GOVERNMENT OF INDIA
MINISTRY OF FINANCE
LOK SABHA
STARRED QUESTION NO-*88
ANSWERED ON- 08/02/2021

BAD BANK LOANS

*88. SHRI RANVEET SINGH BITTU

Will the Minister of FINANCE be pleased to state:-

(a) whether it is a fact that as per a recent analysis by Reserve Bank of India, bad bank loans may hit a 22-year old high by September 2021 with a massive increase in the gross bad loan ratio of banks;

(b) if so, the details thereof along with the complete details of all the challenges the banking sector is likely to face in the future;

(c) whether the Government is taking any measures to ensure the profitability of the banks by bringing down bad loans etc. in order to enable them to function in a sustainable manner;

(d) if so, the details thereof; and

(e) if not, the reasons therefor?

ANSWER

THE FINANCE MINISTER

(SMT. NIRMALA SITHARAMAN)

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

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Statement as referred to in reply of Lok Sabha Starred Question no. *88 for answer on 8th February, 2021/ Magha 19, 1942 (Saka) regarding "Bad Bank Loans" by SHRI RANVEET SINGH BITTU, Hon'ble Member of Parliament

(a) to (e): The Financial Stability Report (FSR) released by Reserve Bank of India (RBI) in January 2021 states that the gross non-performing asset (GNPA) ratio of Scheduled Commercial Banks (SCBs) may increase from 7.5 per cent in September 2020 to 13.5 per cent under the baseline scenario and to 14.8 per cent under the severe stress scenario, by September 2021.

As per RBI inputs, the said GNPA ratio has been arrived at without factoring in the impact of the policy actions under way, *viz.*, RBI's resolution framework for COVID-19-related stress and one-time restructuring of loans to micro, small and medium enterprises (MSMEs), which aim to facilitate revival of real sector activities and mitigate the pandemic's impact on borrowers. Under the said framework/scheme, resolution/restructuring of eligible loan accounts is permitted without asset classification downgrade. Therefore, the actual movement of GNPA ratio of SCBs will depend on the extent to which the benefit of the said framework/scheme is availed of by the eligible borrowers and facilitates revival and mitigates the pandemic's impact on borrowers.

Loan accounts become non-performing due to a variety of factors, which may be economy-wide or specific to a sector or a firm. Appropriate monetary policy, fiscal policy and regulatory measures are taken from time to time to address economy-wide and sector-specific issues with a view to achieve macroeconomic goals and secure financial stability. In the context of economic slowdown, the impact of the pandemic and the need to support post-pandemic recovery, comprehensive measures have been taken under Government's Aatma Nirbhar Bharat Abhiyaan economic package and RBI's regulatory package, revival framework and monetary policy steps to mitigate debt servicing burden and pandemic's impact on borrowers, to ensure business continuity and to facilitate revival of real sector activities while ensuring the profitability of the banks and bringing down the bad loans. These include, *inter alia*, the following:

(a) RBI has provided a framework for lenders to implement resolution plans in respect of eligible loans to corporates and micro, small and medium enterprises (MSMEs), to enable lending institutions to offer customised relief to borrowers in the form of restructuring, without downgrading the loan as an NPA. Such restructuring may entail the grant of various concessions to the borrower in terms of altering the total amount to be repaid, instalment amounts and the rate of interest, extending moratorium and/or the residual periods of repayment, waiving penal interest and charges, converting the accumulated interest into a fresh loan with a deferred payment schedule, and sanction of additional loan.

(b) For the 26 sectors which the Kamath Committee identified as having visible impact of the pandemic, RBI has prescribed certain financial parameter ranges for the aforesaid resolution plans. These ranges are typically more liberal than the benchmark ranges generally adopted by leading banks such as State Bank of India and have enabled higher sector-specific relief for deep/comprehensive restructuring.

(c) The debt servicing burden for borrowers have been substantially reduced as a result of reduction in the benchmark policy rate and liquidity enhancing measures taken by RBI, with reduction of 1.14% in the monthly weighted average lending rate on fresh Rupee loans of SCBs from March to December 2020 and reduction of 0.73% on their outstanding Rupee loans over the same period.

(d) Government had issued an advisory for extension of registration and completion dates of real estate projects under Real Estate Regulatory Authorities by treating COVID-19 as an event of *force majeure*, and for loans to the commercial real estate sector, additional time of one year has been given for extension of the date for commencement for commercial operations.

(e) In addition, following measures have been taken for MSMEs:

   (i) A liberal restructuring scheme for MSMEs with loan exposure of up to Rs. 25 crore has been introduced by RBI offering sector-specific relief to the entire MSME sector.

   (ii) Further, a scheme for emergency credit line of up to Rs. 3 lakh crore, backed by 100% Government guarantee, has been launched for additional funding of up to 20% of the fund-based outstanding as on 29.2.2020, subject to a maximum of Rs. 10 crore for MSMEs and other enterprises with turnover of up to Rs. 250 crore, and with a higher maximum of Rs. 100 crore for 27 specified sectors which include the metals, mining, construction, gems and jewellery and automobile sectors. Till 25.1.2021, Rs. 2.39 lakh crore have been sanctioned under this scheme.

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