GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF FINANCIAL SERVICES

LOK SABHA

UNSTARRED QUESTION NO. 262

TO BE ANSWERED ON THE 3rd February 2017/ Magha 14, 1938 (SAKA)

Credit Growth in Public Sector Banks

QUESTION

262. ADV. M. UDHAYAKUMAR:

Will the Minister of FINANCE be pleased to state:

(a) whether the slowdown in credit growth in public sector banks is largest because of stress and not because of high interest rates or lack of capital;

(b) if so, the details thereof;

(c) whether banks have to follow certain three basic principles which were followed world over when faced with incipient distress by them;

(d) if so, the details thereof and the steps taken by the public sector banks in this regard?

ANSWER

The Minister of State in the Ministry of Finance
(SHRI SANTOSH KUMAR GANGWAR)

(a) to (d): Reserve Bank of India (RBI) has informed that the Annual credit growth of Public Sector Banks (PSBs) slowed down from 7.12% as at end of March 2015 to 3.82% as at end of March 2016. Stressed advances ratio for PSBs has increased from 13.24% as at end of March 2015 to 14.40% as at end of March 2016. Lower credit growth of PSBs could possibly be on account of rebalancing of portfolio in the wake of impairments leading to higher credit costs including provisions, stress in certain sections etc.

The then RBI Governor, in his speech at ASSOCHAM – Interactive Meet with Industry & Trade on June 22, 2016 at Bengaluru said that the world over, there are three cardinal rules when faced with incipient distress:-

(i) Viability does not depend on the debt outstanding, but on economic value. Debt may have to be written down to correspond to what is viable.

(ii) Complete projects that are viable, even if it requires additional funds infusion.

(iii) Don't throw good money after bad money simply because there is an unreliable promise that debt will become serviceable.

RBI has provided a number of tools in this regard – Corporate Debt Restructuring (CDR), Formation of Joint Lenders' Forum (JLF), Flexible Structuring for long term project loans to Infrastructure and Core Industries (5/25 Scheme), Strategic Debt Restructuring Scheme (SDR) and Sustainable Structuring of Stressed Assets (S4A). The Government has taken sector specific measures (Infrastructure, Power, Road, Textiles, Steel etc.) where incidence of NPA is high. The Insolvency and Bankruptcy Code (IBC) has been enacted and Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act (SARFAESI) and the Recovery of Debts due to Banks and Financial Institutions (RDDBFI) Act have been amended to improve resolution / recovery of bank loans. Six new Debt Recovery Tribunals (DRTs) have been established for improving recovery.

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