In his speech, Dr. Urjit Patel highlighted the multi-pronged approach adopted by the Government, the Insolvency & Bankruptcy Board of India (IBBI) and the Reserve Bank of India (RBI), for facilitating quick resolution of stressed assets in the Indian banking system. Emphasizing on the measures undertaken for strengthening the legal framework, he stressed upon as to how the enactment of the Insolvency and Bankruptcy Code, 2016 (IBC) has been a turning point towards improving the credit culture in our country.

The IBC provides for a single window, time-bound process for resolution of an asset with an explicit emphasis on promotion of entrepreneurship, maximization of value of assets, and balancing the interests of all stakeholders. IBC puts a time limit of 180 days (extendable by a further 90 days) within which creditors have to agree to a resolution plan, failing which the adjudicating authority under the law will pass a liquidation order on the insolvent company. So the threat of liquidation, which could potentially result in larger losses for the creditors as a whole, should be sufficient incentive for them to ensure efficient coordination during the insolvency resolution period so as to quickly arrive at a decision. For the promoter, the biggest cost of being pushed under IBC may be the possibility of losing the firm to potential bidders. This should incentivise the firms to avoid defaults and not over-borrow in the first place. This would improve ex-ante the credit culture in the country.

The Banking Regulation (Amendment) Ordinance, 2017 empowers the RBI to issue directions to banking companies to initiate an insolvency resolution process in respect of a default, under the provisions of the IBC. It also enables the RBI to issue directions with respect to stressed assets and specify one or more authorities or committees with such members as the Bank may appoint or approve for appointment to advise banking companies on resolution of stressed assets. Pursuant to the promulgation of the Ordinance, the RBI identified a set of accounts to be referred for resolution under IBC, based on the recommendations of an Internal Advisory Committee (IAC). The process adopted for identifying the entities was consistent with the object of making quickest recovery of economic value.

RBI's continuing endeavour has been to strengthen the supervisory and regulatory framework to ensure timely recognition and disclosure of incipient stress and to facilitate effective and meaningful resolution. In particular, the decision to do away with the regulatory forbearance regarding asset classification on restructuring of loans and advances effective April 2015, was a significant step from the perspective of aligning the regulatory norms with international best practices. The Asset Quality Review (AQR) exercise undertaken in 2015-16 was a form of “catch-up” and was a critical step in recognizing the aggregate stock of non-performing assets across the banking system. The system of 'Prompt Corrective Action' (PCA) under which specific regulatory actions are taken by RBI if banks breach certain trigger points has recently been revised. This ensures timely supervisory action in case of problem banks following a rule based approach. The PCA's objective and design is to

Dr. Urjit R. Patel at the Inaugural Session of the “National Conference on Insolvency and Bankruptcy: Changing Paradigm”. 
strengthen a bank’s fundamentals and imbue confidence.

Highlighting some institutional measures undertaken, Dr. Patel noted that setting up of Central Repository of Information on Large Credits (CRILC) by the RBI in 2014 filled a critical gap in addressing the information asymmetry regarding NPAs at the system level by facilitating collection of data on all borrowers’ credit exposures across the banking system. Having the aggregate view of borrower-wise and bank-wise exposures provided the requisite tool for supervisors as well as lenders to track the incipient stress in a particular account in a timely manner.

The framework for revitalizing distressed assets in the economy in January 2014 with the objective of addressing coordination problems in large consortium accounts, envisaged constitution of the Joint Lenders Forum (JLF) Mechanism. One of the key problems with the framework was the dissenting creditor exception that held up the restructuring process in many cases. Some of these issues were addressed in May 2017, immediately after the promulgation of the Ordinance. The norms for consent required for approval of a proposal was changed to 60% by value instead of 75% earlier. Banks that were in the minority on the proposal approved by the JLF were required to either exit by complying with the substitution rules within the stipulated time or adhere to the decision of the JLF; “cram downs” are now feasible. The participating banks were mandated to implement the decision of the JLF without any additional conditionality.

In order to strengthen the role of the Overseeing Committee (OC), RBI in exercise of powers vested under Section 35 AB of the Ordinance, brought the OC under its aegis with an expanded membership to review the process followed by banks for restructuring outside the IBC. This was necessary to reinforce the statute-backed authority of the OC to review the processes and provide requisite comfort to the lenders, particularly public sector banks, to agree to a market-determined haircut as part of restructuring.

