

LOK SABHA
UNSTARRED QUESTION NO. 1860
TO BE ANSWERED ON DECEMBER 29, 2017

ECONOMIC GROWTH OUTLOOK

1860. SHRI G. HARI:

Will the Minister of FINANCE be pleased to state:

- (a) whether as per the International Monetary Fund (IMF) report, India's economic growth outlook has improved as impact of demonetization is fading and some key reforms are paying off, if so, the details thereof;
- (b) whether the Government is concerned on the growing corporate debt and banking system vulnerabilities; and
- (c) if so, the details thereof and the reaction of the Government thereto?

ANSWER

MINISTER OF STATE IN THE MINISTRY OF FINANCE
(SHRI PON RADHAKRISHNAN)

(a) An IMF note on Global Prospects and Policy Challenges (July 2017) indicated that the outlook for India has improved as the impact of demonetization seems to be fading and recent key structural reforms continue to pay off.

(b) & (c) The gross non-performing advances (GNPA) ratio of Scheduled Commercial Banks (SCBs) increased from 9.6 per cent to 10.2 per cent between March and September 2017. The share of large borrowers (large borrower is defined as a borrower that has aggregate fund-based and non-fund based exposure of Rs.50 million and more with the Scheduled Commercial Banks) in GNPA's declined between March and September 2017. As per the Financial Stability Report December 2017, India's financial system remains stable. The stress in the banking sector, particularly the Public Sector Banks (PSBs), while significant, appears to be bottoming out.

The Government has undertaken various measures to address the banking and corporate sector issues. The government has launched a phased program for bank recapitalization. This entails infusion of capital to the public sector banks, that is expected to encourage banks to enhance lending. A comprehensive bankruptcy mechanism was established via notifying Insolvency and Bankruptcy Code (IBC) in May 2016 and establishing the regulatory framework in the form of the National Company Law Tribunal in June 2016 and the Insolvency and Bankruptcy Board of India (IBBI) in October 2016. The government also empowered RBI to issue directions to any banking company or banking companies to initiate the insolvency resolution process with respect to a default, under the provisions of IBC by amending the Banking Regulation Act, 1949.

To address the vulnerabilities in the banking system, Reserve Bank of India (RBI) undertook many steps including issuing the framework to revitalise the distressed assets in the economy and establishment of Central Repository of Information on Large Credits to reduce information asymmetry. RBI also mandated the formation of Joint Lenders Forum if any large borrower emitted early warning signals; introduced Strategic Debt Restructuring Scheme with a view of facilitating the exit of inefficient managements, Scheme for Sustainable Structuring of Stressed Assets, and Corporate Debt Restructuring (CDR) Scheme.
