

Good and bad debt

Ordinance route to catch defaulters

IF bad loans of government banks have risen sharply — 56 per cent in 2016 alone — touching Rs 7 lakh crore by December 31, 2016, it is because those with powers to recover loans by seizing and selling pledged assets hesitate, or are not allowed, to act. Politics of appeasement, patronage of influential borrowers and bankers' connivance or fears are among the reasons why government banks are saddled excessively with bad loans as compared to private banks. Naturally, the taxpayers' money is used now and then for bank bailouts. If bankers do not display any particular enthusiasm in exercising their existing powers to proceed against loan defaulters, including the power to name and shame willful defaulters, it is to avoid possible trouble later at the hands of agencies like the CVC, the CAG and the CBI.

The Ordinance, cleared by the President on Wednesday, reportedly allays bankers' fears, provides them the necessary protection and allows bad loan handling on a "case-by-case basis". Media reports talk of the government preparing a list of 20-25 top loan defaulters for quick exemplary action to reduce the red ink on banks' balance sheets. Such selective approach, however, leaves room for extortion, blackmail and patronage. When former RBI Governor Raghuram Rajan set the March 2017 deadline for public sector banks to clean up their balance sheets, there was no mention of systemic inadequacies such as the RBI needing more powers or legal support to tackle the problem of bad loans.

The Centre and the previous Punjab government had colluded to keep under wraps the state's Rs 12,000 crore wheat loan declared as an "NPA" (non-performing asset). The present Punjab government too has not yet disclosed details of the deal with the Centre. Given the lack of transparency in political funding, the possibility of government-banker-corporate collusions over the years cannot be ruled out. Concessions to the corporate sector, particularly the huge loan write-offs, have prompted farmer organisations and their political patrons to make similar demands. The continuous pursuit of such appeasement politics means more NPAs for banks in future. This is neither prudent fiscal management nor wise governance.