Dr. Patel however affirmed that the success and credibility of all the resolution efforts would be critically contingent on the strength of the public sector balance sheets to absorb the costs. It is clear that PSBs will need to take haircuts on current exposures under any resolution plan agreed within or outside the IBC. Higher provisioning requirements, on this count as well as other factors, will affect the capital position of several banks. This would necessitate a higher recapitalization of the public sector banks. The Government and the RBI are in dialogue to prepare a package of measures to enable PSBs to shore up requisite capital in a time-bound manner.

Source: www.rbi.org.in
Farm loan waivers in the recent period have brought forth the urgency of designing lasting solutions to the structural malaise that affects Indian agriculture while raising concerns about the macroeconomic and financial implications, the possible distortions that they could confront public policies with, and the ultimate incidence of the financial burden. Addressing both sides of the debate, Dr. Urjit Patel stressed on the importance of the sector from a macroeconomic perspective, which is also reflected in a significant flow of bank credit to finance agricultural and allied activities relative to other sectors of the economy.

Financial flows to agriculture have been generous with much of the credit flow from banks propelled by the policy thrust on expanding credit to agriculture, especially through priority sector lending stipulations. The Government has also undertaken several measures to compensate for the adverse terms of trade and the inert institutional architecture confronting agriculture in order to improve the profitability of crop production. Under the Interest Subvention Scheme, banks and cooperative institutions extend short term crop loans to farmers at a concessional rate along with incentive by an additional subvention for timely repayment. Additionally, the scheme encompasses other benefits, including post-harvest loans for storage in accredited warehouses against Negotiable Warehouse Receipts for up to six months for Kisan Credit Card holding small and marginal farmers at a concessional rate in order to avoid distress sales.

Despite the sizeable volume of subsidised and directed credit flows as well as the various fiscal incentives, Indian agriculture is beset with deep seated distortions. It has perennially been characterised by low investment, archaic irrigation practices, monsoon dependence, fragmentation of land holdings, low level of technology, lack of property rights and low initial net worth of farmers, thereby imposing large losses on farmers and potentially imprisoning them in a circle of indebtedness with disturbing frequency. In the absence of coordinated and sustained efforts to put in place elements of a virtuous cycle of upliftment, loan waivers have periodically emerged as a quick fix to ease farmers’ distress. While the beneficial effect of agricultural debt relief is clearing the debt overhang of farm households, the negative side effects include faulty targeting of beneficiaries and resulting discrimination, incentivising wilful defaulters, and erosion of credit discipline.

Moving on to the implications for macroeconomic conditions and policies, the first impact of a loan waiver is on the balance sheet of lending institutions, which is inherent in the inevitable lags, in the timing of impact and the arrival of compensation from the government. Secondly, loan waivers impact the state of public finances in the form of higher than budgeted revenue expenditure. This, in turn, has to be financed by additional market borrowings which push up interest rates, not just for the States but for the entire economy. Even if the loan waiver is accommodated within budgetary provisions, it will force cutbacks in other heads of expenditure, the most vulnerable category being capital expenditure. If, on the other hand, budgetary provisions are exceeded, higher spending and widening of the fiscal deficit would result in inflationary consequences, and possible spillovers.
that could undermine external viability.

Farm loan waivers have stirred up considerable passion and polarised opinions. It is important to recognise that there are externalities that spill over beyond the farm sector, eventually affecting other parts of the economy. In order to minimize spillovers and move away from palliatives in the form of debt relief and into a more fundamental solution that enhances welfare all around, the Government has initiated steps to establish a nation-wide market for agricultural produce, through eNAM along with the Pradhan Mantri Fasal Bima Yojana, the Pradhan Mantri Krishi Sinchai Yojana, the Paramparagat Krishi Vikas Yojana and the national drive towards financial inclusion for all. The coming to fruition of these initiatives holds the potential of achieving the mission of doubling farmers' income over time, and also entailing the need to ensure that their benefits percolate down to all the intended recipients.

Source: www.rbi.org.in