Will the Minister of Finance be pleased to state:

(a) whether the economic revival is key to banks’ health and if so, the details thereof and the steps being taken by the Government in this regard along with the results yielded therefrom so far;

(b) whether waning of banks’ confidence in extending loans is worrisome as per RBI report and if so, the details thereof and the corrective steps being taken in this regard; and

(c) whether the Government is working on strict governance norms for banks soon which is likely to reflect global best practices and if so, the details thereof and the progress made in this regard so far?

**ANSWER**

The Finance Minister
(SMT. NIRMALA SITHARAMAN)

(a) to (c): A statement is laid on the Table of the House.

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With regard to banks’ confidence in extending loans, it is stated that the RBI’s Banking Trend Report observes, *inter alia*, that sporadic credit default events and incidents of frauds have contributed to reluctance in lending by banks. A number of steps have been taken to address these and other matters concerning lending by banks, including *inter alia*, the following:

(1) To provide liquidity, extend financing to stalled projects and enable resolution, and thereby reduce the risk of credit default,—
   
   (i) Overall positive liquidity has been maintained through open market operations by RBI and treating incremental credit of banks to NBFCs as high-quality liquid assets for calculation of former’s liquidity coverage ratio,
   
   (ii) The NBFC sector, in which there have been instances of credit default, has received liquidity support through:

   I. National Housing Bank’s Liquidity Infusion Facility (LIFt) for refinance to Housing Finance Companies (HFCs) for affordable housing;
II. Substantial increase in credit extended by banks;
III. Partial Credit Guarantee Scheme for purchase of high-rated pooled assets of NBFCs;
IV. Bank credit to NBFCs for on-lending being classified as priority sector; and
V. Banks co-originating loans with NBFCs.

(iii) Financing for stalled housing and real estate projects has been enabled through:
I. An Alternate Investment Fund to finance the affordable and middle-income housing sector projects, and NBFCs, including HFCs, are also eligible for finance from the fund, and
II. The permission announced by RBI on 6.2.2020 for advancement of date of commencement of commercial operations in commercial real estate projects delayed due to reasons beyond control.

(iv) Mechanism for resolution of stress in NBFCs has been created by empowering RBI to take action in this regard through amendments effected to the Reserve Bank of India Act, 1934 and bringing NBFCs with asset size of Rs.500 crore and above within the ambit of resolution under IBC.

(v) Concerns in lending to stressed entities in respect of which market perception regarding risk of credit default is higher have been addressed by improvements made in respect of resolution under IBC, in terms of:
I. Protecting the primacy of secured creditors in realisation from secured assets;
II. Bringing the resolution and bankruptcy of personal guarantors of corporate debtors within the ambit of the resolution process; and
III. Ring-fencing resolved corporate debtor in favour of successful resolution applicant, from criminal proceedings against offences committed by previous management/promoters.

(2) To address concerns arising from incidents of fraud, contributing in reluctance to lend—
(i) Prevention of Corruption Act has been amended to prohibit conduct of inquiry/investigation of offences relatable to decision taken by public servant in discharge of functions, without previous approval of the authority competent to remove him.
(ii) The Advisory Board for Banking and Financial Frauds has been set up for distinguishing between commercial failure and criminal action cases of suspected frauds over Rs. 50 crore, before initiation of investigation by the Central Bureau of Investigation.

(3) To facilitate and incentivise lending—
(i) By reduction in lending rates:
I. Successive cuts effected in the benchmark Repo rate since February 2019, resulting in the weighted average lending rate of banks on fresh loans reducing by 69 basis points till December 2019,
II. All fresh floating loans for retail and micro, small and medium enterprises (MSMEs) lending have been linked to an external benchmark rate, and
III. RBI, on 6.2.2020, has announced relief in the Cash Reserve Ratio requirement of banks on incremental outstanding loans for automobiles, residential housing and MSMEs between 31.1.2020 and 31.7.2020;

(ii) For MSMEs, measures taken include:
   I. Introduction of a scheme for restructuring of loans,
   II. Up to 25% enhancement by PSBs in existing working capital limits in standard MSME accounts,
   III. Launch of MSME Outreach Initiative by PSBs,
   IV. Online bill discounting via TReDS platform, and
   V. Time-bound in-principle approval on the PSBloansin59minutes.com platform;

(iii) For export, measures taken include:
   I. expanding the eligibility for classification of such credit as priority sector lending, and
   II. infusing capital in Exim Bank;

(iv) For retail, measures taken include:
   I. reduction in risk weight on consumer loans other than on credit cards, and
   II. introduction of in-principle approvals for retail lending through PSBloansin59minutes.com;

(v) For infrastructure, equity support has been provided to India Infrastructure Finance Company Limited (IIFCL) to enable it to borrow and finance infrastructure projects; and

(vi) External commercial borrowings have been facilitated through expansion of eligibility to include all entities eligible to receive FDI and reduction in the minimum average maturity requirement of the borrowing to three years

With regard to governance norms for banks, it is stated that Government has recently introduced comprehensive reforms in PSBs, taking into account global best practices, for empowering bank Boards, strengthening the Board committee system, improving the effectiveness of non-official directors and building a leadership pipeline. Specific reforms include, *inter alia*, empowerment of Boards to recruit Chief Risk Officers from the market at market-linked compensation, introduced Chief General Manager level, and decide sitting fees of non-official directors, assignment to non-official directors role analogous to that of independent directors, mandate to Boards to provide non-official directors necessary training and to undertake annual peer evaluation of their performance. Banks have taken steps for implementation in line with the reforms.

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