Source : www.thehindu.com Date : 2020-03-07

BANKING ON BAILOUTS: THE HINDU EDITORIAL ON YES BANK CRISIS

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

Just one day after it placed the financially troubled Yes Bank under a moratorium, the Reserve Bank of India announced a draft 'Scheme of Reconstruction' that entails the State Bank of India (SBI) investing capital to acquire a 49% stake in the restructured private lender. The alacrity with which the bailout has been proposed is commendable, given that Yes Bank's stock tumbled 56% on the BSE on Friday, eroding shareholders' holdings and dragging the 10-bank S&P BSE Bankex down with it, an indicator of the contagion risk that a sudden bank resolution can pose to the financial system. However, the decision to suspend normal business operations raises several worrying questions, both about the health of the banking sector, and the adequacy of the oversight role that regulators essay. Yes Bank's troubles are not exactly new or unique and its problems with mounting bad and dodgy loans reflect the underlying woes in the borrower industries, ranging from real estate to power and non-banking financial companies. The continued inability of several corporates to repay their loans resulting in many landing up in insolvency proceedings has meant that lenders have been the hardest hit. Yes Bank, which is yet to report third-quarter financials, suffered a dramatic doubling in gross non-performing assets over the April-September six-month period to 17,134 crore, even as it scrambled to raise capital to shore up its balance sheet. With the economy in the throes of a persistent slowdown, the prospects of banks' burden of bad loans easing soon are limited.

Saying 'yes' to troubled borrowers cost lender dear

The fact that the lender ended up at the resolution stage, without ever being placed under the central bank's Prompt Corrective Action (PCA) framework, also raises a question mark over how and why Yes Bank eluded the specifically tailor-made solution to address weakness at banks. While some have pointed to the fact that the lender's stated operational metrics had not breached the pre-set thresholds for triggering the PCA action, the central bank had in recent years flagged several concerns, including a distinct divergence between the reported and RBI's own findings on the bank's financials. This could then be a good opportunity for the RBI to review its PCA guideposts and revise them to ensure that such a slipping under the radar does not recur. The choice of SBI as the investor to effect the bailout reflects the paucity of options the government has. With several other public sector banks currently engaged in merging with weaker peers as part of the Centre's plan, it has fallen on the country's largest bank to play the role of a white knight to a private rival. While Yes Bank's depositors are sure to heave a huge sigh of relief, India's banking sector is still far from out of the woods. Clearly, the RBI and Centre have their task cut out in ensuring that the need for such bailouts is obviated.

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