IDEA

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Banking, NPAs and RBI

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The idea of a so-called "bad bank" as some sort of panacea for loans that have turned toxic and seized up credit markets gets trotted out often. On Wednesday, former Reserve Bank of India governor Duvvuri Subbarao said that such a bank is not only necessary but also "unavoidable". That our banks need support is in little doubt. The sector is struggling to find its feet, bogged down by a mountain of bad loans made worse by the covid pandemic.

True, rising bankruptcies are likely to choke our already-clogged insolvency framework. Yet, it's unclear if a bad bank could do the job of cleaning up the sector any better. Since it would buy dud loans off other financial institutions, significant amounts of public money would be required. Even then, how differently it would work from, say, asset reconstruction companies is unknown. They too buy high-risk portfolios at deep discounts, but their record in India has been patchy, at best. This appears to be mostly because we don't have a deep and wide enough market for re-jigged assets. Thus, in all likelihood, a bad bank, if set up, would flounder. Perhaps what we need is greater capacity to handle bankruptcy cases.

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