No easy solutions: on tackling NPAs

Union Minister Piyush Goyal, currently in charge of the Finance Ministry, has announced the formation of a **committee to assess the idea of special asset reconstruction companies** or asset management companies to take over bad loans from banks. The bankers' panel has been given two weeks to revert. The idea of a 'bad bank' is not new. Chief Economic Adviser Arvind Subramanian had suggested the creation of a Public Sector Asset Rehabilitation Agency (PARA) to deal with what he described as India's "festering twin balance sheet problem". By this he meant over-leveraged corporates unable to service debt or invest afresh, and banks hit by non-performing assets (NPAs) cagey about fresh lending. This overhang hurts new investments and continues to dent India's medium-term growth and job creation prospects. A professionally-run PARA, or the so-called 'bad bank', could assume custody of the largest and most difficult-to-resolve NPAs from lenders' balance sheets. This would allow banks to focus on extending fresh credit and supporting the pick-up in growth. More importantly, a bad bank taking tough decisions on borrowers-gone-bad, it was argued, could free bankers from the risks entailed in large loan write-downs.

But there are good reasons why the Finance Ministry left the bad bank idea in the cold over the past year and a half – among them the fact that the new entity would need a lot of capital support, just as banks do. Some of this was envisaged as coming from the Reserve Bank of India through a complicated transaction. After a long debate within government, under Finance Minister Arun Jaitley, it was noted that setting up a new institution would be very time-consuming and there would be challenges on its ownership structure as well as the pricing of bad loans taken over from banks. In any case, going by the experience of private asset reconstruction companies, a PARA by itself would not be able to deploy dramatically different tools to extract better value from underlying assets and would, at best, amount to window-dressing bank books to attract investors. As former RBI Governor Raghuram Rajan had pointed out, a government-owned bad bank could still face scrutiny from the Comptroller and Auditor General and the Central Vigilance Commissioner. For now, the government is clearly under pressure to demonstrate fresh intent to investors as India Inc believes bank loans are likely to remain sluggish for the next two-three years. Whether or not the knots in the bad bank idea are sorted out, the government should focus on other reforms as well. One, amend the Prevention of Corruption Act to shield bankers and officers from investigative witch-hunts. Two, back bankers to take demonstrable action against wilful defaulters. And three, take a hard look at what ails the Insolvency and Bankruptcy Code.

The new biofuels policy is high on ambition, but success will depend on the details

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